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CIRTRAN CORP
Form 10QSB/A
May 22, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A
Amendment No. 2

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

CIRTRAN CORPORATION

For the quarter ended June 30, 2001

Commission file number 0-26059

Nevada

68-0121636

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No)

4125 South 6000 West
West Valley City, Utah

84128

(Address of Principal Executive Offices)

(Zip Code)

(801) 963-5112

(Registrant's telephone number)

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 proceeding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

As of July 31, 2001, the number of shares outstanding of the registrant's only class of common stock was 156,301,005.

Transitional Small Business Disclosure Format (check one): Yes No

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The registrant amends Quarterly Report on Form 10-QSB for the period ended June 30, 2001 to furnish revised financial statements and a revised Management's Discussion and Analysis of Financial Condition and Results of Operations. Except as otherwise specifically noted, all information in this Form 10-QSB/A is as of June 30, 2001 and does not reflect any subsequent information or events.

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PART I. FINANCIAL INFORMATION

CirTran Corporation and Subsidiary CONSOLIDATED CONDENSED BALANCE SHEETS

Assets

	June 30, 2001	December 31, 2000
	----- (Unaudited) (restated)	----- (restated)
Current assets		
Cash and cash equivalents	\$ 427	\$ 11,06
Trade accounts receivable, net of allowance for doubtful accounts of \$111,603 in 2001 and \$82,502 in 2000	494,181	874,09
Inventories	1,718,172	1,755,78
Other	102,636	94,17
	-----	-----

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Total current assets	2,315,416	2,735,12
Property and Equipment, net	1,638,855	1,871,07
Other assets, net	9,572	10,58
	\$ 3,963,843	\$ 4,616,79
	=====	=====
Liabilities and Stockholders' Deficit		
Current liabilities		
Checks written in excess of cash in bank	\$ 73,456	\$ 5,4
Accounts payable	1,906,609	1,561,7
Accrued liabilities	2,988,295	2,339,9
Notes payable to stockholders	1,020,966	1,020,9
Current maturities of capital lease obligations	39,274	39,2
Current maturities of long-term obligations	3,417,090	3,432,0
	9,445,690	8,399,5
Total current liabilities		
Long-term obligations, less current maturities	441,041	529,9
Capital lease obligations, less current maturities	12,257	14,2
Commitments	-	
Stockholders' Deficit		
Common stock, \$0.001 par value; Authorized 750,000,000 shares; issued and outstanding; 156,301,005 in 2001 and 2000	156,301	156,3
Additional paid-in capital	5,664,154	5,664,1
Accumulated deficit	(11,755,600)	(10,147,4
	(5,935,145)	(4,326,9
Total stockholders' deficit		
	\$ 3,963,843	\$ 4,616,7
	=====	=====

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30,		Six m J
	2001 (restated)	2000 (restated)	2001 (restated)
Net sales	\$ 420,480	\$ 1,951,501	\$ 1,070,965
Cost of sales	305,773	796,623	851,251
Gross profit	114,707	1,154,878	219,714

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Selling, general and administrative expenses	628,095	788,388	1,288,499
	-----	-----	-----
Income (loss) from operations	(513,388)	366,490	(1,068,785)
	-----	-----	-----
Other income (expense)			
Interest expense	(298,286)	(306,070)	(543,507)
Other, net	4,100	243	4,100
	-----	-----	-----
	(294,186)	(305,827)	(539,407)
	-----	-----	-----
Income (loss) before income taxes	(807,574)	60,663	(1,608,192)
Income tax expense	-	-	-
	-----	-----	-----
NET LOSS	\$ (807,574)	\$ 60,663	\$ (1,608,192)
	=====	=====	=====
Net loss per common share			
Basic	\$ (0.01)	\$ 0.00	\$ (0.01)
Diluted	(0.01)	0.00	(0.01)
Weighted-average common and diluted common equivalent shares outstanding			
Basic	156,301,005	134,913,091	156,301,005
Diluted	156,301,005	134,913,091	156,301,005

