CIRTRAN CORP
Form 10-12G
May 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10

GENERAL FORM OF REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

CirTran Corporation

(Exact name of registrant as specified in its charter)

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, including zip code)

(801) 963-5112

(Registrant's telephone number, including area code)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
N/A	**N/A**

Securities to be registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value $0.001
(Title of class)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer **[ ]**
Non-accelerated filer [ ]	Smaller reporting company [X]
Emerging growth company [ ]	

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This registration statement contains statements about the future, sometimes referred to as “forward-looking” statements. Forward-looking statements are typically identified by the use of the words “believe,” “may,” “could,” “should,” “expect,” “anticipate,” “estimate,” “project,” “propose,” “plan,” “intend,” and similar words and expressions. Statements that describe ou future strategic plans, goals, or objectives are also forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

Readers of this registration statement are cautioned that any forward-looking statements, including those regarding us or our management’s current beliefs, expectations, anticipations, estimations, projections, strategies, proposals, plans, or intentions, are not guarantees of future performance or results of events and involve risks and uncertainties, such as:

We may be deemed to be insolvent and may face liquidation.

The auditors’ report for our most recent fiscal years contains explanatory paragraphs about our ability to continue as a going concern.

Playboy Enterprises, Inc., or Playboy, has obtained a judgment that precludes us from using the Playboy trademark in distributing an energy drink, our only source of revenue during recent years, and our likelihood of success in our pending motion for a retrial may be considered low.

We cannot assure that we will be able to use our energy drink formulations for any other branding or distribution.

We cannot assure that our efforts to identify and commercialize new products for manufacture and distribution will be successful or generate revenue.

All of our assets are encumbered to secure the payment of approximately $2.6 million in indebtedness, plus $1.1 million of accrued interest, that is convertible to common stock, and if the indebtedness is not converted before April 2027, our default could result in the loss of all of our assets.

We are a party to numerous lawsuits that require significant management attention and funds for attorneys’ fees and that subject us to risk of damages.

We will require substantial amounts of additional capital from external sources.

Any sizable increase in products being developed, manufactured, and distributed will require skilled management of growth.

Penny stock regulations impose certain restrictions on resales of our securities, which may cause an investor to lose some or all of its investment.

Risk factors, such as those set forth under “Management’s Discussion and Analysis of Analysis of Financial Condition and Results of Operation” and other factors that are not currently known to us, may emerge from time to time.

The forward-looking information is based on present circumstances and on our predictions respecting events that have not occurred, that may not occur, or that may occur with different consequences from those now assumed or anticipated. Actual events or results could vary significantly from those expressed or implied in such statements and are subject to a number of risks and uncertainties. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct.

Discussions containing these forward-looking statements may be found, among other places, in this registration statement under the captions “Risk Factors,” “Business,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Before deciding to purchase our securities, you should carefully consider the risk factors discussed here or incorporated by reference, in addition to the other information set forth in this registration statement. Forward-looking statements speak only as of the date of the document in which they are contained, and we do not undertake any duty to update our forward-looking statements, except as may be required by law, and we caution you not to rely on them unduly.

ITEM 1. BUSINESS

Overview

From 2007 until October 2016, we manufactured, marketed, and distributed internationally an energy drink under a license with Playboy through our subsidiary, CirTran Beverage Corporation (“CirTran Beverage”). CirTran Beverage conducted its activities under an agreement with Play Beverages, LLC (“PlayBev”), which held the Playboy license. During this time, PlayBev was considered a variable interest entity. On October 21, 2016, we deconsolidated PlayBev from our consolidated financial statements.

In October 2016, Playboy obtained a judgment against CirTran Beverage and PlayBev holding that the license is no longer valid, that PlayBev is no longer authorized to market the Playboy-branded energy drink, and awarding money damages to Playboy. CirTran Corporation was not a party to the lawsuit. CirTran Beverage and PlayBev have filed a motion for a retrial, which is now pending before the court. See Item 8. Legal Proceedings.

