CIRTRAN CORP
Form 10QSB/A
May 22, 2002

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

FORM 10-QSB/A
Amendment No. 1

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

CIRTRAN CORPORATION

For the quarter ended September 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 _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 October 31, 2001, the number of shares outstanding of the registrant's only class of common stock was 158,926,005.

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 September 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 September 30, 2001 and does not reflect any subsequent information or events.

PART I. FINANCIAL INFORMATION

CirTran Corporation and Subsidiary
CONSOLIDATED CONDENSED BALANCE SHEETS

Assets

	September 30, 2001	December 2000
	(Unaudited)	(restate
Current assets		
Cash and cash equivalents	$ 200	$ 11,
Trade accounts receivable, net of allowance for doubtful accounts of $113,900 in 2001 and $82,502 in 2000	384,203	874,
Inventories	1,772,722	1,755,
Other	293,693	94,
Total current assets	2,450,818	2,735,

Property And Equipment, net	1,498,128	1,871,
Other assets, net	9,572	10,
	$ 3,958,518	$ 4,616,

Liabilities and Stockholders' Deficit

Current liabilities		
Checks written in excess of cash in bank	$ 140,332	$ 5,
Accounts payable	1,958,992	1,561,
Accrued liabilities	3,111,687	2,339,
Notes payable to stockholders	1,020,966	1,020,
Current maturities of capital lease obligations	39,274	39,
Current maturities of long-term obligations	3,421,990	3,432,
Total current liabilities	9,693,241	8,399,
Long-term obligations, less current maturities	534,227	529,
Capital lease obligations, less current maturities	9,707	14,
Commitments	-	
Stockholders' Deficit		
Common stock, $0.001 par value; Authorized 750,000,000 shares; issued and outstanding; 158,926,005 in 2001 and 156,301,005 in 2000	158,926	156,
Additional paid-in capital	5,861,529	5,664,
Accumulated deficit	(12,299,112)	(10,147,
Total stockholders' deficit	(6,278,657)	(4,326,
	$ 3,958,518	$ 4,616,

The accompanying notes are an integral part of these statements.

CirTran Corporation and Subsidiary

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended September 30,		Nine Sep
	2001	2000	2001
		(restated)	

Net sales	$ 279,055	$ 2,501,970	$ 1,350,020
Cost of sales	308,262	2,105,493	1,159,513
Gross profit	(29,207)	396,477	191,507
Selling, general and administrative expenses	584,878	698,231	1,873,377
Income (loss) from operations	(614,085)	(301,754)	(1,682,870
Other income (expense)			
Interest expense	(124,452)	(18,220)	(667,959
Other, net	195,025	70,918	199,125
	70,573	52,698	(468,834
Income (loss) before income taxes	(543,512)	(249,056)	(2,151,704
Income tax expense	-	-	-
NET LOSS	$ (543,512)	$ (249,056)	$ (2,151,704
Net loss per common share			
Basic	$ (0.00)	$ (0.00)	$ (0.01
Diluted	(0.00)	(0.00)	(0.01
Weighted-average common and diluted common equivalent shares outstanding			
Basic	157,947,744	152,153,505	156,855,950
Diluted	157,947,744	152,153,505	156,855,950

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)

	Nine months en September 30	
	2001	
		(r
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Net loss	$ (2,151,704)	$ (1
Adjustments to reconcile net loss to net		

cash provided by (used in) operating activities		
Depreciation and amortization	374,791	
Provision for loss on trade receivables	31,399	
Reserve for inventory obsolescence	-	
Issuance of common stock options for prepaid commission	200,000	
Changes in assets and liabilities		
Trade accounts receivable	458,496	
Inventories	(16,936)	
Other assets	(198,502)	
Accounts payable	397,240	
Accrued liabilities	771,738	
Total adjustments	2,018,226	1
Net cash used in operating activities	(133,478)	
Net cash used in investing activities -		
Purchase of property and equipment	(1,844)	
Cash flows from financing activities		
Decrease in receivable from stockholders	-	
Increase (decrease) in checks written in excess of cash in bank	134,841	
Proceeds from loans to stockholders	305,625	
Principal payments on long-term obligations	(311,462)	
Principal payments on capital leases	(4,550)	
Purchase of outstanding stock	-	
Issuance of common stock	-	
Net cash provided by financing activities	124,454	
Net decrease in cash and cash equivalents	(10,868)	
Cash and cash equivalents at beginning of period	11,068	
Cash and cash equivalents at end of period	$ 200	$

Supplemental disclosure of cash flow information

Cash paid during the period for		
Interest	$ 53,013	$

Noncash investing and financing activities

Conversion of line of credit to note payable		2

During the quarter ended September 30, 2001, the Company recorded a prepaid commission of $200,000 by issuing 3,000,000 options to purchase common stock. Subsequent to the issuance, 2,625,000 of options were converted to 2,625,000 shares of common stock at a nominal amount.