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months ended June	
	2001	2000
	-----	-----
	(restated)	(restat
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Net loss	\$ (1,608,192)	\$ (1,182
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	234,065	336
Provision for loss on trade receivables	29,101	
Reserve for inventory obsolescence	-	78
Changes in assets and liabilities		
Trade accounts receivable	350,815	
Inventories	37,614	(267
Other assets	(7,445)	(5

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Accounts payable	344,857	(254)
Accrued liabilities	648,346	583
	-----	-----
Total adjustments	1,637,353	471
	-----	-----
Net cash provided by (used in) operating activities	29,161	(711)
	-----	-----
Net cash used in investing activities - Purchase of property and equipment	(1,844)	(7)
	-----	-----
Cash flows from financing activities		
Decrease in receivable from stockholders	-	30
Increase (decrease) in checks written in excess of cash in bank	67,965	(8)
Principal payments on long-term obligations	(103,923)	(167)
Principal payments on capital leases	(2,000)	(1)
Purchase of outstanding stock	-	(80)
Issuance of common stock	-	946
	-----	-----
Net cash (used in) provided by financing activities	(37,958)	718
	-----	-----
Net decrease in cash and cash equivalents	(10,641)	
Cash and cash equivalents at beginning of period	11,068	
	-----	-----
Cash and cash equivalents at end of period	\$ 427	\$
	=====	=====
Supplemental disclosure of cash flow information		

Cash paid during the period for		
Interest	\$ 35,572	\$ 308
Noncash investing and financing activities		

Conversion of line of credit to note payable		\$2,792

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
June 30, 2001 and 2000

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of CirTran Corporation and Subsidiary (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and with the instructions to Form 10-QSB. Accordingly, these financial statements do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements and

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footnote disclosures should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2000. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to fairly present the Company's consolidated financial position as of June 30, 2001, its consolidated results of operations for the three months ended June 30, 2001 and 2000 and its consolidated results of operations and cash flows for the six months ended June 30, 2001 and 2000. The results of operations for the three months and six months ended June 30, 2001, may not be indicative of the results that may be expected for the year ending December 31, 2001.

NOTE B - INVENTORIES

Inventories consist of the following:

	June 30, 2001	December 31, 2000	
	-----	-----	
Raw materials	\$ 1,619,228	\$ 1,634,178	
Work in process	187,906	169,676	
Finished goods	456,904	497,798	
	-----	-----	
	2,264,038	2,301,652	
Less reserve for obsolescence	545,866	545,866	
	-----	-----	
	\$ 1,718,172	\$ 1,755,786	
	=====	=====	

NOTE C - MERGER AGREEMENT

Effective July 1, 2000, all of the assets and certain liabilities of Circuit Technology Corporation (Circuit) were acquired by CTI Systems, Inc. (CTISI), a wholly owned subsidiary of Vermillion Ventures, Inc. (VVI), an inactive corporation. The stockholders of Circuit received 150,000,000 shares of VVI common stock in the transaction of which 12,000,000 shares were paid by Circuit to Cogent Capital Corp. for services performed in facilitating the transaction. CTISI subsequently changed its name to CirTran Corporation.

The merger was accounted for as a reverse acquisition of CirTran Corporation by Circuit. Although CirTran Corporation is the surviving legal entity, for accounting purposes Circuit was treated as the surviving accounting entity.

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NOTE D - LITIGATION

Circuit (the surviving accounting entity, Note C) is a defendant in an alleged breach of a facilities sublease agreement in Colorado. A lawsuit was filed in which the plaintiff seeks to recover past due rent, future rent, and other lease charges. Management and the Company's attorneys have estimated the range of potential loss to be between \$0 and \$2,500,000. The wide range is due to two rent calculation methods written in the master lease. Under one calculation, the amount would be minimal. Under the other calculation, the amount would represent all future rent (reduced by rent received from future tenants). The Company filed a suit against the landlord for an amount in excess of \$500,000 for missing

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equipment. Rent has been accrued through December 31, 2000 and is included in accrued liabilities.

