FORM CORRESP

Correspondence

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COGNIGEN NETWORKS INC

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April 25, 2005

United States Securities and Exchange Commission
Mail Stop 0407
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Response to Comments on Cognigen Networks, Inc.
Form 10-KSB for the fiscal year ended June 30, 2004
Filed September 23, 2004

Form 10-QSB for the quarter ended December 31, 2004
File No. 000-11730

Ladies and Gentlemen:

We have reviewed your comments, in your letter dated March 28, 2005, regarding our Form 10-KSB and 10-QSB filings referenced above, and offer our following responses.

Form 10-KSB for the Year Ended June 30, 2004

Consolidated Statements of Operations

1. You have said that it is not appropriate to include a subtotal prior to presenting the captions "Loss provision for sale of CST" and "Loss provision for termination of Intandem Funding Agreement." We will implement in future filings and comply with your request.

Note 1 - Description of Business and Summary of Significant Accounting Policies

Revenue Recognition

Our current business model is to sell primarily telecommunications products and services through our independent sales agents through the Internet. We recognized the marketing potential of the Internet and formed what we believe was one of the first companies to create a marketing operation based exclusively on the Internet. Our proprietary technology automatically creates a web site for each new sales agent, at the time the sales agent becomes a member of our network Through web sites of our sales agents, we sell our own proprietary telecommunications products and services or we sell, as a master agent, the products and services of outside vendors The products and services we sell include domestic and international long distance service, prepaid calling cards or pins, paging services, wireless communications, and computers, among other things We sell our own proprietary products and services and, as a master agent, have contractual agreements with a variety of outside vendors who provide us with a commission percentage of sales of their products and services.

2. You have asked for supplemental information regarding our revenue recognition policies. You have asked for a detailed description of our business specifically related to "proprietary products and services."

a) We earn revenue in two ways. First, we earn commission revenue from a number of outside vendors whom we represent as a master agent on our sales agent web sites and sell their products and services to customers by way of contractual agreements with the outside vendors. Second, we earn telecommunications revenue through sales of our own proprietary products and services to customers through our sales agent web sites.

b) When we receive commissions revenue (net commissions from outside vendors), it is when we (Cognigen's sales agents) have acted as an agent or broker and sold a product or service, such as a long distance service, on behalf of an outside vendor who owns the long distance account and services the customer monthly. Servicing the customer means the outside vendor will provide the customer's service (setting up the customer for long distance service), prepare and collect monthly billings for which they have set the price for the products and services, and address any other service issues with the customer as the outside vendor owns the customer account. The outside vendor is responsible for any bad debt or risk that may occur if the customer does not pay his bill and is also responsible for their carrier or supplier billings.

Example Accounting: Sales of Outside Vendor Products and Services

The following is an example of the revenue and expense flow for one customer for one month's billing of $100 when we are selling products and services of outside vendors and we do not own the customers. We do not record revenue received directly from the customer. We record marketing commissions revenue received from the outside vendor as they pay us a commission, and we in turn pay a commission to our sales agents, on the monthly billing of the outside vendor's customer.

	Outside Vendor Accounting	Cognigen Accounting
Telecommunications revenue (gross from customer)	$ 100	
Direct carrier expenses	15	
Direct commissions expense (paid to Cognigen acting as master agent)	(15)	
Marketing commissions revenue (net from outside vendor)		$ 15
Marketing commissions expenses (paid to Cognigen's sales agents)		(10)
Other indirect expenses included in SG&A	(25)	(2)
Income from operations	$ 5	$ 3

c) When we earn telecommunications revenue, it is because our sales agents have sold a product or service for which we own the customer account and have set the retail price for the product or service. In other words, we have purchased the product or service from a supplier (i.e. long distance service from Global Crossing) and have resold this long distance service to a customer as a Cognigen branded product or service, for which Cognigen is bearing the risk of ownership. The price paid to the supplier/carrier is under a predetermined agreement. Profit margins vary depending on the retail pricing established by us and the prices we pay to our supplier/carrier. Under this structure we now wear the "outside vendor" shoes, versus being the master agent, and are responsible for provisioning, preparing and collecting the monthly billings and addressing any other customer service issues that may arise. In this case, we own the customer account and deal directly with the customers who are using the products or services for which we set the retail pricing. We are responsible for the bad debt or risk that may occur if this customer does not pay his bill and we are also responsible for the supplier/carrier billings from whom we have purchased the products and services at predetermined prices (i.e. Global Crossing).

