

Edgar Filing: CIRTRAN CORP - Form 10QSB

CIRTRAN CORP  
Form 10QSB  
August 08, 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 June 30, 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 June 30, 2001 there were  
10,420,067 shares of common stock outstanding.

Transitional Small Business Format: Yes  No

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### Part I. Financial Information CirTran Corporation and Subsidiary

#### CONSOLIDATED BALANCE SHEETS

##### ASSETS

|   | June 30,<br>2001<br>(Unaudited) | December 31,<br>2000 |
|---|---------------------------------|----------------------|
| <b>CURRENT ASSETS</b>   |                                 |                      |
| Cash and cash equivalents   | \$ 378                          | \$ 11,068            |
| Trade accounts receivable, net of allowance for doubtful accounts of \$101,875 in 2001 and \$72,774 in 2000 | 503,909                         | 883,825              |
| Inventories   | 2,019,072                       | 2,056,686            |
| Other   | 102,636                         | 94,176               |
| Total current assets  | 2,625,995                       | 3,045,755            |
| <br>PROPERTY AND EQUIPMENT, NET   | <br>1,638,855                   | <br>1,871,076        |
| <br>OTHER ASSETS, NET   | <br>45,057                      | <br>46,072           |
|   | \$ 4,309,907                    | \$ 4,962,903         |

##### LIABILITIES AND STOCKHOLDERS' DEFICIT

|   |              |              |
|---|--------------|--------------|
| <b>CURRENT LIABILITIES</b>                      |              |              |
| Current maturities of long-term obligations     | \$ 3,414,090 | \$ 3,414,090 |
| Current maturities of capital lease obligations | 39,274       | 39,274       |
| Checks written in excess of cash in bank        | 73,407       | 5,491        |
| Deferred revenue                                | 37,052       | -            |
| Accounts payable                                | 1,358,836    | 1,166,057    |
| Accrued liabilities                             | 2,013,353    | 1,711,991    |
| Notes payable to stockholders                   | 1,020,966    | 1,020,966    |

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|   |              |              |
|---|--------------|--------------|
| Total current liabilities   | 7,955,978    | 7,357,869    |
| LONG-TERM OBLIGATIONS, less current maturities  | 423,041      | 529,964      |
| CAPITAL LEASE OBLIGATIONS, less current maturities  | 12,257       | 14,257       |
| COMMITMENTS   | -            | -            |
| 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   | (9,901,824)  | (8,759,642)  |
| Total stockholders' deficit   | (4,081,369)  | (2,939,187)  |
|   | \$ 4,309,907 | \$ 4,962,903 |

The accompanying notes are an integral part of these statements.

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### CirTran Corporation and Subsidiary

#### CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

|  | Three months ended<br>March 31, |                | Six months ended<br>June 30, |                |
|--|---------------------------------|----------------|------------------------------|----------------|
|  | 2001                            | 2000           | 2001                         | 2000           |
| Net sales                                    | \$ 650,485                      | \$ 728,537     | \$ 1,070,965                 | \$ 2,680,038   |
| Cost of sales                                | 460,401                         | 1,749,105      | 824,176                      | 2,511,279      |
| Gross profit (loss)                          | 190,084                         | (1,020,568)    | 246,789                      | 168,759        |
| Selling, general and administrative expenses | 645,153                         | 583,409        | 1,273,249                    | 1,439,057      |
| Plant closure expenses                       | 15,250                          | -              | 15,250                       | -              |
| Loss from operations                         | (470,319)                       | (1,603,977)    | (1,041,710)                  | (1,270,298)    |
| Other income (expense)                       |                                 |                |                              |                |
| Interest expense                             | (110,054)                       | (2,247)        | (229,572)                    | (308,317)      |
| Other income                                 | -                               | 32,433         | 129,100                      | 67,660         |
|  | (110,054)                       | 30,186         | (100,472)                    | (240,657)      |
| Loss before income taxes                     | (580,373)                       | (1,573,791)    | (1,142,182)                  | (1,510,955)    |
| Income tax expense                           | -                               | -              | -                            | -              |
| NET LOSS                                     | \$ (580,373)                    | \$ (1,573,791) | \$ (1,142,182)               | \$ (1,510,955) |
| Net loss per common share - basic            | \$ (0.06)                       | \$ (0.18)      | \$ (0.11)                    | \$ (0.17)      |
| Net loss per common share - diluted          | \$ (0.06)                       | \$ (0.18)      | \$ (0.11)                    | \$ (0.17)      |

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Weighted-average common  
and diluted common  
equivalent shares outstanding

|         |            |           |            |           |
|---------|------------|-----------|------------|-----------|
| Basic   | 10,420,067 | 8,807,511 | 10,420,067 | 9,150,489 |
| Diluted | 10,420,067 | 8,807,511 | 10,420,067 | 9,150,489 |

