

Edgar Filing: MIRENCO INC - Form 10QSB

MIRENCO INC
Form 10QSB
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

Pursuant to Section 13 or 15(d) of the
Securities Act of 1934

For the Quarter Ended
June 30, 2001

Commission File Number
333-41092

MIRENCO, INC.
(Exact name of registrant as specified in charter)

Iowa
(State of Incorporation)

39-1878581
(IRS Employer Identification No.)

206 May St. PO Box 343
Radcliffe, IA 50230
(Address of Principle Executive Offices)

800-423-9903
(Registrants telephone number including area code)

Check mark whether the issuer (1) 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 registrant was required to file such reports) and
(2) has been subject to such filing requirements for the past 90 days.

YES [] NO [X]*
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* Not applicable since Registrant became subject to Section 15(d) on and after
January 26, 2001.

The Registrant has 13,274,687 shares of common stock, no par value per share
issued and outstanding as of June 30, 2001.

Traditional Small Business Disclosure Format

YES [X] NO []
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PART I - Financial Information

Item I. Financial Statements

MIRENCO, Inc.
(a development stage company)
BALANCE SHEETS

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(unaudited)

	June 30 2001	
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,988,147	\$ 3,988,147
Accounts receivable	16,376	16,376
Inventories	84,666	84,666
Other	98,643	98,643
	-----	-----
Total current assets	4,187,832	4,187,832
PROPERTY AND EQUIPMENT, net	1,363,531	1,363,531
PATENTS AND TRADEMARKS, net of accumulated amortization of \$2,758 and \$573 in 2001 and 2000, respectively	7,043	7,043
OTHER ASSETS	12,207	12,207
	-----	-----
	\$ 5,570,613	\$ 5,570,613
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 35,387	\$ 35,387
Accrued liabilities	23,611	23,611
	-----	-----
Total current liabilities	58,998	58,998
COMMITMENTS AND CONTINGENCIES	-	-
STOCK SUBJECT TO RESCISSION OFFER		
Common stock, no par value; 1,508,908 and 520,996 shares issued and outstanding at June 30, 2001 and 2000, respectively	7,544,540	7,544,540
STOCKHOLDERS' DEFICIT		
Common stock, no par value; 30,000,000 shares authorized, 11,765,779 and 11,697,779 shares issued and outstanding at June 30, 2001 and 2000, respectively	751,010	751,010
Additional paid-in capital	1,714,954	1,714,954
Deficit accumulated during development stage	(4,498,889)	(4,498,889)
	-----	-----
	(2,032,925)	(2,032,925)
	-----	-----
	\$ 5,570,613	\$ 5,570,613
	=====	=====

The accompanying notes are an integral part of these statements

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STATEMENTS OF OPERATIONS (unaudited)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	-----	-----
Sales	\$ 43,072	\$ 56,180
Cost of sales	23,802	91,276
	-----	-----
Gross profit (loss)	19,270	(35,096)
Salaries and wages	349,823	243,373
Stock-based compensation	-	-
Royalty expenses	1,292	1,685
Marketing and advertising	238,529	9,581
Other general and administrative expenses	413,005	150,030
	-----	-----
	1,002,649	404,669
	-----	-----
Loss from operations	(983,379)	(439,65)
Other income (expense)		
Interest income	142,436	52,665
Interest expense	-	-
	-----	-----
	142,436	52,665
	-----	-----
NET LOSS	\$ (840,943)	\$ (387,100)
	=====	=====
Net loss per share available for common shareholders - basic and diluted	\$ (0.06)	\$ (0.03)
	=====	=====
Weighted-average shares outstanding - basic and diluted	13,253,772	12,225,725
	=====	=====

The accompanying notes are an integral part of these statements

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MIRENCO, Inc.
(a development stage company)
STATEMENTS OF OPERATIONS
(unaudited)

