# FORM 10QSB/A

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d) [amend]

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## FILER

**COGNIGEN NETWORKS INC**

CIK:**726293**| IRS No.: **840189377** | State of Incorp.:**CO** | Fiscal Year End: **0630**
Type: **10QSB/A** | Act: **34** | File No.: **000-11730** | Film No.: **1523162**
SIC: **1311** Crude petroleum & natural gas

Mailing Address
*3220 SOUTH HIGUERA STREET*
*SUITE 304*
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Business Address
*7001 SEAVIEW AVENUE NW, SUITE 210*
*SUITE 210*
*SEATTLE WA 98117*
*2062976151*

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-QSB/A**

**(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2000**

**OR**

**( ) TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission File Number 0-11730**

**COGNIGEN NETWORKS, INC.**
(Exact name of small business issuer as specified in its charter)

| Colorado | 84-0189377 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**7001 Seaview Avenue NW**
**Suite 210**
**Seattle, Washington 98117**
(Address of principal executive offices)

**(206) 297-6151**
(Issuer's Telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.
Yes No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| Class | Outstanding at September 30, 2000 |
|---|---|
| Common Stock, $.001 par value | 47,002,547 |

Transitional Small Business Disclosure Format (Check one): Yes _____ No X

**COGNIGEN NETWORKS, INC.**

**Commission File Number: 0-11730**

**Quarter Ended September 30, 2000**

**FORM 10-QSB/A**

**Part I - FINANCIAL INFORMATION**



**COGNIGEN NETWORKS, INC.**

**Unaudited Consolidated Statements of Operations**

| | Three Months Ended September 30, 1999 | Three Months Ended September 30, 2000 |
|---|---|---|
| | | (Restated) |
| Revenue | | |
| Prepaid cards and pins ............................ | $ 445,090 | $ 181,212 |
| Call back and switching services .................. | -- | 118,792 |
| Commissions ....................................... | 445,133 | 871,647 |
| Allowances ........................................ | (5,379) | 5,059 |

| | | |
|---|---|---|
| Total revenue | 884,844 | 1,176,710 |
| Operating expenses | | |
| Prepaid cards and pins | 302,637 | 130,830 |
| Call back and switching services | -- | 129,569 |
| Marketing Commissions | 345,043 | 457,217 |
| Sales, general and administrative | 6,547,289 | 1,026,672 |
| Total operating expenses | 7,194,969 | 1,744,288 |
| Loss from operations | (6,310,125) | (567,578) |
| Other income (expense) | | |
| Interest expense | (35,550) | (19,650) |
| Loss before income taxes | (6,345,675) | (587,228) |
| Income taxes | -- | -- |
| Net loss | $ (6,345,675) | $ (587,228) |
| Loss per common share - basic and diluted | $ (.26) | $ (.01) |
| Weighted average number of common shares outstanding - basic and diluted | 24,123,524 | 84,278,991 |

See notes to unaudited consolidated financial statements.

**COGNIGEN NETWORKS, INC.**

**Unaudited Consolidated Balance Sheet**

| | June 30, 2000 | September 30, 2000 (Restated) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash | $ 717,344 | $ 275,630 |
| Accounts receivable, net of allowance for doubtful | 61,046 | 215,392 |
| Commissions receivable, net of allowance for doubtful | 538,163 | 676,795 |
| Employee receivable | 1,661 | 2,957 |
| Inventory | 133,486 | 128,229 |
| Other current assets | 417,028 | 473,450 |
| Total current assets | 1,868,728 | 1,772,453 |
| Property, plant and equipment, net of accumulated depreciation of $363,121 at June 30, 2000 and $430,592 at September 30, 2000 | 486,291 | 422,472 |

| | | |
|---|---|---|
| Other assets | | |
| Deposits and other assets | 88,552 | 100,867 |
| Goodwill, net | 3,655,017 | 3,506,103 |
| Customer databases, net of $300,000 and $375,000 of | 1,000,000 | 925,000 |
| Deferred tax asset - non current | -- | -- |
| Total other assets | 4,743,569 | 4,531,970 |
| Total assets | $ 7,098,588 | $ 6,726,895 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 97,420 | $ 198,423 |
| Other accrued liabilities | 108,324 | 88,561 |
| Interest payable | 239,421 | 256,354 |
| Commissions payable | 326,681 | 470,389 |
| Payroll taxes payable | 21,179 | 24,108 |
| Current portion of capital leases | 106,551 | 77,276 |
| Current portion of notes payable | 315,000 | 825,000 |
| Total current liabilities | 1,214,576 | 1,940,111 |
| Long-term portion of capital leases | 12,152 | 12,152 |
| Long-term portion of notes payable | 510,000 | -- |
| Total liabilities | 1,736,728 | 1,952,263 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock $.001 par value, 50,000,000 shares | 84,278 | 84,278 |
| Additional paid-in capital | 13,594,051 | 13,594,051 |
| Accumulated deficit | (8,316,469) | (8,903,697) |
| Total stockholders' equity | 5,361,860 | 4,774,632 |
| Total liabilities and stockholders' equity | $ 7,098,588 | $ 6,726,895 |

See notes to unaudited consolidated financial statements.