Example Accounting: Sales of Cognigen's Branded Products and Services

The following is an example of the revenue and expense flow for one customer for one month's billing of $100 when we are selling Cognigen branded products and services which is where we own the customer account. We record revenue received directly from the customer. We do not record marketing commissions revenue received from an outside vendor as there is no outside vendor. We record marketing commission expense as we pay commissions to our sales agents on the monthly billing of our customers.

	Cognigen Accounting
Telecommunications revenue (gross from customer)	$ 100
Direct carrier expenses	(55)
Marketing commissions expense (paid to Cognigen sales agents)	(10)
Other indirect expenses included in SG&A	(33)
Income from operations	$ 2

d) As you can see from the examples, if we own the customer account and record the revenue that is billed directly by us to our customers, the revenue is "five to seven times" the commission revenue we receive acting as a master agent for outside vendors. In other words, the $100 received directly from the customer is "five to seven times" the $15 received by Cognigen acting as a master agent for the outside vendor.

3. You have asked us to clarify whether we report revenue gross as a principal versus net as an agent and how we used the guidance in EITF 99-19 in making our determinations for this. In addition, you have asked us to explain the

nature and composition of certain operating expense line items from our statement of operations and how each of these lines items relate to the sources of our revenue.

a) the criteria identified in EITF 99-19 paragraph 3 are the following:

1. acts as principal in the transaction;
2. takes title to the products;
3. has risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns;
4. acts as an agent or broker (including performing services, in substance, as an agent or broker) with compensation on a commission or fee basis.

b) We only record gross revenue received from customers where we are selling our own branded products and services (taking title to products) and where we bare the burden of collecting the revenue from the customer and are responsible for all related direct and indirect expenses to earn that revenue. We have the risk and reward of owning the customer account and are the principal in the transaction. This follows the criteria in EITF 99-19 #1 through #3 described in 3.a) and the example explained in 2.c). Otherwise, the revenue we record is the net marketing commissions we receive from the outside vendors in acting as agent for them in selling their products and services at which retail price the outside vendors establish and have the risk and reward of ownership. In this case, the outside vendor bears the burden of collection from the customer and all other direct and indirect expenses of that revenue. We record the net commissions revenue received from the outside vendors net as marketing commissions revenue. We do not act as the principal in the transaction and do not own these customer accounts, but act as agents for the outside vendors. This follows the criteria in EITF 99-19 #4 and the example explained in 2.b).

c) Commissions: Marketing expenses are the commissions we pay to Cognigen's sales agents from selling the products and services of outside vendors.

Commissions: Telecommunications expenses are the commissions we pay to Cognigen's selling agents from selling our own, Cognigen's, branded products and services to which we have taken title.

Telecommunications expenses are the supplier/carrier expenses we pay to suppliers/carriers (i.e. Global Crossing) to purchase or take title to the products and services at predetermined and agreed upon prices that we brand as our own, Cognigen's, and then resell to customers at retail rates that we set.

All of these expenses are direct costs of revenue.

4. You have asked for us to explain what is meant by "pin revenue". Pin revenue is revenue that we receive from selling a long distance service that is accessed by way of entering a "pin code or personal identification number" enabling a telecommunications switch to recognize the caller as having paid for a certain number of long distance minutes.

You have also asked to explain why it is appropriate to recognize calling card and pin revenue at the point of shipment rather than as the phone time is used and why this policy is different from our policy of recording long distance phone service revenue and prepaid long distance phone service revenue as the services are rendered and the minutes are used.

SAB 104 in reference to Topic 13 indicates that revenue should not be recognized until it is realized or realizable and earned. The Staff indicated that revenue generally is realized or realizable and earned when all of the following criteria are met:

1. Persuasive evidence of an arrangement exists.
2. Delivery has occurred or services have been rendered.
3. The seller's price to the buyer is fixed or determinable.
4. Collectibility is reasonably assured.

The criteria identified above does not exist for our long distance phone service revenue (referred to in our statement of operations as telecommunications revenue) until the long distance service is provided or used by a customer. When that long distance service is used by a customer an arrangement exists, delivery has occurred at a seller's price for which a bill is then generated and sent to the customer. The customer has previously been reviewed for credit worthiness after the customer has petitioned and applied for the long distance service through one of our sales agent web sites. There may be months where no long distance phone service is used by a customer and there is no monthly billing or revenue recognized.