Since the Playboy litigation was initiated, our activities declined rapidly, restrained by the necessity to prioritize obtaining the forbearance of our principal secured and judgment creditors, seeking to resolve disputes respecting the PlayBev license to market Playboy-licensed energy drinks, defending the numerous lawsuits to which we were a party, and obtaining additional capital. Disputes respecting the status of the PlayBev license to market Playboy-licensed energy drinks impaired our ability to establish new distributors, damaged some of our relationships with existing distributors, and considerably depressed revenues.

We are now without significant operations. Reflecting our severely limited operations, we had minimal revenue of $12,500 during the year ended December 31, 2017, and $0 in the previous year.

References to “us,” “we,” “our,” and correlative terms refer to CirTran Corporation and the subsidiaries and divisions through which we conduct our activities.

Consumer Product Commercialization—Contract Marketing

We are now seeking to commercialize one or more consumer products. In our efforts to commercialize new products, we will identify what we believe to be a product or other demand and then seek a product that may be distributed to address that demand. We pursue contract marketing relationships principally in the domestic consumer products markets, including products in areas such as home and garden, kitchen, health and beauty, toys, licensed merchandise, and apparel for film, television, sports, and other entertainment properties. If we deem it suitable, we may obtain rights from the product owner to manufacture and market a particular product, generally in consideration of the payment of a royalty, sometimes accompanied with an initial fee. Frequently, owners of undeveloped products or product concepts are seeking branding, marketing, manufacturing, order fulfillment, and distribution assistance. Where we identify a need but find no suitable available product, we may design our own product for commercialization.

Our commercialization effort includes developing product packaging, branding the product, arranging third-party manufacturing, establishing distribution channels, and arranging order fulfillment. We anticipate that these activities will generally be undertaken by third parties under contract. In some cases, we may brand a product under a license to use a third-party's recognized name, as we did in the case of the Playboy-branded energy drink, seek an endorsement from a publicly recognized celebrity, sports figure, or other person, or obtain the rights to use the image, likeness, or logo of a product or a person, such as a well-known celebrity. Licensed merchandise and apparel are then sold and marketed in the entertainment and sports franchise industries. We anticipate that these products will be introduced into the market under either one uniform brand name or separate trademarked names that we originate and own or acquire by license.

Although we are now investigating some commercialization opportunities, we are in the early stages of our efforts and cannot assure that we will be successful in completing commercialization of any product, generating revenues, or realizing a profit.

The contract-manufacturing industry specializes in providing the program management, technical and administrative support, and manufacturing expertise required to take products from the early design and prototype stages through volume production and distribution, providing the customer with a quality product, delivered on time and at a competitive cost. This full range of services gives the customer an opportunity to avoid large capital investments in plant, inventory, equipment, and staffing, so that instead, it can concentrate on innovation, design, and marketing. By using our contract-manufacturing services, customers will have the ability to improve the return on their investment with greater flexibility in responding to market demands and exploiting new market opportunities. Our efforts will be led by our current chief executive officer and others that we may hire as employees or engage as independent contractors.

In previous years, we found that customers increasingly required contract manufacturers to provide complete turn-key manufacturing and material handling services, rather than working on a consignment basis in which the customer supplies all materials and the contract manufacturer supplies only labor. Turn-key contracts involve design, manufacturing and engineering support, procurement of all materials, and sophisticated in-circuit and functional testing and distribution. The manufacturing partnership between customers and contract manufacturers involves an increased use of “just-in-time” inventory management techniques that minimize the customer’s investment in component inventories, personnel, and related facilities, thereby reducing its costs.