Circuit is also the defendant in numerous legal actions primarily resulting from nonpayment of vendors for goods and services received. The Company has accrued the payables and is currently in the process of negotiating settlements with these vendors.

NOTE E - SEGMENT INFORMATION

Segment information has been prepared in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company has two reportable segments; electronics assembly and Ethernet technology. The electronics assembly segment manufactures and assembles circuit boards and electronic component cables. The Ethernet technology segment designs and manufactures Ethernet cards. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies included in the Company's Form 10-KSB for the year ended December 31, 2000. The Company evaluates performance of each segment based on earnings or loss from operations. Selected segment information is as follows:

Three Months ended June 30, 2001	Electronics Assembly	Ethernet Technology	Total
Sales to external customers	\$ 305,989	\$ 114,491	\$ 420,480
Intersegment sales	85,083	-	85,083
Segment income (loss)	(807,574)	(126,345)	(933,919)
Segment assets	3,581,888	511,986	4,093,874
Three Months ended June 30, 2000			
Sales to external customers	\$ 1,271,055	\$ 680,646	\$ 1,951,701
Intersegment sales	375,306	-	375,306
Segment earnings (loss)	60,662	(336,940)	276,278
Segment assets	5,898,535	1,249,051	7,147,586
Net Sales			
Total sales for reportable segments	\$ 505,563	\$ 2,326,807	
Elimination of intersegment sales	(85,083)	375,306	
Consolidated net sales	\$ 420,480	\$ 1,951,501	
Net Earnings (Loss)			
Net loss for reportable segments	\$ (665,195)	\$ (276,278)	
Elimination of intersegment amounts	(142,379)	336,941	
Consolidated net earnings (loss)	\$ (807,574)	\$ 60,663	

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Six Months ended June 30, 2001	Electronics Assembly	Ethernet Technology	Total
-----	-----	-----	-----
Sales to external customers	\$ 687,523	\$ 383,442	\$ 1,070,965
Intersegment sales	262,832	-	262,832
Segment income (loss)	(1,608,192)	8,017	(1,600,175)
Segment assets	3,294,486	476,454	3,770,940
Six Months ended June 30, 2000			

Sales to external customers	\$ 1,808,685	\$ 871,353	\$ 2,680,038
Intersegment sales	432,127	-	432,127
Segment loss	(1,182,783)	(407,943)	(1,590,726)
Segment assets	6,667,740	1,250,655	7,918,395
Net Sales	June 30, 2001	June 30, 2000	
-----	-----	-----	
Total sales for reportable segments	\$ 1,333,797	\$ 3,112,165	
Elimination of intersegment sales	(262,832)	(432,127)	
Consolidated net sales	\$ 1,070,965	\$ 2,680,038	
	=====	=====	
Net Loss			

Net loss for reportable segments	\$ (1,600,175)	\$ (1,590,726)	
Elimination of intersegment amounts	(8,017)	407,943	
Consolidated net loss	\$ (1,608,192)	\$ (1,182,783)	
	=====	=====	
	June 30,		
	-----	-----	
	2001	2000	
	-----	-----	
Total Assets			

Total assets for reportable segments	\$ 3,770,940	\$ 7,918,395	
Elimination of intersegment amounts	192,903	(747,300)	
Consolidated total assets	\$ 3,963,843	\$ 7,171,095	
	=====	=====	

NOTE F - RESTATEMENT

The consolidated financial statements at and for the year ended December 31, 2000 have been restated to reflect corrections to recognize \$300,900 reduction in inventory, \$45,213 write off of accounts receivables and other assets, and \$1,041,653 of additional accounts payable and accrued liabilities. It has been determined that adjustments are necessary to write down inventory purchased for specific customers that does not have alternative use and record accounts payable and accrued liabilities that should have been recognized in 2000.

In addition, the financial statements at and for the six months ended June 30, 2001 have been restated to reflect corrections to recognize \$466,010 of additional accounts payable and accrued liabilities. Accordingly, the cost of sales has been increased by \$27,075, interest

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expense has been increased by \$313,935, and other income has been decreased \$125,000 in the consolidated statement of operations for the six months then ended.