With regard to calling card or pin revenue. The calling cards and pins we sell are purchased by us at predetermined prices from outside vendors. We take title to the cards or pins and included them at cost in inventory at any given time until sold. Minutes usage is loaded on the cards or pins by the suppler/carrier with a predetermined number of long distance minutes allowed to be used by the owner of the card or pin, which is us until we sell the cards or pins to a retail customer. We consider the revenue realized or realizable and earned upon point of shipment as the criteria identified above is met and Cognigen has no further obligation to the retail customer at that point. The card or pin has been ordered by a retail customer through one of our sales agent web sites so there is an arrangement. Delivery takes place as the cards are mailed or pin numbers sent by email to the retail customer. The sales price to the retail customer was set before the customer ordered the cards or pins and the selling price is usually why the retail customer buys from us instead of elsewhere. Collectibility is usually good as the cards and pins are purchased by credit card which is debited prior to shipment of cards or the pin numbers are emailed. If there is a customer service issue, the supplier/carrier's customer service number is provided to the retail customer to address any issues. The supplier/carrier is obligated to not only provide the minutes loaded on the card or identified by the pin number but resolve any related customer issues also. We have not actually sold hard calling cards in over two years. Our revenue in this area is currently all from pin revenue.

Note 5 - Acquisition of Intandem

5. You have asked us to address several questions relating to our transactions with Intandem. With regard to Intandem we offer you the following.

   a. We acquired 100% of the outstanding stock of Intandem effective February 1, 2004 and have been consolidating the operating results and balance sheet of Intandem since that date. Intandem has had no significant operations since the date of consolidation. Intandem was originally started as a marketing company to market telecommunications products and services to small businesses. We bought Intandem as a way of eliminating certain then existing employment, funding and other agreements which did not carry significant value but could have had negative potential of some sorts and to effectively wind down its operations.

   b. The consideration received in the Intandem transaction was 100% ownership in Intandem, cancellation of the Funding Agreement, of which $33,944 was yet to be funded, and cancellation of other employment and stock option agreements with the principals of Intandem and Cognigen. Intandem had no significant identifiable assets. Consideration given consisted in assuming up to approximately $45,000 in liabilities and payments of $80,000 to the principals of Intandem.

   c. When the transaction was completed, there were questions regarding the recoverability of the amounts that had been funded to Intandem and any amounts that would be funded under the Termination Agreement. Given the operating activities of Intandem at the time of the Intandem transaction, management determined that is was more likely than not that the funded and to be funded amounts would not be recovered. Thus, a loss provision accrual of the entire funded and to be funded amounts was recorded in the three months ended March 31, 2004.

   d. We have previously mentioned that Intandem had no significant identifiable assets. Liabilities related to Intandem consisted of approximately $125,000 of amounts to be funded. Intandem has not had any significant operations since the date of acquisition. Management does not consider this to fit within the criteria of Item 310(c) and 310(d) of regulation S-B for filing a Form 8-K reporting the acquisition and presenting separate financial statements of Intandem and pro forma financial information. With regard to the acquisition of Intandem, these criteria of Items 310(c) and 310(d) includes the evaluation to determine if the assets acquired exceed 10% of the assets of the registrant and its consolidated subsidiaries. 10% of Cognigen's assets as of the purchase date was approximately $160,000 and there were no significant assets acquired in the Intandem transaction.

<u>Note 7 - Income Taxes</u>

6. You have asked us to explain why we thought is was appropriate, when using guidance in SFAS 109, to have a full valuation allowance recorded on our deferred tax asset related to our net operating loss carryforwards in light of having income before taxes in fiscal year 2003, the first and second quarters of fiscal 2005 and the fiscal year 2004 excluding the loss provisions for the sale of CST and the termination of the Intandem Funding Agreement.