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Based on the trends we have observed in the contract-manufacturing industry, we believe we will benefit from the increased market acceptance of, and reliance upon, the use of manufacturing specialists by many original equipment manufacturers, or OEMs, marketing firms, distributors, and national retailers. We believe the trend towards outsourcing manufacturing will continue. OEMs use manufacturing specialists for many reasons, including reducing the time it takes to bring new products to market, reducing the initial investment required, accessing leading manufacturing technology, gaining the ability to better focus resources in other value-added areas, and improving inventory management and purchasing power. An important element of our strategy is to establish partnerships with major and emerging OEM leaders in diverse segments across our target industries. Due to the costs inherent in supporting customer relationships, we focus on customers with which the opportunity exists to develop long-term business partnerships. Our goal is to provide our customers with total manufacturing solutions through third-party providers for both new and more mature products, as well as across product generations—an idea we call "Concept to Consumer."

We have also designed, engineered, manufactured, and supplied products in the international electronics, consumer products, and general merchandise industries for various marketers, distributors, and retailers selling overseas. We have provided manufacturing services to the direct-response and retail consumer markets. Our experience and expertise enables us to enter a project at various phases: engineering and design; product development and prototyping; tooling; and high-volume manufacturing. Our contacts with Asian suppliers have helped us to maintain our status as an international contract manufacturer for multiple products in a wide variety of industries, which will allow us to target larger-scale contracts.

We intend to pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses, and injection-molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, retail, and direct consumer markets.

We have developed markets for several fitness and exercise products, household and kitchen products and appliances, and health and beauty aids that are manufactured in China. We anticipate that offshore contract manufacturing will play an increased role moving forward as resources become available to us.

Beverage Distribution

We retain all rights to the energy drink formulas that we previously marketed under the Playboy brand name and may seek to rebrand and remarket them, relying at least in part on the beverage distribution network that we previously developed.

Sales and Marketing

We are working aggressively to identify products that we may market through current sales channels. We also seek new paths to deliver products and services directly to end users and are pursuing strategic and reciprocal relationships with retail distribution firms whereby they would act as our retail distribution arm and we would act as their manufacturing arm, with each party giving the other priority and first opportunity to work on the other’s products.

Our contacts in China may allow us to increase our manufacturing capacity and output with minimal capital investment required. By using various subcontractors, we plan to leverage our upfront payments for inventories and tooling to control costs and receive benefits from economies of scale in Asian manufacturing facilities.

Typically, and depending on the contract, we may be required to prepay a portion of the purchase orders for materials. In exchange for theses financial commitments, we may receive dedicated manufacturing responsiveness and eliminate the costly expense associated with capitalizing completely proprietary facilities. For example, we previously expanded our manufacturing capabilities for our beverage division outside the United States to accommodate international customers by contracting with manufacturers in Budapest, Hungary, and India.

During a typical contract manufacturing sales process, a customer provides us with specifications for the product it wants, and we develop a bid price for manufacturing a minimum quantity that includes manufacture engineering, parts, labor, testing, and shipping. If the bid is accepted, the customer is required to purchase the minimum quantity, and additional product is sold through purchase orders issued under the original contract. Special engineering services are provided at either an hourly rate or a fixed contract price for a specified task.

Competition

Competition in our targeted markets is comprised of manufacturing technology, merchandise quality, responsiveness, the provision of value-added services, and price. To be competitive, we must provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, and deliver finished products on a reliable basis and for a favorable price.

The manufacturing services industry is large and diverse and serviced by many companies, including several that have achieved significant market share. We will compete with different companies depending on the type of service or geographic area. Certain of our competitors may have greater manufacturing, financial, research and development, and marketing resources than we have.

We will also face competition from current and prospective customers that evaluate our capabilities against the merits of manufacturing products internally.

Regulation

We are subject to typical federal, state, and local regulations and laws governing the operations of manufacturing concerns, including environmental disposal, storage, and discharge regulations and laws; employee safety laws and regulations; and labor practices laws and regulations. We are not required under current laws and regulations to obtain or maintain any specialized or agency-specific licenses, permits, or authorizations to conduct our manufacturing services. We believe we are in substantial compliance with all relevant regulations applicable to our business and operations. All international sales permits are the responsibility of the local distributors, and they are required to obtain all local licenses and permits.