**COGNIGEN NETWORKS, INC.**

**Unaudited Consolidated Statements of Cash Flows**

| | Three Months Ended September 30, | |
|---|---|---|
| | 1999 | 2000 |

| | | (Restated) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $(6,345,675) | $ (587,228) |
| Adjustments to reconcile net loss to net cash | | |
| Depreciation and amortization | 99,908 | 291,385 |
| Stock options granted for services to non employees | 5,836,724 | -- |
| Changes in assets and liabilities | | |
| Accounts receivable | 88,979 | (154,346) |
| Commissions receivable | -- | (138,632) |
| Inventory | 4,083 | 5,257 |
| Other assets | -- | (57,718) |
| Deposits | -- | (12,315) |
| Interest payable | 35,550 | 16,933 |
| Accounts payable | 11,887 | 101,003 |
| Accrued expenses | -- | (19,763) |
| Deferred revenue | 1,926 | -- |
| Commissions payable | 35,844 | 143,708 |
| Payroll taxes payable | 3,436 | 2,929 |
| | 6,118,337 | 178,441 |
| Net cash used in operations | (227,338) | (408,787) |
| **Cash flows from investing activities** | | |
| Cash acquired in acquisition | 21,248 | -- |
| Purchases of fixed assets | -- | (3,652) |
| Advances to related party | (200,000) | -- |
| Net cash provided by (used by) investing | (178,752) | (3,652) |
| **Cash flows from financing activities** | | |
| Proceeds from subscriptions received | 884,289 | -- |
| Payments on notes payable | (315,000) | -- |
| Proceeds from notes payable | 125,000 | -- |
| Payments on capital leases | -- | (29,275) |
| Net cash provided by financing activities | 694,289 | (29,275) |
| Net increase in cash and cash equivalents | 288,199 | (441,714) |
| Cash and cash equivalents-beginning of period | -- | 717,344 |
| Cash and cash equivalents-end of period | $ 288,199 | $ 275,630 |

See notes to unaudited consolidated financial statements.

## COGNIGEN NETWORKS, INC.

## Notes to Unaudited Consolidated Financial Statements

**Note 1 - Description of Business**

Cognigen Networks, Inc (the Company) is engaged in the business of providing telecommunications products and services to worldwide markets. The Company's activities include selling prepaid calling cards, providing call switching services, and Internet marketing of telecommunications products and services, pagers and computers.

**Note 2 - Summary of Significant Accounting Policies**

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, have been made to (a) the results of consolidated operations for the three month periods ended September 30, 2000 and 1999, respectively, (b) the consolidated balance sheet at September 30, 2000 and (c) the consolidated statements of cash flows for the three month periods ended September 30, 2000 and 1999, respectively, in order to make the financial statements not misleading.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for financial statements. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2000, included in the Company's Annual Report on Form 10-KSB and Form 10-KSB/A filed with the Securities and Exchange Commission.

The results for the three month period ended September 30, 2000 may not necessarily be indicative of the results for the fiscal year ended June 30, 2001.

**Note 3 - Basis of Presentation**

All per share amounts reflect the 37,298,444 shares the Company has a legal obligation to issue in the future in connection with the reverse acquisition of ITHC, and have been treated as outstanding from the date of acquisition.

**Note 4 - Stock Options**

In August 1999, the Company issued 32,400,000 options entitling the holders to purchase the Company's common stock at $0.46 per share. The options vest immediately and expire five years from the date issued. The options cannot be exercised until the Company amends it articles of incorporation or effects a reverse split of its common stock so that it has sufficient shares available for issuance upon the exercise of these options. 25,200,000 of these options were issued to non-employees while the remaining options were issued to employees and directors. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock options issued to employees and directors. $6,022,044 of compensation expense was recorded in connection with the options granted to non employees based on a value of $.23 per option.

