

Edgar Filing: CIRTRAN CORP - Form 10QSB

CIRTRAN CORP
Form 10QSB
June 12, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2001

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

For the transition period from to

Commission File No. 33-13674-LA

CIRTRAN CORPORATION
(Exact name of small business issuer as specified in its
charter)

Nevada 68-0121636
(State or other jurisdiction of (IRS Employer Identification
incorporation or organization) No.)

4125 South 6000 West, West Valley City, Utah 84128
(Address of principal executive offices)

(801) 963-5112
(Issuer's telephone number)

Not Applicable
(Former name, address and fiscal year, if changed since last
report)

Check whether the issuer (1) has filed all reports required to be
filed by Section 13 or 15(d) of the Exchange Act during the
preceding 12 months (or for such shorter period that the issuer
was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes No

State the number of shares outstanding of each of the issuer's
classes of common equity, as of March 31, 2001: 10,420,067
shares of common stock.

Transitional Small Business Format: Yes No

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1 Condensed Consolidated Financial Statements	
Balance Sheets as of March 31, 2001	

Edgar Filing: CIRTRAN CORP - Form 10QSB

	(unaudited) and December 31, 2000	2
	Statements of Operations for the Three Months Ended March 31, 2001 (unaudited) and 2000 (unaudited)	3
	Statements of Cash Flows for the Three Months ended March 31, 2001 (unaudited) and 2000 (unaudited)	4
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2	Managements Discussion and Analysis of Financial Condition and Results of Operation	8
PART II - OTHER INFORMATION		
Item 6	Exhibits and Reports on Form 8-K	11
	Signatures	11

1

CirTran Corporation and Subsidiary

UNAUDITED CONSOLIDATED BALANCE SHEET

ASSETS

	March 31, 2001	December 31, 2000
CURRENT ASSETS		
Cash and cash equivalents	\$ 200	\$ 11,068
Trade accounts receivable, net of allowance for doubtful accounts fo \$56,450 in 2001 and \$360,493 in 2000	554,743	883,825
Inventories	2,084,067	2,056,686
Other	102,636	94,176
Total current assets	2,741,646	3,045,755
PROPERTY AND EQUIPMENT, NET	1,697,677	1,871,076
OTHER ASSETS, NET	46,073	46,072
	\$ 4,485,396	\$ 4,962,903

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES		
Current maturities of long-term obligations	3,417,090	3,414,090
Current maturities of capital lease obligations	39,274	39,274
Checks written in excess of cash in bank	78,230	5,491
Accounts payable	1,218,012	1,166,057
Accrued liabilities	1,717,592	1,711,991
Notes payable to stockholders	1,020,966	1,020,966
Total current liabilities	7,491,164	7,357,869
LONG-TERM OBLIGATIONS, less current maturities	499,535	529,964
CAPITAL LEASE OBLIGATIONS, less current maturities	14,257	14,257
COMMITMENTS	-	-

Edgar Filing: CIRTRAN CORP - Form 10QSB

STOCKHOLDERS' DEFICIT

Common stock, \$0.001 par value; Authorized 500,000,000 shares; issued and outstanding; 10,420,067 in 2001 and 2000	10,420	10,420
Additional paid-in capital	5,810,035	5,810,035
Accumulated deficit	(9,340,015)	(8,759,642)
Total stockholders' deficit	(3,519,560)	(2,939,187)
	\$ 4,485,396	\$ 4,962,903

The accompanying notes are an integral part of these statements.

2

CirTran Corporation and Subsidiary

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended	
	March 31,	
	2001	2000
Net sales	\$ 650,485	\$ 728,537
Cost of sales	460,401	1,749,105
Gross profit (loss)	190,084	(1,020,568)
Selling, general and administrative expenses	645,153	583,409
Plant closure expenses	15,250	-
Loss from operations	(470,319)	(1,603,977)
Other income (expense)		
Interest expense	(110,054)	(2,247)
Other income	-	32,433
	(110,054)	30,186
Loss before income taxes	(580,373)	(1,573,791)
Income tax expense	-	-
NET LOSS	\$ (580,373)	\$ (1,573,791)
Net loss per common share - basic	\$ (0.06)	\$ (0.18)
Net loss per common share - diluted	\$ (0.06)	\$ (0.18)
Weighted-average common and diluted common equivalent shares outstanding		
Basic	10,420,067	8,807,511
Diluted	10,420,067	8,807,511

The accompanying notes are an integral part of these statements.