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

For the Six Months ended June 30,

|  | 2001           | 2000           |
|--|----------------|----------------|
| Increase (decrease) in cash and cash equivalents                           |                |                |
| Cash flows from operating activities                                       |                |                |
| Net loss   | \$ (1,142,182) | \$ (1,510,955) |
| Adjustments to reconcile net loss to net cash used in operating activities |                |                |
| Depreciation and amortization  | 234,065        | 336,999        |
| Provision for loss on trade receivables                                    | 29,101         | (50,520)       |
| Reserve for inventory obsolescence   | -              | 78,000         |
| Changes in assets and liabilities  |                |                |
| Trade accounts receivable  | 350,815        | 51,184         |
| Inventories  | 37,614         | (267,528)      |
| Other assets   | (7,444)        | -              |
| Deferred revenue   | 37,052         | -              |
| Accounts payable   | 192,778        | 74,090         |
| Accrued liabilities  | 297,362        | 377,557        |
| Total adjustments  | 1,171,343      | 599,782        |
| Net cash provided by (used in) operating activities                        | 29,161         | (911,173)      |
| Cash flows from investing activities                                       |                |                |
| Purchase of property and equipment   | (1,844)        | (7,553)        |
| Acquisition costs  | -              | (5,693)        |
| Net cash used in investing activities                                      | (1,844)        | (13,246)       |
| Cash flows from financing activities                                       |                |                |
| Decrease in receivable from stockholders                                   | -              | 30,000         |
| Increase (decrease) in checks written in excess of cash in bank            | 67,916         | (8,844)        |
| Net change in line of credit   | -              | 27,820         |
| Principal payments on long-term obligations                                | (103,923)      | (194,902)      |
| Principal payments on capital leases                                       | (2,000)        | (1,555)        |
| Purchase of outstanding stock  | -              | (80,000)       |
| Issuance of common stock   | -              | 1,151,600      |
| Net cash (used in) provided by financing activities                        | (38,007)       | 924,119        |
| Net decrease in cash and cash equivalents                                  | (10,690)       | (300)          |
| Cash and cash equivalents at beginning of period                           | 11,068         | 500            |
| Cash and cash equivalents at end of period                                 | \$ 378         | \$ 200         |

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Supplemental disclosure of cash flow information

|                                 |    |        |            |
|---------------------------------|----|--------|------------|
| Cash paid during the period for |    |        |            |
| Interest                        | \$ | 35,572 | \$ 308,317 |

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

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

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 accounting principles generally accepted in the United States of America 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 June 30, 2001, 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 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:

|                               | June 30,<br>2001 | December 31,<br>2000 |
|-------------------------------|------------------|----------------------|
| Raw materials                 | \$ 1,776,570     | \$ 1,791,520         |
| Work-in process               | 187,906          | 169,676              |
| Finished goods                | 456,904          | 497,798              |
|                               | 2,421,380        | 2,458,994            |
| Less reserve for obsolescence | 402,308          | 402,308              |
|                               | \$ 2,019,072     | \$ 2,056,686         |

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CirTran Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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June 30, 2001 and 2000

## 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 June 30, 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.

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## 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

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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 60.0% to \$1,070,965 for the six months ended June 30, 2001 as compared to \$2,680,038 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 than large volume sales with low gross profit. Cost of sales for the six-month period ended June 30, 2001, was \$824,176, a 67.2% decrease as compared to \$2,511,279 incurred during the comparable six-month period for the prior year. Such costs as a percentage of revenue were 77.0% during 2001 as compared to 93.7% during 2000. This redirection of Cirtran's marketing effort resulted in a gross profit of \$246,789 for the six months ended June 30, 2001, as compared to a gross profit of \$168,759 for the six months ended June 30, 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 June 30, 2001, was \$2,019,072 as compared to \$2,056,686 at December 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 20% of net sales through the remainder of 2001 based on current prices for assembled circuit boards and the cost of inventory.

During the six-month period ended June 30, 2001, selling, general and administrative expenses were \$1,273,249, versus \$1,439,057 for the comparable period in 2000, an 11.5% decrease. The decrease is attributable to reductions in employees and other cost savings measures implemented by management. Interest expense for the six months ended June 30, 2001, was \$229,572 as compared to \$308,317 for the comparable period in 2000. The decrease 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.

As a result of the above factors, the overall net loss decreased 24.4% to \$1,142,182 for the six months ended June 30, 2001, as compared to \$1,510,955 for the six months ended June 30, 2000.

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### Liquidity and Capital Resources

Cirtran's current ratio at June 30, 2001 was 0.33:1 and at December 31, 2000, was 0.41:1. The primary reason for the change was the reduction of trade accounts receivable from \$883,825 at December 31, 2000, to \$503,909 at June 30, 2001. Cirtran had a working capital deficit of \$5,329,983 at June 30, 2001, and has recognized a net loss from operations through 2000 and the first six months of 2001. These factors raise substantial doubt about the ability of Cirtran to continue as a going concern.

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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, 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.

### 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. 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.



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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: August 3, 2001

By: /s/ Iehab J. Hawatmeh, President

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