We have reviewed the guidance in SFAS 109. Given the guidance, management determined that is was more likely than not that we would not realize the net operating losses in the future. This was determined in evaluating the positive and negative evidence that existed at the time of our evaluation. You mention the trend of profitability as the positive evidence and we agree, but we do not consider that trend to be strong enough or long enough to make it more likely than not that the operating loss carryforwards will be recognized. Our taxable income for the years ended June 30, 2004 and 2003 has not been significant and we had a taxable loss for the year ended June 30, 2002 of over $400,000. In our conversations with lending institutions, they appreciate the fact that we are currently profitable but most require up to three years of profitability before they would considered creating a lending relationship with us. In addition, our industry is not generally operating at profit situations currently. Telecommunications operating profit margins are shrinking as telecommunications costs or supplier/carrier costs continue to rise. We state this in "Management's Discussion and Analysis or Plan of Operation" (MD&A), see page 11 of our Form 10-QSB for the quarter ended December 31, 2004 and also identify the decrease in profit margin for these increases in carrier costs on page 13 of MD&A of the Form 10-KSB for the year ended June 30, 2004.

The evidence that we had supports the conclusion that it was more likely than not that the operating loss carryforwards will not be realized. We will continue to evaluate this situation in all of our future filings.

Note 8 - Stockholders' Equity (Deficit)

Stock Redemption Agreement

7. You have asked if the "Deferred Commission payable" will be paid from the cash flow generated from the Company's future commission revenue. If so, you have asked us to explain why these payments would otherwise be recorded as an expense. You have also asked that journal entries be provided for illustrative purposes. We offer you the following.

a) On November 21, 2001, we entered into a Stock Redemption Agreement with the Anderson Family Trust (Cantara) and Kevin E. Anderson Consulting, Inc. The Anderson Family Trust agreed to sell back to us 2,712,500 shares of our common stock. In exchange, we agreed to transfer to Cantara, in Cantara's capacity as an independent agent, rights to the revenue (equivalent to being the selling agent of record upon which commissions would be paid), as received by the Company, from our "then existing customer accounts". We also agreed to transfer, assign and pay Cantara a base commission, fees and bonuses not to exceed 12% on all the then existing customer accounts commensurate with a position of a sales agent at the RVP level (regional vice president). We also agreed to pay Cantara a base commission, fees and bonuses not to exceed 12% on all new accounts that were generated after the date of closing by Cantara commensurate with the RVP level. In effect, we received shares of common stock of Cognigen in exchange for the rights to commissions on identified revenue until the total of those commissions equaled the value of the common stock on the closing date, and commission beyond that date for as long as there existed the identified revenue. There was no guarantee that the identified revenue would continue and there was no guarantee to Cantara that commissions on the identified revenue would continue if the identified revenue discontinued. Currently, total revenue generated by Cognigen sales agents under Cantara exceeds 70% of total revenue of Cognigen as opposed to 100% when the Stock Redemption Agreement became effective in November 2001.

b) In accordance with APB 29, "Accounting for Nonmonetary Transactions", paragraph 18, since this transaction is deemed to be a nonreciprocal transfer of assets, Cognigen had to determine which was more clearly measurable, the value of the common stock received or the value of the commissions to be paid. Cognigen determined that the fair value of the common stock reacquired was a more clearly evident measure of the fair value of the deferred commission to be distributed. In essence, the transaction was treated the same as if a note payable had been issued in exchange for the return of the common shares. Thus, the transaction was recorded as a debit to "Common Stock" and "Additional Paid in Capital" with the offsetting credit to a liability account titled "Deferred Commission Payable". The value recorded was the value of the common shares on the closing date, December 1, 2001. Thus, the effect of the transaction was that "Equity" was reduced for the value of the common shares returned to us while recording an offsetting liability for the "Deferred Commission Payable" representing the consideration paid by us for the common shares. The "Deferred Commission Payable" liability represents the amount remaining to be paid to Cantara for the return of Cognigen's common stock to be paid on a monthly basis based upon the calculation of Cantara's commissions earned during the month. Once the full value of the common stock reacquired has been paid to Cantara, then the same calculation of Cantara's commissions will be paid but will be recorded as a commission expense instead of reducing the "Deferred Commission Payable" liability.

c) On a monthly basis, commission is calculated and paid to Cantara based on the revenue entitlement outlined in the Stock Redemption Agreement. The monthly accounting entry is to credit "Cash" or "AP" and debit "Deferred Commission Payable". This entry will be made until the "Deferred Commission Payable" balance is reduced to zero, at which time the debit would be to "Marketing Commissions Expense" related to continuing operations.