Employees

At December 31, 2017, we had three employees, including our chief executive officer.

Corporate Background and History

In 1987, CirTran Corporation was incorporated in Nevada under the name Vermillion Ventures, Inc., for the purpose of acquiring other operating corporate entities. We were largely inactive until July 1, 2000, when our wholly owned subsidiary, CirTran Corporation (Utah), acquired substantially all of the assets and certain liabilities of Circuit Technology, Inc.

Our predecessor business in Circuit Technology, Inc. was commenced in 1993 by our president, Iehab Hawatmeh. In 2001, we effected a 15-for-1 forward-split of our shares and a stock distribution, which increased the number of our issued and outstanding shares of common stock. We also increased our authorized capital from 500,000,000 to 750,000,000 shares. In 2007, our stockholders approved a 1.2-for-1 forward-split of our shares and an amendment to our articles of incorporation that increased our authorized capital to 1,500,000,000 shares of common stock. In August 2011, we increased our authorized capitalization to 4,500,000,000 shares of common stock, par value $0.001.

In May 2015, our stockholders and board of directors approved an amendment to our articles of incorporation to complete a 1,000-to-1 reverse split of our common stock, decrease our authorized common stock to 100,000,000 shares, par value $0.001, and authorize a class of 5,000,000 shares of preferred stock having such terms as the board of directors may determine prior to issuance (the "Amendment"). However, FINRA refused to approve the Amendment until such time as we became current in our periodic reports (which we intend to accomplish with this registration statement) and replaced our previous convertible debenture lender (which we completed in April 2017). We now intend to reapply for FINRA approval of the Amendment.

ITEM 1A. RISK FACTORS

In addition to the negative implications of all information and financial data included in or referred to directly in this registration statement, you should consider the following risk factors. This registration statement contains forward-looking statements and information concerning us, our plans, and other future events. Those statements should be read together with the discussion of risk factors set forth below, because those risk factors could cause actual results to differ materially from such forward-looking statements.

We may be deemed to be insolvent and may face liquidation.

We may be deemed to be insolvent. We are unable to meet all of our obligations as they accrue, and the aggregate amount of our liabilities may exceed the value of our assets. Creditors may have the right to initiate involuntary bankruptcy proceedings against us in which they would seek our liquidation. We cannot assure that we would be successful in avoiding liquidation by converting such liquidation proceedings to a Chapter 11 reorganization, which would permit us to develop and propose, for creditor approval, a reorganization plan that would enable us to proceed. Even if we were to propose a reorganization plan, any reorganization plan would likely require that we obtain new post-petition funding, which may be unavailable. Further, in the event of bankruptcy, our secured creditors that have encumbrances on all of our assets would likely execute and take all of our assets, which may leave nothing for other creditors or our stockholders.

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The auditors' report for our most recent fiscal year, like previous years, contains an explanatory paragraph about our ability to continue as a going concern.

We had a net loss of $2.0 million during the year ended December 31, 2017, and $22.8 million during the year ended December 31, 2016, which includes $0.3 million and $25.0 million in losses from discontinued operations. We had an accumulated deficit of $76.6 million as of December 31, 2017. During the year ended December 31, 2017, net cash used in operations was $207,000. We had current liabilities of $35.8 million and a $35.8 million working capital deficit as of December 31, 2017. The reports from our auditors on our consolidated financial statements for the years ended December 31, 2017 and 2016, as for several previous years, contain explanatory paragraphs about our ability to continue as a going concern.

We may not be able to establish new operations based on the commercialization of new products or concepts.