Three Months Three Months

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	Ended June 30 2001	Ended June 30 2000
	-----	-----
Sales	\$ 22,443	\$ 24,316
Cost of sales	8,538	60,793
	-----	-----
Gross profit (loss)	13,905	(36,477)
Salaries and wages	192,650	125,208
Stock-based compensation	-	-
Royalty expenses	673	729
Marketing and advertising	217,300	-
Other general and administrative expenses	249,389	51,892
	-----	-----
	660,012	177,829
	-----	-----
Loss from operations	(646,107)	(214,306)
Other income (expense)		
Interest income	61,667	38,247
Interest expense	-	-
	-----	-----
	61,667	38,247
	-----	-----
NET LOSS	\$ (584,440)	\$ (176,059)
	=====	=====
Net loss per share available for common shareholders - basic and diluted	\$ (0.04)	\$ (0.01)
	=====	=====
Weighted-average shares outstanding - basic and diluted	13,253,772	12,225,725
	=====	=====

The accompanying notes are an integral part of these statements

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MIRENCO, Inc.
(a development stage company)
STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	-----	-----
Cash flows from operating activities		
Net loss	\$ (840,943)	\$ (387,101)
Adjustments to reconcile net loss to		

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net cash and cash equivalents		
used in operating activities:		
Stock-based compensation	-	-
Depreciation and amortization	21,797	5,376
(Increase) decrease in assets:		
Accounts receivable	23,991	85,703
Inventories	7,835	(65,577)
Other	69,268	(55,671)
Increase (decrease) in liabilities:		
Accounts payable	16,028	(66,811)
Accrued liabilities	(26,940)	(15,017)
	-----	-----
Net cash used in operating activities	(728,964)	(499,098)
Cash flows from investing activities		
Purchase of property and equipment	(732,972)	(29,393)
Purchase of patents and trademarks	-	-
	-----	-----
Net cash used in investing activities	(732,972)	(29,393)
Cash flows from financing activities		
Proceeds from sale of stock, net		
of offering costs	19,720	3,647,729
Refund of common stock in rescission offer	(261,700)	-
Distribution to stockholders	-	-
	-----	-----
Net cash provided by financing activities	(241,980)	3,647,729
	-----	-----
Change in cash and cash equivalents	(1,703,916)	3,119,238
Cash and cash equivalents, beginning of period	5,692,063	711,612
	-----	-----
Cash and cash equivalents, end of period	\$ 3,988,147	\$3,830,850
	=====	=====

The accompanying notes are an integral part of these statements

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MIRENCO, Inc.
(a development stage company)
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Nature of Business

MIRENCO, Inc. (the Company) was incorporated as an Iowa corporation in 1997. The Company is a marketing company that distributes a variety of automotive and aftermarket products for which they have exclusive licensing rights. The products primarily reduce emissions and increase vehicle performance. The Company's products are sold primarily in the domestic market.

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2. Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Interest income is generated from cash invested in these short-term financial instruments.

3. Revenue Recognition

Revenue is recognized from sales when a product is shipped and from services when they are performed.

4. Inventories

Inventories, consisting of purchased finished goods ready for sale, are stated at the lower of cost (as determined by the first-in, first-out method) or market.

5. Income Taxes

The Company accounts for income taxes under the asset and liability method where deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized to the extent management believes that it is more likely than not that they will be realized.

6. Patents and Trademarks

Patents and trademarks will be amortized on the straight-line method over their remaining legal lives of approximately 9 years.

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MIRENCO, Inc.
(a development stage company)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Property and Equipment

Property and equipment are stated at cost. The Company provides for depreciation on the straight-line method over the estimated useful lives of three years for computer equipment, five years for manufacturing and test equipment and other equipment, and 39 years for building.

8. Impairment of Long-Lived Assets

Impairment losses are recognized for long-lived assets when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover their carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount.

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9. Stock-Based Compensation

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and elected to continue the accounting set forth in Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees." This opinion requires that for options granted at less than fair market value, a compensation charge must be recognized for the difference between the exercise price and fair market value.