The accompanying notes are an integral part of these statements.

CirTran Corporation and Subsidiary

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

September 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 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 September 30, 2001, its consolidated results of operations for the three months ended September 30, 2001 and 2000 and its consolidated results of operations and cash flows for the nine months ended September 30, 2001 and 2000. The results of operations for the three months and nine months ended September 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:

	September 30, 2001	December 31, 2000
Raw materials	$ 1,700,526	$ 1,634,178
Work in process	181,300	169,676
Finished goods	436,762	497,798
	2,318,588	2,301,652
Less reserve for obsolescence	(545,866)	545,866
	$ 1,772,722	$ 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.

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:

Three Months ended September 30, 2001	Electronics Assembly	Ethernet Technology	Total
Sales from external customers	$ 220,772	$ 58,283	$ 279,055
Intersegment sales	9,106	-	9,106
Segment loss	(543,512)	(479,714)	(1,023,226)
Segment assets	3,250,289	410,776	3,661,065
Three Months ended September 30, 2000			
Sales from external customers	$ 2,099,908	$ 402,062	$ 2,501,970
Intersegment sales	236,169	-	236,169
Segment earnings (loss)	(167,589)	(105,456)	(273,045)
Segment assets	6,801,741	1,193,165	7,994,906

Net Sales	September 30, 2001	September 30, 2000
Total sales for reportable segments	$ 288,161	$ 2,738,139
Elimination of intersegment sales	(9,106)	(236,169)

Consolidated net sales	$ 279,055	$ 2,501,970
Net Earnings (Loss)		
Net loss for reportable segments	$(1,023,226)	$ (273,045)
Elimination of intersegment amounts	479,714	105,456
Consolidated net earnings (loss)	$ (543,512)	$ (167,589)

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NOTE E - SEGMENT INFORMATION - CONTINUED

Nine Months ended September 30, 2001	Electronics Assembly	Ethernet Technology	Total
Sales from external customers	$ 908,295	$ 441,725	$ 1,350,020
Intersegment sales	271,938	-	271,938
Segment income (loss)	(2,151,704)	(471,697)	(2,623,401)
Segment assets	3,250,289	410,776	3,661,065
Nine Months ended June 30, 2000			
Sales from external customers	$ 3,908,593	$ 1,273,415	$ 5,182,008
Intersegment sales	668,296	-	668,296
Segment loss	(1,431,839)	(654,064)	(2,085,903)
Segment assets	6,801,741	1,193,165	7,994,906

Net Sales	September 30, 2001	September 30, 2000
Total sales for reportable segments	$ 1,621,958	$ 5,850,304
Elimination of intersegment sales	(271,938)	(668,296)
Consolidated net sales	$ 1,350,020	$ 5,182,008
Net Loss		
Net loss for reportable segments	$ (2,623,401)	$ (2,085,903)
Elimination of intersegment amounts	471,697	654,064
Consolidated net loss	$ (2,151,704)	$ (1,431,839)

	September 30, 2001	September 30, 2000
Total Assets		

Total assets for reportable segments	$ 3,661,065	$ 7,994,906
Elimination of intersegment amounts	297,453	(401,753)
Consolidated total assets	$ 3,958,518	$ 7,593,153

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.

The statement of operations for the nine months ended September 30, 2000 has also been restated to correct understatements in accounts payable. Accordingly, cost of sales has been increased by $81,467 in the consolidated statement of operations for the nine months then ended. Earnings or loss per share did not change as a result of the restatement.

NOTE G - COMMON STOCK OPTIONS

On July 12, 2001, the Company entered into an agreement with an independent sales representative that provides for the Company to pay the sale representative either $200,000 cash or a representive value in stock options as a retainer. The Company issued options to purchase 3,000,000 shares of common stock, exercisable at $0.00067 per share. The sales representative subsequently exercised 2,625,000 of the options during the quarter ended September 30, 2001. All commissions earned by the sales representative in the future will be deducted from the retainer until the retainer is satisfied in full.