**Note 5 - Customer Databases**

The Company maintains two customer databases which were originally compiled in October 1998. These customer databases were acquired in connection with the initial capitalization of Inter-American Telecommunications Holding Corporation (ITHC), which acquired from Telkiosk, Inc. and Combined Telecommunications Consultancy, LTD (CTC) customer databases valued at $500,000 and $800,000, respectively, through the issuance of $500,000 and $800,000 in notes payable, and by issuing 500 (2,844,285 as adjusted) and 1,000 (5,688,570 as adjusted) shares of common stock, respectively. ITHC also issued 500 (2,844,285 as adjusted) shares of common stock to Inter-American Telecommunications Corporation (ITC) as part of its initial capitalization for backroom support to be provided to ITHC in the future. The customer databases were originally recorded at their predecessor cost of $1,300,000, with the shares of common stock issued being recorded at their nominal par value ($.001) of $20. The Company intends to migrate these names into active long distance customers of Cognigen Switching Technologies, Inc. (CST), the Company's wholly owned subsidiary. The Company's plans for the solicitation process are currently underway and the Company plans to be completed by October 2001. In October 2000, the Company also entered into an option agreement with an entity formed by the entities which originally sold the Company's customer databases to the Company's predecessor. The agreement provides that if the Company has not been able to establish at least 5,000 active telecommunications subscribers from the combined lists by March 30, 2001, the Company has the option to require the entity to repurchase the customer lists from the Company to enable the Company to recover its investment in these databases.

**Note 6 - Amortization of Customer Databases and Goodwill**

The Company changed its method of amortizing customer databases and goodwill during fiscal 2000. Previously the Company did not begin to amortize it customer databases until the migration of these names into active customers had begun. However, effective July 1, 1999 as a result of the significant uncertainties surrounding the commencement of the migration process, the Company has reflected amortization of these databases over their estimated remaining useful lives of 4.33 years (through November 1, 2003). Additionally, the Company changed the estimated useful live of the goodwill acquired in connection with the acquisition of the net assets of Cognigen Corporation from 20 years to 5 years. The effects of these corrections on previously reported quarterly amounts was as follows:

| | Net Loss | Loss Per Share | Stockholders' Equity |
|---|---|---|---|
| Three months ended September 30, 2000, as reported | (512,228) | (.01) | 5,149,632 |
| Three months ended September 30, 2000, as adjusted | (587,228) | (.01) | 4,774,632 |
| Three months ended September 30, 1999, as reported | (6,262,675) | (.26) | 214,896 |
| Three months ended September 30, 1999, as adjusted | (6,345,675) | (.26) | 131,896 |

**COGNIGEN NETWORKS, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

**Forward-Looking Statements**

Certain of the information discussed herein, and in particular in this section entitled "Management's Discussion and Analysis or Plan of Operation," contains forward-looking statements that involve risks and uncertainties that might adversely affect the operating results of the Company in the future in a material way. Such risks and uncertainties include, without limitation, the Company's possible inability to obtain additional financing, lack of agent growth, loss of key personnel, rate changes, fee policy or application changes, technological changes and increased competition. Many of these risks are beyond the control of the Company. The Company is not entitled to rely on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or Section 21E of the Securities Exchange Act of 1934, as amended, when making forward-looking statements.

**Overview**

The Company is engaged in the business of providing telecommunications products and services to worldwide markets. The Company's activities include selling prepaid calling cards, providing call switching services, and Internet marketing of telecommunications products and services, pagers and computers.

The Company was incorporated on May 6, 1983, in Colorado. On August 20, 1999, the Company completed the acquisition of all of the net assets of Inter-American Telecommunications Holding Corporation (ITHC) in exchange for up to 49,041,397 shares of the Company's common stock. For financial statement purposes, this business combination was accounted for as an additional capitalization of ITHC (a reverse acquisition in which ITHC was the accounting acquirer). For accounting purposes, ITHC is considered the surviving entity and the historical financial statements prior to the acquisition are those of ITHC.

**Three Months Ended September 30, 2000 Compared to Three Months Ended September 30, 1999**

Total revenue for the three months ended September 30, 2000 was $1,176,710 compared to $884,844 for the three months ended September 30, 1999. Total revenue for the 2000 period consisted of $181,212 related to prepaid cards and pins and $871,647 related to commissions. Total revenue for the comparable period in 1999 consisted of $445,090 related to prepaid cards and pins and $445,133 related to commissions. The $263,878, or 59%, decrease in prepaid cards and pins is due to reduced tariff calls as a result of competition. The $426,514, or 96%, increase in commissions is due to an increase in agents of approximately 36,900 new agents. Call back and switching revenue for the three months ended September 30, 2000 was $118,792 for which there was no comparable revenue for 1999.