The statement of operations for the six months ended June 30, 2000 has also been restated to correct overstatements in accounts payable. Accordingly, cost of sales has been decreased by \$328,172 and other income has been decreased \$67,260 in the consolidated statement of operations for the six months then ended. Earnings or loss per share did not change as a result of the restatement.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We provide a mixture of high and medium size volume turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole and custom injection molded cabling for leading electronics OEMs in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our services include pre-manufacturing, manufacturing and post-manufacturing services. Through our subsidiary, Racore Technology Corporation, we design and manufacture Ethernet technology products. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management, and increased purchasing power.

Results of Operations

Net Sales and Cost of Sales

Net sales for the three months ended June 30, 2001 decreased by 78.4% to \$420,480 compared to \$1,951,501 for the three months ended June 30, 2000. Net sales decreased 60% to \$1,070,965 for the six-month period ended June 30, 2001 as compared to \$2,680,038 during the same period in 2000. The decreases primarily reflect the loss of a major customer, Entrada Networks, Inc. In addition, management has shifted its marketing effort away from high-volume, low-margin orders to lower-volume, higher margin orders, and this change has contributed to a lower sales volume. The results of this shift are partially reflected in lower sales figures, but also in an improved gross profit margin. Cost of sales decreased by 61%, from \$2,183,107 during the six-month period ended June 30, 2000 to \$851,251 during the same period in 2001. Our gross profit margin improved marginally, increasing from 18.5% for the six-month period ended June 30, 2000 to 20.5% for the same period in 2001.

In June 2001, our wholly-owned subsidiary, Racore Technology Corporation, received a \$225,000 order for specially-designed Ethernet cards for a Federal law enforcement agency. Racore believes that these particular cards will have application in any industry where security from computer hackers is a major concern and that this new product could potentially generate significant new sales for Racore, though there can be no assurance in this regard.

Selling, General and Administrative Expenses

During the three-month period ended June 30, 2001, selling, general and administrative expenses were \$628,095, as compared to \$788,388 during the same period in 2000, a decrease of 20%. During the six-month period ended June 30,

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2001 selling, general and administrative expenses were \$1,288,499, as compared to \$1,371,797 during the same period in 2000, representing a 6.1% decrease. Due to the decline in sales, however, selling, general and administrative expenses as a percentage of sales increased during the six-month period ended June 30, 2001 to 120.3%, as compared to 51.2% during the same period in 2000.

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Interest Expense

Interest expense for the three months ended June 30, 2001 was \$ 298,286, as compared to \$306,070 for the same three-month period in 2000, a marginal decrease. Interest expense for the six months ended June 30, 2001 was \$543,507, compared to \$308,317 during the same period in 2000. This represents an increase of \$235,190, or 76.3%, and is reflective of our significant debt load.

As a result of the above factors, and primarily due to the significant decrease in sales between the two periods, our overall net loss increased 36.0% to \$1,608,192 for the six-month period ended June 30, 2001, from \$1,182,783 during the same period in 2000. The overall net loss for the three-month period ended June 30, 2001 was \$807,574, as compared to a profit of \$60,663 for the same three-month period in 2000.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses and our accumulated deficit was \$10,147,408 at December 31, 2000 and \$11,755,600 at June 30, 2001. Our net operating loss for the six-month period ending June 30, 2001 was \$1,608,192, compared to \$1,182,783 for the same period in 2000. Our current liabilities exceeded our current assets by \$7,130,274 as of June 30, 2001 and \$5,664,395 as of December 31, 2000.

Cash

At December 31, 2000, we had \$11,068 cash on hand. By June 30, 2001, our cash on hand was \$427, a decrease of \$10,641. We also increased checks written in excess of cash in bank by \$67,965 from \$5,491 at December 31, 2000 to \$73,456 at June 30, 2001.