3

CirTran Corporation and Subsidiary

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months ended March 31,

2001 2000

Edgar Filing: CIRTRAN CORP - Form 10QSB

Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Net loss	\$ (580,373)	\$ (1,573,791)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	175,243	104,999
Provision for loss on trade receivables	(16,324)	-
Reserve for inventory obsolescence	-	-
Changes in assets and liabilities		
Trade accounts receivable	345,406	645,383
Inventories	(27,381)	98,627
Other assets	(8,460)	(26,491)
Accounts payable	51,955	430,306
Accrued liabilities	5,600	364,621
 Total adjustments	 526,039	 1,617,445
 Net cash used in operating activities	 (54,334)	 43,654
 Net cash used in investing activities - purchase of property and equipment	 (1,844)	 (7,553)

(Continued)

4

CirTran Corporation and Subsidiary

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

For the Three Months ended March 31,

	2001	2000
Cash flows from financing activities		
Decrease in receivable from stockholders	-	30,000
Increase in checks written in excess of cash in bank	72,739	44,407
Net change in line of credit	-	13,006
Principal payments on long-term obligations	(27,429)	(109,711)
Issuance of common stock	-	103,000
 Net cash provided by financing activities	 45,130	 80,702
 Net (decrease) increase in cash and cash equivalents	 (10,868)	 116,803
 Cash and cash equivalents at beginning of period	 11,068	 500
 Cash and cash equivalents at end of period	 \$ 200	 \$ 117,303
 Supplemental disclosure of cash flow information		
Cash paid during the period for		
Interest	\$ 13,054	\$ 2,247

The accompanying notes are an integral part of these statements.

5

Edgar Filing: CIRTRAN CORP - Form 10QSB

CirTran Corporation and Subsidiary

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of CirTran Corporation and Subsidiary (the Company) have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. These financial statements and 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 financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to fairly present the Company's consolidated financial position as of March 31, 2001, its consolidated results of operations and cash flows for the three months ended March 31, 2001 and 2000. The results of operations for the three months ended March 31, 2001 and 2000, 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 at March 31:

	2001	2000
Raw materials	\$ 1,903,604	\$ 1,609,731
Work-in process	116,210	1,015,925
Finished goods	466,561	822,003
	2,486,375	3,447,659
Less reserve for obsolescence	(402,308)	(489,903)
	\$ 2,084,067	\$ 2,957,756

6

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). Circuit received 10,000,000 shares of VVI common stock in the transaction of which 800,000 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 will be the surviving legal entity, for accounting purposes Circuit was treated as the continuing entity. The equity at March 31, 2000 was adjusted to give affect to this reverse acquisition.

NOTE D - LITIGATION

Circuit 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. The range of potential loss is estimated at 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). Currently, a new tenant on a short-term lease occupies the premises. This new tenant's lease includes rent at two times the monthly rate of the original lease under suit. Circuit has also filed a countersuit against the landlord for missing equipment. The amount of the countersuit claim exceeds \$500,000.

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

7

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

Overview

CirTran Corporation provides a mixture of high and medium size volume turnkey manufacturing services using surface mount technology (SMT), ball-grid array (BGA) assembly, pin-through-hole (PTH) and custom injection molded cabling for leading electronics OEMs in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. CirTran provides a wide variety of pre-manufacturing, manufacturing and post-manufacturing services. Through its subsidiary, Racore Technology Corporation, CirTran designs, manufactures, and markets high performance Local Area Network products with emphasis on Fiber Optics and 10/100 Ethernet technologies. 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 decreased 10.7% to \$650,485 for the three months ended March 31, 2001 as compared to \$728,537 for the same period in 2000. The decrease is due to a shift in our marketing effort to focus on small and mid-sized customers that place orders of 100 to 5,000 pieces, which produce a higher gross profit, rather

Edgar Filing: CIRTRAN CORP - Form 10QSB

than large volume sales with low gross profit. Cost of sales for the three-month period ended March 31, 2001, was \$460,401, a 73.7% decrease as compared to \$1,749,105 incurred during the comparable three-month period for the prior year. Such costs as a percentage of revenue were 70.8% during 2001 as compared to 240.1% during 2000. This redirection of Cirtran's marketing effort resulted in a gross profit of \$190,084 for the three months ended March 31, 2001, as compared to a gross loss of \$1,020,568 for the three months ended March 31, 2000.