NOTE H - SUBSEQUENT EVENTS

On October 28, 2001, the Company granted 500,000 stock options to employees at an exercise price of $0.07 per share. On November 1, 2001, the employees exercised the 500,000 options. Also on November 1, 2001, the Company's independent sales representative exercised 375,000 options at $0.00067 per share.

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 September 30, 2001 decreased by 88.8% to $279,055 compared to $2,501,970 for the three months ended September 30, 2000. Net sales decreased 73.9% to $1,350,020 for the nine-month period ended September 30,2001 as compared to $5,182,008 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. Sales have also been affected by the Company's lack of financial resources to maintain or increase its sales and marketing efforts. Cost of sales decreased by 85.4%, from $2,105,493 during the three-month period ended September 30, 2000 to $308,262 during the same period in 2001. Our gross profit margin decreased from 15.9% for the three-month period ended September 30, 2000 to 10.5% for the same period in 2001. Cost of sales decreased by 73%, from $4,288,600 during the nine-month period ended September 30, 2000 to $1,159,514 during the same period in 2001. Our gross profit margin decreased marginally, decreasing from 17.2% for the nine-month period ended September 30, 2000 to 14.1% for the same period in 2001.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 30, 2001 decreased by 16.2% to $584,878 compared to $698,231 for the three months ended September 30, 2000. During the nine-month period ended September 30, 2001 selling, general and administrative expenses were $1,873,377, as compared to $2,070,028 during the same period in 2000, representing a 9.5% decrease. Due to the decline in sales, however, selling, general and administrative expenses as a percentage of sales increased during the three-month period ended September 30, 2001 to 209.6% as compared to 27.9% during the same period in 2000. Selling, general and administrative expenses as a percentage of sales increased during the nine-month period ended September 30, 2001 to 138.8%, as compared to 39.9% during the same period in 2000.

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Interest Expense

Interest expense for the three months ended September 30, 2001 was $124,452, compared to $18,220 during the same period in 2000. This represents an increase of $106,232, or 583.1%. Interest expense for the nine months ended September 30, 2001 was $667,959, compared to $326,537 during the same period in 2000. This represents an increase of $341,422, or 104.6%. The increases are 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 59.3% to

$2,151,704 for the nine-month period ended September 30, 2001, from $1,350,372 during the same 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 $12,299,112 at September 30, 2001. Our net operating loss for the nine-month period ending September 30, 2001 was $2,151,704, compared to $1,350,372 for the same period in 2000. Our current liabilities exceeded our current assets by $7,242,424 as of September 30, 2001 and $5,664,395 as of December 31, 2000.

Cash

At December 31, 2000, we had $11,068 cash on hand. By September 30, 2001, our cash on hand was $200, a decrease of $10,868. We also increased checks written in excess of cash in bank by $134,841 from $5,491 at December 31, 2000 to $140,332 at September 30, 2001.

Net cash used in operating activities was $133,478 for the nine months ended September 30, 2001, compared to $614,130 used in operations for the nine months ended September 30, 2000. During the nine-month period ended September 30, 2001, net cash used in operations was primarily attributable to our net loss of $2,151,704, offset by non-cash charges, increases in accrued liabilities of $771,738 and in accounts payable of $397,240, and a decrease in accounts receivable of $458,496. The non-cash charges include depreciation and amortization of $374,791 and issuance of stock for prepaid commissions of $200,000.

Net cash used in investing activities during the nine months ended September 30, 2001 and 2000, consisted of equipment purchases of $1,844 and $11,227, respectively.

Net cash provided by financing activities during the nine-month period ended September 30, 2001 was $124,454, representing $134,841 provided by an increase in checks written in excess of cash in bank and proceeds from loans to stockholders of $305,625, less approximately $316,013 used for principal payments on long-term obligations and capital leases.

Accounts Receivable

By September 30, 2001, net accounts receivable had decreased from $874,097 at December 31, 2000 to $384,203. This significant decrease in accounts receivable reflects our decrease in sales during the first nine months of 2001, as well as our efforts to improve the aging and quality of our current receivables

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Accounts Payable

Accounts payable were approximately $1,959,000 at September 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 $2,152,000 and $1,350,000 for the nine months ended September 30, 2001 and 2000, respectively. We also sustained losses of approximately $544,000 and $168,000 for the three months ended September 30, 2001 and 2000, respectively. We had accumulated deficits of $12,299,112 and

$10,147,408 at September 30, 2001 and December 31, 2000, respectively, and total stockholders' deficits of $6,278,657 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 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

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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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