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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 March 31, 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 X 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 May 22, 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 X

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The registrant amends Quarterly Report on Form 10-QSB for the period ended March 31, 2001 to furnish revised financial statements and a revised Management's Discussion and Analysis of Operating Results. Except as otherwise specifically noted, all information in this Form 10-QSB/A is as of March 31, 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

March 31,
2001

(unaudited
(restated))

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CURRENT ASSETS	
Cash and cash equivalents	\$ 200
Trade accounts receivable, net of allowance for doubtful accounts of \$66,178 in 2001 and \$82,502 in 2000	545,015
Inventories	1,783,168
Other	102,636

Total current assets	2,431,019
PROPERTY AND EQUIPMENT, NET	1,697,677
OTHER ASSETS, NET	10,587

	\$ 4,139,283
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Checks written in excess of cash in bank	\$ 78,230
Accounts payable	1,698,784
Accrued liabilities	2,480,718
Notes payable to stockholders	1,020,966
Current maturities of capital lease obligations	39,274
Current maturities of long-term obligations	3,417,090

Total current liabilities	8,735,062
LONG-TERM OBLIGATIONS, less current maturities	517,535
CAPITAL LEASE OBLIGATIONS, less current maturities	14,257
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
Additional paid-in capital	5,664,154
Accumulated deficit	(10,948,026)

Total stockholders' deficit	(5,127,571)

	\$ 4,139,283
	=====

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 March 31,	
	2001	2000
	(restated)	(restated)
Net sales	\$ 650,485	\$ 72,385
Cost of sales	545,478	1,385
Gross profit (loss)	105,007	(65,000)
Selling, general and administrative expenses	660,404	58,000
Loss from operations	(555,397)	(1,243,000)
Other income (expense)		
Interest expense	(245,221)	(245,221)
Other, net	-	-
Loss before income taxes	(800,618)	(1,243,000)
Income tax expense	-	-
NET LOSS	\$ (800,618)	\$ (1,243,000)
Net loss per common share		
Basic	\$ (0.01)	\$ (0.01)
Diluted	(0.01)	(0.01)
Weighted-average common and diluted common equivalent shares outstanding		
Basic	156,301,005	129,460,000
Diluted	156,301,005	129,460,000

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)

	Three months ended
	2001
	(restated)
Increase (decrease) in cash and cash equivalents	
Cash flows from operating activities	
Net loss	\$ (800,6
Adjustments to reconcile net loss to net cash provided by (used in) operating activities	
Depreciation and amortization	175,2
Changes in assets and liabilities	
Trade accounts receivable	329,0
Inventories	(27,3
Other assets	(8,4
Accounts payable	137,0
Accrued liabilities	140,7
	746,2
Total adjustments	746,2
	(54,3
Net cash provided by (used in) operating activities	(54,3
Net cash used in investing activities - Purchase of property and equipment	(1,8
Cash flows from financing activities	
Decrease in receivable from stockholders	
Increase in checks written in excess of cash in bank	72,7
Principal payments on long-term obligations	(27,4
Issuance of common stock	
	45,3
Net cash provided by financing activities	45,3
Net (decrease) increase in cash and cash equivalents	(10,8
Cash and cash equivalents at beginning of period	11,0
Cash and cash equivalents at end of period	\$ 2

Supplemental disclosure of cash flow information

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Cash paid during the period for
Interest

\$ 13,0

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2001 and 2000

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated 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 US GAAP 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 condensed 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, 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:

	March 31, 2001	December 31, 2000
	-----	-----
Raw materials	\$ 1,746,262	\$ 1,634,178
Work-in process	116,210	169,676
Finished goods	466,562	497,798
	-----	-----
	2,329,034	2,301,652
Less reserve for obsolescence	545,866	545,866
	-----	-----
	\$ 1,783,168	\$ 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

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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.

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 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:

March 31, 2001 -----	Electronics Assembly -----	Ethernet Technology -----	T -----
Sales to external customers	\$ 381,534	\$ 268,951	\$ 6
Intersegment sales	177,749	-	1
Segment loss	800,618	134,362	9
Segment assets	3,581,888	511,986	4,0
March 31, 2000			
Sales to external customers	\$ 537,630	\$ 190,707	\$ 7
Intersegment sales	56,821	-	
Segment loss	1,243,445	71,003	1,3
Segment assets	5,898,535	1,249,051	7,1
		March 31, 2001	Ma

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Sales	2001	
-----	-----	-----
Total sales for reportable segments	\$ 828,234	\$
Elimination of intersegment sales	(177,749)	
	-----	-----
Consolidated net sales	\$ 650,485	\$
	=====	=====

NOTE E - SEGMENT INFORMATION - CONTINUED

Net Loss		
Net loss for reportable segments	\$ (934,980)	\$ (1,314,448)
Elimination of intersegment losses	134,362	71,002
	-----	-----
Consolidated net loss	\$ (800,618)	\$ (1,243,446)
	=====	=====
Total Assets		
Total assets for reportable segments	\$ 4,093,874	\$ 7,147,586
Elimination of intersegment amounts	45,409	(867,637)
	-----	-----
Consolidated total assets	\$ 4,139,283	\$ 6,279,949
	=====	=====

NOTE F - RESTATEMENT

The 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 reduction of accounts receivables and other assets, \$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 three months ended March 31, 2001 have been restated to reflect corrections to recognize \$220,245 of additional accounts payable and accrued liabilities. Accordingly, the cost of sales has been increased by \$85,077 and interest expense has been increased by \$135,167 in the consolidated statement of operations for the three months then ended.