Following the judicial termination of our rights to distribute a Playboy-branded energy drink and in the absence of a successful motion for a new trial and a favorable decision in a new trial, we are seeking to establish new operations based on the commercialization of new products or product concepts. We cannot assure that we will be able to identify, acquire, or originate new products, complete branding, arrange third-party manufacturing, establish order fulfillment relationships, or establish distribution channels in order to generate new revenues.

All of our assets are encumbered to secure the payment of approximately $2.6 million of indebtedness, plus $1.1 million of accrued interest, on secured convertible debentures that require payments beginning in April 2027 if not previously converted to common stock.

We have encumbered all of our assets to secure the payment of approximately $2.6 million in indebtedness, plus $1.1 million of accrued interest, due on secured convertible debentures. $0.2 million requires payment by October 2018 and $2.4 million requires payment by April 2027, if not previously converted. We cannot assure that these convertible debentures will be converted to common stock before we are obligated to pay the balance due. If we were to default in payment at maturity, our secured creditor could exercise its remedies, including the execution on all of our assets, which would result in the termination of our activities. We cannot assure that the secured creditor will consider or agree to any forbearance from aggressive collection efforts. The existence of these secured obligations will likely significantly impair our ability to obtain capital from external sources.

We are parties to numerous lawsuits that require significant management attention and funds for attorney's fees and subject us to risks of damages or other adverse judgments.

As noted in Item 8. Legal Proceedings, we are a party to numerous lawsuits, some of which remain active, requiring that we incur attorney's fees and other costs and devote management's time and attention. Successful suits by creditors for the collection of debts may require that we pay judgment amounts, subject to the priority encumbrances in favor of secured creditors. We may incur significant costs to pursue litigation in which we are the plaintiff without any recovery or other favorable outcome. Any judgments we may obtain against third parties may not be collectible.

We will require substantial amounts of additional capital from external sources.

Whether or not the Playboy license is reinstated following our pending motion for a retrial and we are successful in a new trial, of which there can be no assurance, we will require substantial additional funds to implement our product commercialization and contract manufacturing plans. The extent of our future capital requirements will depend on many factors, including the outcome of the Playboy litigation; marketing plans; the growth of product commercialization and contract manufacturing; establishment of strategic alliances, joint ventures, licenses, or other collaborative arrangements; and other factors not within our control.

We anticipate that we will seek required funds from external sources. However, our precarious financial condition, limited revenues, substantial secured indebtedness, continuing lawsuits, and uncertainties respecting the status of the PlayBev litigation will make it difficult for us to obtain capital.

We may seek required funds through the sale of equity or other securities. Our ability to obtain financing on acceptable terms will depend on many factors, including the condition of the securities markets generally and for companies like us at the time of the offering; our business, financial condition, and prospects at the time of the proposed offering; our ability to identify and reach a satisfactory arrangement with prospective securities sales and investment groups; and various other factors. We cannot assure that we will be able to obtain financing on terms favorable to us or at all. The issuance of additional equity securities may dilute the interest of our existing stockholders or may subordinate their rights to the superior rights of new investors.

We may also seek additional capital through strategic alliances, joint ventures, or other collaborative arrangements. Any such relationships may dilute our interest in any specific project and decrease the amount of revenue that we may receive from the project. We cannot assure that we will be able to negotiate any strategic investment or obtain required additional funds on acceptable terms, if at all. In addition, our cash requirements may vary materially from those now planned because of the results of future marketing and manufacturing agreements; results of product testing; potential relationships with our strategic or collaborative partners; changes in the focus and direction of our research and development programs; competition and technological advances; issues related to patent or other protection for proprietary technologies; and other factors.

If adequate funds are not available, we may be required to delay, reduce the scope of, or eliminate our planned efforts; obtain funds through arrangements with strategic or collaborative partners that may require us to relinquish rights to certain of our technologies, product candidates, or products that we would otherwise seek to develop or commercialize ourselves; or sublicense our rights to such products on terms that are less favorable to us than might otherwise be available.