<u>Example Entries for the Cantara Transaction</u>

Initial Return of Common Shares:

Common stock	$ 2,712
Additional paid in capital	$1,217,912
Deferred commission payable	$1,220,625

Monthly Entry to Record Payment to Purchase Common Shares - representing payment of monthly commissions:

Deferred commission payable	$ XXXX
Cash or AP	$ XXXX

Monthly Entry to Record Payment of Commission after obligation to purchase the common shares is completed:

Marketing commission expense	$	XXXX
Cash or AP	$	XXXX

Item 12 - Certain Relationships and Related Transactions

8. You have asked us to revise our financial statements to include the required disclosures of paragraphs 2-4 of SFAS 57. We will implement in future filings and comply with your request.

Part II, Item 8A. Controls and Procedures

9. You have noted that our certifying officers must evaluate our disclosure controls and procedures as of the end of the period covered by the report, rather than as of a date "within the 90 days prior to the filing of this report". We will implement in future disclosures so that the certifications are as of the end of the period covered by our Form 10-KSB.

10. You have noted that we must remove certain language stating the level of assurance about our disclosure and control procedures and simply state that our certifying officers have concluded that our disclosure controls and procedures were effective. We will implement in future filings to comply with your request.

11. You have stated that we have not disclosed our officers' conclusions regarding the effectiveness of our disclosure controls and procedures in our Form 10-KSB and subsequent Forms 10-QSB. You have also stated that it is not clear whether, in making the conclusions our certifying officers considered all the information described in the definition of disclosure controls and procedures in Exchange Act Rule 13a-15(e). We will implement in future filings to include clear conclusions by our certifying officers on the effectiveness of our disclosure controls and procedures and that we have considered all information in the cited Exchange Act. We will also disclose that our certifying officers' concluded that the disclosure controls and procedures were effective.

12. You have asked that we change our disclosure pursuant to Item 308(c) of Regulation S-B and confirm to you of any change in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. You have also asked us to change the related disclosure and confirm the same in subsequent Forms 10-QSB filings for the quarters ended September 30, 2004 and December 31, 2004. We will implement in future disclosures in our filings to comply with your request.

13. You have asked us to tell you whether we have determined the "identified potential deficiencies" within our internal control framework are significant deficiencies that, individually or in the aggregate, constituted material weaknesses in our internal control over financial reporting. We do not believe these identified potential deficiencies constituted material weaknesses.

Exhibits 31.1 and 31.2

14. You have asked that we amend our officers' certifications, if true, to state that the officers have disclosed to the auditors and the audit committee "all significant deficiencies and material weaknesses" versus "all significant deficiencies in the material weaknesses". We will implement in future officers' certifications as such and comply with your request.

Form 10-QSB for the Quarter Ended December 31, 2004

Note 6 - Stockholders' Deficit

15. You have ask that we explain our statement that we have not accrued for dividends on the balance sheet for our preferred stock which you say appears inconsistent with our financial statement, which reflect dividends of $20,000 for the six months ended December 31, 2004. We have not accrued dividends on our balance sheet as of December 31, 2004 as they had not yet been declared by the Board of Directors. However, the statement of operations reflects preferred stock dividends in the calculation of earnings per share as required by Topic 4.

Item 3. Controls and Procedures

16. You have asked that we tell you whether and how we have determined the situation of our Chief Financial Officer being the sole individual that oversees our accounting and general internal control process that this "could potentially result in a material control weakness." We are still in the process of evaluating our internal controls as required by Section 404 of the Sarbanes-Oxley Act of 2003 and have not yet completed enough testing to determine if this could potentially result in a material control weakness.

17. You have asked that we elaborate on how we have analyzed these potential control deficiencies and what steps we have taken and intend to take to address these potential deficiencies. We are still in the process of evaluating our internal controls as required by Section 404 of the Sarbanes-Oxley Act of 2003 and have not yet completed enough testing to determine if this could potentially result in a material control weakness.

We hope that these answers will clarify our operations as they pertain to our financial disclosures. All necessary corrections will be made in future filings. If you should require any further information for clarification, you may contact me at your convenience at 720-895-1912.

Sincerely,

/s/Gary L. Cook
Gary L. Cook
Senior Vice President and
Chief Financial Officer
Cognigen Networks, Inc.