Operating costs related to prepaid cards and pins for the three months ended September 30, 2000 decreased $171,807, or 57%, to $130,830 from $302,637 during the three months ended September 30, 1999. Operating costs related to commissions for the three months ended September 30, 2000 increased $112,174, or 33%, to $457,217 from $345,043 during the three months ended September 30, 1999. The cost increases are directly related to the increases in sales revenue. The call back and switching services costs were $129,569 for the three months ended September 30, 2000 for which there were no comparable costs for 1999.

General and administrative operating expenses decreased $5,520,617, or 84%, to $1,026,672 during the three months ended September 30, 2000 from $6,547,289 during the three months ended September 30, 1999. This decrease is due to $5,836,724 of stock based compensation for the three months ended September 30, 1999 that was not repeated in the three months ended September 30, 2000 and is offset by increased salaries of $123,130 as a result of more headcount and depreciation and amortization of $291,385.

The Company incurred a loss from operations of $567,578 for the three months ended September 30, 2000 compared to $6,310,125 for the three months ended September 30, 1999. The decrease in operating loss during the current period is directly related to the expense of stock options granted for services to non-employees of $5,836,724 recognized during the three months ended September 30, 1999.

Interest expense decreased $15,900, or 45%, to $19,650 for the three months ended September 30, 2000 from $35,550 for the three months ended September 30, 1999. The reduction is a result of the payoff of a portion of debt. After interest expense, the net loss for the three months ended September 30, 2000 was $587,228, or $.01 loss per share, compared to a net loss of $6,345,675, or $.26 loss per share, for the three months ended September 30, 1999.

**Liquidity and Capital Resources:**

The Company has funded its operations to date primarily from shareholder advances and stock subscriptions received. At September 30, 2000, the Company had cash and cash equivalents of $275,630 and negative working capital of $167,658.

Cash used by the Company for operating activities during the three months ended September 30, 2000 was $408,787. A primary component of the use of cash during the three months was the Company's net loss of $587,228 adjusted for non-cash adjustments for depreciation and amortization of $291,385. Additional uses of operating cash for the three months included increases in the Company's accounts receivable of $154,346, commissions receivable of $138,632, other assets of $57,718, and deposits of $12,315. The uses in operating cash were partially offset by cash provided of $101,003 from accounts payable, $143,708 of commissions payable, and $16,933 of interest payable. Cash used for investing activities includes $3,652 for the purchase of fixed assets. Additional uses of cash during the three months ended September 30, 2000 include payments on capital leases of $29,275.

The Company currently has three notes payable and various capital leases with total outstanding balances of $914,428 at September 30, 2000. Two of the notes are due July 1, 2001 and one is due February 12, 2001. The Company has maturities of capital leases and notes payable of $902,276 required during the next twelve months

Cash generated from operations was not sufficient to meet the Company's working capital requirements for the quarter ended September 30, 2000, and may not be sufficient to meet the Company's working capital requirements for the foreseeable future. As a result, the Company is exploring various bridge financing and/or additional equity financing to meet current operating requirements until operations can generate sufficient cash for the Company to become self-sustaining. There can be no assurances that the Company will be able to secure additional debt or equity financing or that operations will produce adequate cash flows to allow the Company to meet all of the Company's future obligations. However, management believes the Company will be successful in producing sufficient cash flows from all collective sources to continue for the next twelve months.

The Company has no significant planned capital expenditures covering the next twelve months.

The Company maintains two customer databases, originally compiled in October 1998 containing archived names with historical records of long distance telecommunication service users, to which the Company intends to devote substantial efforts during the next twelve months to transform these names into active CST customer accounts. The Company has been in negotiations with a telemarketing firm to assist in the transformation of these names into active accounts. The Company anticipates an initial cost of approximately $93,000 for these telemarketing services and has received a verbal commitment from a third party to assist in funding these telemarketing costs, as necessary.

The Company has also entered into an option agreement with a joint venture consisting of the sellers of the customer databases to the Company's predecessor. The agreement provides that if certain targeted levels of active customers cannot be transformed from the databases by March 30, 2001, the Company has the option to have the joint venture repurchase the databases through the forgiveness of the remaining debt outstanding and the return of Company shares to the Company. The Company believes this agreement is a major step in protecting the recoverability of the Company's original investment in these databases.

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COGNIGEN NETWORKS, INC.

By: /s/ Darrell H. Hughes
Darrell H. Hughes
President and Chief Executive Officer

By: /s/ David G. Lucas
David G. Lucas
Chief Financial Officer

Denver, Colorado
January 31, 2001