CirTran uses just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time while enabling the Company to deliver products to customers in the quantities and time frame required. This manufacturing technique requires Cirtran to maintain an inventory of component parts to meet customer orders. Inventory at March 31, 2001, was \$2,084,067 as compared to \$2,056,686 at March 31, 2000. Management believes the amount of its inventory that may be considered obsolete or slow moving is properly reserved and that Cirtran will be able to maintain a gross profit of at least 15% through the remainder of 2001 based on current prices for assembled circuit boards and the cost of inventory.

During the three-month period ended March 31, 2001, selling, general and administrative expenses were \$645,153, versus \$583,409 for the comparable period in 2000, a 10.6% increase. The increase is attributable to increased interest expense and professional fees. Interest expense for the three months ended March 31, 2001, was \$110,054 as compared to \$2,247 for the comparable period in 2000. The substantial increase in interest expense is attributable to the restructuring during the last calendar quarter of 2000 of Citran's accounts payable accrued in 2000 to installment obligations bearing interest.

8

As a result of the above factors, the overall net loss decreased 63.1% to \$580,373 for the three months ended March 31, 2001, as compared to \$1,573,791 for the three months ended March 31, 2000.

Liquidity and Capital Resources

Cirtran's current ratio at March 31, 2001 was 0.37:1 and at March 31, 2000, was 0.41:1. The primary reason for the change was the reduction of trade accounts receivable from \$883,825 at March 31, 2000, to \$554,743 at March 31, 2001. Cirtran had a working capital deficit of \$4,749,518 at March 31, 2001, and has recognized a net loss from operations through 2000 and the first three months of 2001. These factors raise substantial doubt about the ability of Cirtran to continue as a going concern.

To address this issue, CirTran plans on working with vendors to convert approximately 72 percent of trade payables into long-term notes and common stock and cure defaults with lenders through forbearance agreements that the Company will be able to service. Also, Abacus Ventures, Inc., purchased the Company's line of credit from the lending institution and, based on certain criteria, has indicated its willingness to exchange the debt for common stock. If successful, these plans will add significant equity to the Company. During the last six months of 2000,

Edgar Filing: CIRTRAN CORP - Form 10QSB

CirTran successfully extended payment terms on \$940,000 of trade payables to monthly installment obligations with interest accruing at the rate of 8% per annum. It settled \$646,283 of trade payables with another creditor by paying \$83,000 in cash, issuing a non-interest bearing note in the principal amount of \$166,000 due in two installments in December 2000 and March 2001 (which has been paid), issuing a promissory note in the principal amount of \$73,000 bearing interest at 6% per annum payable in 18 monthly installments, and converting the remaining \$324,283 to 352,070 shares of common stock. CirTran will continue to pursue these restructuring efforts to improve its financial condition, but there is no assurance that management will be successful in these efforts.

Year 2000 Compliance

Cirtran experienced no significant disruptions in mission critical information technology and manufacturing systems and believes those systems successfully responded to the Year 2000 date change. The costs associated with Year 2000 compliance were nominal. Cirtran is not aware of any material problems resulting from Year 2000 issues with its internal systems or the services of third parties. Cirtran will continue to monitor its mission critical computer applications and those of its supplier and vendors throughout the year to ensure that any latent Year 2000 matters that may arise are addressed properly.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1985 provides a safe harbor for forward-looking statements made by Cirtran, except where such statements are made in connection with an initial public offering. All statements, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that Cirtran expects or anticipates will or may occur in the future, including such things as improvement in results of operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect Cirtran's 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 Cirtran are based on knowledge of its business and the environment in which it operates as of the date of this report.

9

Because of the factors listed above, as well as other factors beyond its control, actual results may differ from those in the forward-looking statements.

PART II. OTHER INFORMATION

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

Reports on Form 8-K: None

Exhibits: None

Edgar Filing: CIRTRAN CORP - Form 10QSB

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: June 11, 2001

By: /s/ Iehab J. Hawatmeh
President

10