The statement of operations for the three months ended March 31, 2000 has also been restated to correct overstatements in accounts payable. Accordingly, cost of sales has been decreased by \$362,621 and other income has been decreased \$32,276 in the consolidated statement of operations for the three months then ended. 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

Sales and Cost of Sales

Net Sales decreased 10.7% to \$650,485 for the three-month period ended March 31, 2001 as compared to \$728,537 during the same period in 2000. The decrease primarily reflects the loss of two major customers, Andrew Corporation and 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 \$1,386,484 during the three-month period ended March 31, 2000 to \$545,478 during the same period in 2001. Our gross profit margin improved significantly, increasing from less than 0% for the three-month period ended March 31, 2000 to 16% for the same period in 2001.

Inventory

Inventory at March 31, 2001 was \$1,783,168 as compared to \$1,755,786 at December 31, 2000.

General and Administrative Expenses

During the three-month period ended March 31, 2001 selling, general and administrative expenses were \$660,404, as compared to \$583,409 during the same period in 2000, representing a 12.8% increase. This increase was primarily attributable to increased legal fees incurred in connection with several debt settlements arranged in the fall of 2000, preparation of our annual report on Form 10-KSB, and the litigation with Entrada Networks.

Interest expense for the three months ended March 31, 2001 was \$245,221, compared to \$2,247 during the same period in 2000. This represents an increase of \$242,974 and is primarily attributable the restructuring during the last calendar quarter of 2000 of accounts payable to installment obligations bearing interest.

As a result of the above factors, and primarily due to the significant decrease in cost of sales between the two periods, our overall net loss decreased 36% to \$800,618 for the three-month period ended March 31, 2001, from \$1,243,446 during the same period in 2000.

Liquidity and Capital Resources

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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 \$10,948,026 at March 31, 2001. Our current liabilities exceeded our current assets by \$5,664,395 as of December 31, 2000 and \$6,304,043 as of March 31, 2001.

Cash

At December 31, 2000, we had \$11,068 cash on hand. By March 31, 2001, our cash on hand was \$200, a decrease of \$10,868. We also increased checks written in excess of cash in bank by \$72,739 from \$5,491 at December 31, 2000 to \$78,230 at March 31, 2001.

Net cash used in operating activities was \$54,334 for the quarter ended March 31, 2001, compared to \$43,654 provided by operations for the quarter ended March 31, 2000. During the three-month period ended March 31, 2001, net cash used in operations was primarily attributable to \$800,618 in net losses from operations, partially offset by non-cash charges, increases in accrued liabilities of \$140,769 and in accounts payable of \$137,032, and a decrease in accounts receivable of 329,082. The non-cash charges include depreciation and amortization of \$175,243. The net cash of \$43,654 provided from operations for the quarter ended March 31, 2000 was attributable to the operating loss of \$1,243,446 being offset by an approximate decreases of \$645,000 in accounts receivable and \$99,000 in inventories, and an increase of approximately \$465,000 in accounts payable and accrued liabilities.

Net cash used in investing activities during the quarters ended March 31, 2001 and 2000, consisted of equipment purchases of \$1,844 and \$7,533, respectively.

Net cash provided by financing activities during the three-month period ended March 31, 2001 was \$45,310, representing the balance of \$72,739 provided by checks written in excess of cash in bank, less approximately \$27,429 used for principal payments on long-term obligations.

Accounts Receivable

By March 31, 2001, accounts receivable had decreased from \$874,097, net of an allowance for doubtful accounts of \$82,500, at December 31, 2001, to \$545,015, net of an allowance for doubtful accounts of approximately \$66,000. This significant decrease in accounts receivable is reflective of our decrease in sales during the first three months of 2001, as well as our efforts to improve the aging and quality of our current receivables.

Accounts Payable

Accounts payable were approximately \$1,699,000 at March 31, 2001 as compared to \$1,562,000 at December 31, 2000. This increase is primarily attributable to additional credit purchases of inventory and a lack of available cash to pay vendors as invoices became due.

Liquidity and Financing Arrangements

We sustained losses from operations of approximately \$801,000 and \$1,243,000 for the quarters ended March 31, 2001 and 2000, respectively. We had accumulated deficits of \$10,948,026 and \$10,147,408 at March 31, 2001 and December 31, 2000, respectively, and total stockholders' deficits of \$5,127,571 and \$4,326,953 as of such dates.

Since February 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

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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 it 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, 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 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 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 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.

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

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Date: May 22, 2002

By: /s/ Iehab J. Hawatmeh, President