Net cash provided by operating activities was \$29,161 for the six months ended June 30, 2001, compared to \$916,866 used by operations for the six months ended June 30, 2000. During the six-month period ended June 30, 2001, net cash provided by operations was primarily attributable to our net loss of \$1,608,192, offset by non-cash charges, increases in accrued liabilities of \$648,346 and in accounts payable of \$344,857, and a decrease in accounts receivable of \$350,815. The non-cash charges include depreciation and amortization of \$234,065.

Net cash used in investing activities during the six months ended June 30, 2001 and 2000, consisted of equipment purchases of \$1,844 and \$7,553, respectively.

Net cash used in financing activities during the six-month period ended June 30, 2001 was \$37,958, representing \$67,965 provided by checks written in excess of cash in bank, less approximately \$106,000 used for principal payments on long-term obligations and capital leases.

Accounts Receivable

By June 30, 2001, net accounts receivable had decreased from \$874,097 at December 31, 2000 to \$494,181. This significant decrease in accounts receivable reflects our decrease in sales during the first six months of 2001, as well as our efforts to improve the aging and quality of our current receivables

Accounts Payable

Accounts payable were approximately \$1,907,000 at June 30, 2001 as compared to \$1,562,000 at December 31, 2000. This increase is primarily attributable to additional credit purchases of inventory and services and a lack of available cash to pay vendors as invoices became due.

Liquidity and Financing Arrangements

We sustained losses of approximately \$1,608,000 and \$1,183,000 for the six months ended June 30, 2001 and 2000, respectively. We also sustained losses of approximately \$808,000 and \$245,000 for the three months ended June 30, 2001 and 2000, respectively. We had accumulated deficits of \$11,755,600 and \$10,147,408 at June 30, 2001 and December 31, 2000, respectively, and total stockholders' deficits of \$5,935,145 and \$4,326,953 as of such dates.

Since December 1999, we have operated without a line of credit. Abacus Ventures, Inc. purchased our line of credit of \$2,792,609, and this amount was converted into a note payable to Abacus bearing an interest rate of 10%. We have had, and are continuing to have, discussions with Abacus concerning their willingness to exchange the principal amount of the note and accrued interest for shares of our common stock, and while we believe that these negotiations may ultimately be successful, we can offer no assurance that they will agree to any such exchange of debt for equity or upon what terms such exchange would occur.

Despite our efforts to make our debt-load more serviceable, significant amounts of additional cash will be needed to reduce our debt and fund our losses until such time as we are able to become profitable. In conjunction with our efforts to improve our results of operations, as discussed above, we are also actively seeking infusions of capital from investors and are seeking to replace our line of credit. It is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to pay the debt and secure the debt with assets. We may, therefore, have to rely on equity financing to meet our anticipated capital needs. There can be no assurances that we will be successful in obtaining any such capital. If we issue additional shares for debt and/or equity, this will serve to dilute the value of our common stock and existing shareholders' positions.

Subsequent to our acquisition of Circuit in July 2000, we took steps to increase the marketability of our shares of common stock and to make an investment in our Company by potential investors more attractive. There can be no assurance, however, that we will ultimately be successful in obtaining more debt and/or equity financing or that our results of operations will materially improve in either the short- or the long-term. If we fail to obtain such financing and/or improve our results of operations, we will be unable to meet our obligations as they become due. That would raise substantial doubt about our ability to continue as a going concern.

Forward-looking statements

All statements made herein, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that we expect or anticipate will or may occur in the future, including such things as expansion and growth of operations and other such matters, are forward-looking statements. Any one or a combination of factors could materially affect our

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operations and financial condition. These factors include competitive pressures, success or failure of marketing programs, changes in pricing and availability of parts inventory, creditor actions, and conditions in the capital markets. Forward-looking statements made by us are based on knowledge of our business and the environment in which we currently operate. Because of the factors listed above, as well as other factors beyond our control, actual results may differ from those in the forward-looking statements.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Reports on Form 8-K: None

Exhibits: None

SIGNATURES

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

CIRTRAN CORPORATION

Date: May 22, 2002

By: /s/ Iehab J. Hawatmeh, President

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