Any substantial increase in business activities will require skilled management of growth.

If we have the opportunity to commercialize new products, our success will depend on our ability to manage continued growth, including integrating new employees and independent contractors into an effective management and technical team; formulating strategic alliances, joint ventures, or other collaborative arrangements with third parties; commercializing and marketing proposed products and services; and monitoring and managing these relationships on a long-term basis. If our management is unable to integrate these resources and manage growth effectively, the quality of our products and services, our ability to retain key personnel, and the results of our operations would be materially and adversely affected.

We have issued nearly all of the shares of stock we are authorized to issue, which may limit our ability to obtain necessary financing.

We have authorized 4,500,000,000 shares of common stock, nearly all of which has been issued. Being unable to issue additional shares of common stock limits our ability to obtain the financing we need. Although our stockholders voted to increase the number of shares we are authorized to issue, we are unable to proceed with recapitalization because we could not obtain necessary approval from FINRA. We cannot assure that completing the registration of our common stock under the Securities Exchange Act via this registration statement or replacing the holder of our secured convertible debentures will enable us to obtain FINRA approval for our Amendment in order to increase our capitalization.

We do not have enough authorized shares available to allow the conversion and exercise of outstanding convertible debentures and options, which may subject us to liability.

We have approximately $2.6 million in principal, plus $1.1 million of accrued interest, for outstanding convertible debentures. We do not have adequate authorized and unissued shares of common stock to permit the conversion and exercise of those securities. If those holders of our convertible debentures and options attempted to convert and exercise those securities, they would be unable to do so, which might place us in default of our obligation to increase our capitalization.

Penny stock regulations will impose certain restrictions on resales of our securities, which may cause an investor to lose some or all of its investment.

The U.S. Securities and Exchange Commission has adopted regulations that generally define a “penny stock” to be any equity security that has a market price (as defined) of less than $5.00 per share that is not traded on a national securities exchange or that has an exercise price of less than $5.00 per share, subject to certain exceptions. As a result, our common stock is subject to rules that impose additional sales practice requirements on broker-dealers that sell these securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser’s written consent to the transaction before the purchase. Further, if the price of the stock is below $5.00 per share and the issuer does not have $2.0 million or more net tangible assets or is not listed on a registered national securities exchange, sales of that stock in the secondary trading market are subject to certain additional rules promulgated by the U.S. Securities and Exchange Commission. These rules generally require, among other things, that brokers engaged in secondary trading of penny stocks provide customers with written disclosure documents, monthly statements of the market value of penny stocks, disclosure of the bid and asked prices, and disclosure of the compensation to the broker-dealer and the salesperson working for the broker-dealer in connection with the transaction. These rules and regulations may affect the ability of broker-dealers to sell our common stock, thereby effectively limiting the liquidity of our common stock. These rules may also adversely affect the ability of persons that acquire our common stock to resell their securities in any trading market that may exist at the time of such intended sale.

ITEM 2. FINANCIAL INFORMATION

Management's Discussion and Analysis of Financial Condition and Results of Operation

Overview

Until October 2016, we manufactured, marketed, and distributed internationally an energy drink under a license with Playboy Enterprises, Inc. ("Playboy"), through our subsidiary, CirTran Beverage Corporation ("CirTran Beverage"). CirTran Beverage manufactured, marketed, and distributed Playboy-branded energy drinks in accordance with its agreement with Play Beverages, LLC ("PlayBev"), which held the Playboy license. An Illinois court determined in October 2016 that PlayBev no longer had the right to distribute the Playboy-branded beverage. Following the adverse court ruling, we filed a motion for a retrial, which is now pending before the court. See Item 8. Legal Proceedings. PlayBev was previously consolidated as a variable interest entity. However, at October 21, 2016, we deconsolidated PlayBev from our consolidated financial statements.

Since October 2016, we have had minimal revenue from consulting services we provided to third parties.