10. Net Loss Per Share

Basic net loss per share is calculated on the basis of the weighted-average number of common shares outstanding during the periods, which includes the effects of all stock splits. Net loss per share, assuming dilution, is calculated on the basis of the weighted-average number of common shares outstanding and the dilutive effect of all potential common stock equivalents. Net loss per share assumes dilution for the six months ended June 30, 2001 and 2000 is equal to basic net loss per share, since the effect of common stock equivalents outstanding during the periods is antidilutive.

11. Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and accrued expenses. The carrying amounts of financial instruments approximate fair value due to their short maturities.

12. Royalty Expense

Royalty expense is recorded and paid based upon the sale of products, services, and rights related to patents according to a contractual agreement.

13. Advertising

Advertising costs are charged to expense as incurred.

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MIRENCO, Inc.
(a development stage company)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Offering Costs

Specific incremental costs directly attributable to the Company's equity offerings, including advertisements in newspaper, radio and direct mail, letters, printing costs and certain identifiable legal fees, are charged against the gross proceeds of the offerings.

15. Software Development Costs

The Company capitalizes software development costs when project technological feasibility is established and concludes when the product is ready for release. To date, no amounts have been capitalized. Research and

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development costs related to software development are expensed as incurred.

16. Research and Development

The Company expenses research and development costs as incurred. Such costs include certain prototype products, test parts, consulting fees, and costs incurred with third parties to determine feasibility of products.

17. Accounts Receivable

The Company considers accounts receivable to be fully collectible; accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

18. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

19. Basis of Presentation

The accompanying financial statements of Mirencos, Inc., included herein are unaudited, but include all adjustments consisting of normal recurring accruals which the Company deems necessary for a fair presentation of its financial position, results of operations and cash flows for the interim period. Such results are not necessarily indicative of results to be expected for the full year. These financial statements do not include all disclosures provided in the annual financial statements and should be read in conjunction with the annual financial statements and notes thereto included in the Company's Form SB-2 filed on May 11, 2001.

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MIRENCO, Inc.
(a development stage company)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2001

NOTE B - STOCK SUBJECT TO RESCISSION OFFER

On August 12, 2000, the Company determined that resales of Iowa-Only shares by Iowa residents to non-Iowa residents violated certain provisions of the Securities Act of 1933. In response, the Company undertook an offering to rescind the earlier Iowa-Only Offering in an offering effective January 26, 2001. The Rescission Offer terminated on February 26, 2001 with the result that the Company refunded 52,340 shares or \$261,700, incurring interest expense of \$14,990. As a result, at June 30, 2001, the 1,508,908 Iowa-Only Offering Shares, in the amount of \$7,544,540, are classified as temporary equity. These shares will remain in temporary equity until such time as the violations under the securities laws have been cured. Subsequent to the close of the Rescission Offer, the Company believes that Iowa-Only Offering Shareholders are estopped from arguing injury. However, the Company will

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continue to be contingently liable to such shareholders during the statute of limitations, a period of one year from the date of the Rescission Offer (or three years from the date of the original offer). The Company is unable to quantify the amount of such contingent liability, the claim must be brought through individual lawsuit, the Company intends to vigorously defend any such lawsuit believing it has valid defenses, and, finally, management considers the probability that it will incur any obligation under such contingent liability as remote. The Company will continue to assess the effect of this contingent liability on its financial statements during the period of the contingent liability.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General and Background

We develop and market technologically advanced products for throttle control of internal combustion vehicles that improve fuel efficiency, reduce environmental emissions and reduce vehicle maintenance. Our primary products are derived from technology patented in the U.S., Mexico and Canada and are: DriverMax(R), DriverMax(R) Software, HydroFire(R) Injection, HydroFire(R) Fluid HydroFire(R) Lubricant and EconoCruise(R). Our newest product offering, EconoCruise(R), is a new and improved version of our product line utilizing other input sensors including Global Positioning System technology and ambient sensor features. We believe that we are the first to provide a product that incorporates Global Positioning System technology into a throttle-control application using "Satellite-to-Throttle(TM) technology. We intend to market our products both domestically and internationally and intend to license our patented technology to automakers for use on their new model vehicles. We expect our revenues to increase as a result of the broader market penetration, license revenues and new products scheduled for introduction over the next 36 months.