During 2016 and 2017, our activities declined rapidly, restrained by the necessity to prioritize obtaining the forbearance of our principal secured and judgment creditors, seeking to resolve disputes respecting the PlayBev license to market Playboy-licensed energy drinks, defending the numerous lawsuits to which we are a party, and obtaining additional capital. Further, disputes respecting the status of the PlayBev license to market energy drinks impaired our ability to establish new distributors, damaged our relationships with existing distributors, and considerably depressed revenues.

In the United States, we intend to commercialize consumer products and provide a mix of high- and medium-volume turnkey manufacturing services and products using various high-tech applications for leading electronics OEMs (original equipment manufacturers) in the communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our business activities include pre-manufacturing, manufacturing, and post-manufacturing services. Our goal is to provide our customers with total manufacturing solutions through third-party providers for both new and more mature products, as well as across product generations.

Comparison of Years Ended December 31, 2017 and 2016

Sales and Cost of Sales

Revenue for the year ended December 31, 2017, totaled $12,500, as compared $0 the year ended December 31, 2016. The increase is attributable to consulting services we provided to third parties.

Operating Expenses

During the year ended December 31, 2017, selling, general, and administrative expenses decreased by 49%, as compared to the preceding year, as a result of the termination of salary accruals.

<u>Other Income and Expense</u>

Other expenses during the year ended December 31, 2017, consisted principally of $500,000 related to a loss on settlement of debt and $489,000 in interest expense. Other expenses during the year ended December 31, 2016, included $439,000 for interest expense and $132,000 for loss on derivatives valuation. Interest expense was approximately equal for each year because the principal amount of indebtedness and applicable interest rate were approximately the same. During 2016, we recognized a gain of $4.3 million from equity in losses of a deconsolidated entity.

As a result of the foregoing, we had a loss from continuing operations of $1.8 million during the year ended December 31, 2017, as compared to income from continuing operations of $2.1 million during the year ended December 31, 2016, principally attributable to the $4.3 million gain from equity in losses of a deconsolidated entity.

Liquidity and Capital Resources

We have had a history of losses from operations, as our expenses have been greater than our declining revenues, which have now ceased entirely. Our accumulated deficit was $76.6 million at December 31, 2017. For the year ended December 31, 2017, we realized negligible net cash of $5,551 from operating and financing activities, compared to negative net cash flow of $612 for the prior year, from operating and financing activities.

During the year ended December 31, 2017, we used $206,894 of net cash in operations, comprised of a net loss from continuing operations of $1,790,708, non cash losses of $695,055, changes in working capital of $921,825, and net cash used in discontinued operations of $33,066. The net change in working capital was primarily driven by an increase in accounts payable for $361,042 and an increase in accrued interest of $489,057.

During the year ended December 31, 2016, we generated $192,964 of net cash in operations, comprised of net income from continuing operations of $2,131,422, noncash gains of $4,135,911, changes in working capital of $850,993, and net cash provided by discontinued operations of $1,346,460. The net change in working capital was primarily driven by an increase in accrued payroll for $344,930 and an increase in accrued interest of $454,560.

During the year ended December 31, 2017, we generated $212,445 of net cash from financing comprised of a repayment of bank overdrafts of $2,620, proceeds from related-party loans of $457,758, repayments of related-party loans totaling $442,693, and proceeds from convertible loans payable of $200,000.

During the year ended December 31, 2016, we used $193,576 of net cash in financing activities comprised of proceeds from bank overdrafts of $130, proceeds from related-party loans totaling $162,756, and repayments on related-party loans of $356,462.

<u>Operating Activities</u>

We have only nominal cash or short-term assets while our current liabilities aggregate $39.3 million. The amount of cash used by operating activities during the year ended December 31, 2017, increased by $400,000, as compared to the year ended December 31, 2016, driven primarily by recognizing equity in losses of a deconsolidated entity in 2016 as a one-time event during the year ended December 31, 2016. Additionally, we recognized a one-time loss of $500,000 during the year ended December 31, 2017, from the loss on a settlement of debt and had $184,880 of expenses paid on our behalf, which did not occur during the year ended December 31, 2016. Lastly, we generated $1,346,460 of cash from discontinued operations during the year ended December 31, 2016, compared to $33,066 of net cash used in discontinued operations during the year ended December 31, 2017.

<u>Financing Activities</u>

During the year ended December 31, 2017, our financing activities provided net cash of $212,000, as compared to using net cash of $194,000 the prior year end, a result of increased proceeds from related party and convertible loans.

<u>Our Capital Resources and Anticipated Requirements</u>

Our monthly operating costs and interest expense average approximately $108,000 per month, excluding capital expenditures. We continue to focus on generating revenue and reducing our monthly business expenses through cost reductions and operational streamlining. Currently, we do not have enough cash on hand to sustain our business operations, and we expect to access external capital resources in the near future.

In conjunction with our efforts to commercialize new products, we are actively seeking infusions of capital from investors. In our current financial condition, it is unlikely that we will be able to obtain additional debt financing. Even if we did acquire additional debt, we would be required to devote additional cash flow to servicing the debt and securing the debt with assets.

Accordingly, we are looking to obtain equity financing to meet our anticipated capital needs. We cannot assure that we will be successful in obtaining such capital. If we were to issue additional shares for debt and/or equity, this would dilute the value of our common stock and existing stockholders’ positions. We also have no authorized but unissued capital available, and we are dependent on the Amendment becoming effective in order to obtain any new equity financing.

Restructuring of Convertible Debentures

In April 2017, we restructured our outstanding convertible debentures that were originally issued commencing in 2007, which had been consolidated into a single debenture, by entering into an amended, restated, and consolidated secured convertible debenture with Tekfine, LLC, an unrelated entity, with a maturity date of April 30, 2027, to the extent not previously converted. These convertible debentures had an outstanding principal balance of $2.4 million, with accrued interest of $1.0 million as of December 31, 2016. As part of the agreement, the Company entered into an additional convertible debenture of $0.2 million due in October 2018. The amended debenture had a total outstanding principal balance of $2.6 million, with accrued interest of $1.1 million as of December 31, 2017.

In a related agreement with Tekfine on April 20, 2017, Tekfine advanced $200,000 to us in consideration of our issuance of a new convertible debenture due, unless earlier converted, on April 20, 2018. Like our previously outstanding debentures, the newly issued debenture is convertible into shares of our common stock at the lowest bid price for the 20 trading days prior to conversion. Effective April 20, 2018, the maturity date of this convertible debenture was extended to October 20, 2018. As of May 11, 2018, we are unable to convert this debenture because we have insufficient authorized but unissued shares to issue upon conversion.

Advanced Beauty Solutions, LLC Obligation

We have assigned to ABS our creditor claim against the estate of ABS, to the extent of the balance due under the ABS Forbearance Agreement. Any distribution from the ABS estate in excess of the adjusted amounts due under the ABS Forbearance Agreement will be paid to us. Because ABS's lien is subordinated to liens on all of our assets in favor of Tekfine, ABS is unable to presently take any steps to enforce its judgment. If this were to change in the future, we would potentially face enforcement actions on the judgment, subject to our offset claims for the intellectual property and creditor claim.

Recently Issued Accounting Pronouncements

Recently issued accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that require adoption and that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

ITEM 3. PROPERTIES

We rent on a month-to-month basis our existing approximately 40,000-square-foot headquarters and manufacturing facility, located at 4125 South 6000 West in West Valley City, Utah. Monthly payments are $5,000. The premises include about 10,000 square feet of office space to support administration, sales, and engineering staff and independent contractors and 30,000 square feet of manufacturing space, which includes a secured inventory area, shipping and receiving areas, and manufacturing and assembly space.