We have incurred losses during our fiscal years ended December 31, 2000 and 1999 while developing and introducing our original products and focusing management and other resources on capitalizing the Company to support future growth. DriverMax accounts for more than 90% of our product sales during our development stage, being the most readily marketable of our fully developed products. HydroFire units account for the remainder. No sales have been conditioned on other performance or approval. The losses incurred to date are considered normal for a development stage company. Other costs were incurred during the past three years to prepare us for commercialization of our products, including additional management, personnel, consultants and marketing expenditures. We expect that, as sales increase, there will also be increases in the total amounts of distribution and selling, general and administrative expenses. However, as a percentage of sales, these expenses should decline.

From July 30, 1999 through July 30, 2000, we raised \$7,806,240 from our Iowa-Only Offering. On August 12, 2000, we determined that resales of Iowa-Only shares by Iowa residents to non-Iowa residents violated certain provisions of the Securities Act of 1933. In response, we undertook an offering to rescind the earlier Iowa-Only Offering in an offering effective January 26, 2001. The Rescission Offer terminated on February 26, 2001 with the result that we refunded \$261,700 for 52,340 shares returned and canceled, incurring total

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interest expense of \$14,990. The net investment of the Iowa-Only Offering was \$7,544,540, having issued 1,508,908 shares. Though the period of the rescission offer has terminated, we nonetheless may continue to be liable to Iowa-Only Offering Shareholders under relevant federal laws for a period of up to one year after discovery of the violation upon which a claim by an Iowa-Only Offering Shareholder may be based (or three years from the date of the original July 30, 1999 offering). However, since extending this Rescission Offer is believed to have eliminated any damages element, the potential financial impact of the Rescission Offer is highly speculative and, in any event, is not expected to have a material adverse impact on our operations. While unlikely in the opinion of Mirencos and its securities attorney, in the event claims are brought against the company and are successful, the post-rescission financial impact could result in a maximum obligation of \$7,544,540, which is the number of outstanding shares subject to the prior offering that violated section 5 of the Securities Act and were not rescinded, multiplied by the offering price.

Results of Operations

Sales decreased \$13,108 or 23% for the six months ended June 30, 2001 compared to the same period at 2000. During our development stage, we have continued to focus management and other resources on raising equity capital and developing our products. This was again true during the first quarter of 2001 as we worked toward the effective date of the Rescission Offer of January 26, 2001 and the termination of the offer on February 26, 2001. During the second quarter of 2001, we focused our attention on our public announcement of our patents and testing installations and other pre-sales efforts for new clients in the mining industry and other public transits. Sales have occurred sporadically during the development stage creating differences between comparative periods. No trends or seasonality have yet to be identified. During the first three months of 2001, we began developing a new sales strategy founded upon collecting emissions data before and after the use of our products and providing continuing emission testing services of our installed products.

Cost of sales decreased \$67,474 or 74% from 2000 to 2001, costs representing 162% and 55% of sales, respectively. The decrease in cost of sales is related to the change in management focus during the first quarter to use production personnel to gather data from existing customers to meet our ongoing research and development and customer service needs and thus not be charged to production overhead. Production overhead was further reduced because 2001 sales were made to existing customers who required no installation assistance from us. Management believes cost of sales will range between 40% and 60% of sales as increased unit sales levels cover production overhead and unit costs.

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Operating expenses increased \$597,980 or 148% from 2000 to 2001. The increase is primarily attributable to our second quarter marketing plan to launch awareness of our patents and products. Cost of the launch in two major national print publications was approximately \$210,000. We also incurred \$20,000 more advertising expenses in 2001 than the comparable period in 2000 based on recording shareholder newsletter mailings as advertising expense instead of a cost of fund raising. Throughout our self-underwritten, Iowa-Only Offering, we updated shareholders and potential shareholders regarding company developments as a means to raise awareness and increase sales of the offer. Such costs were recorded as offering costs, a decrement to shareholders equity. Upon completion of the Iowa-Only Offering, we continued to incur similar costs; however, these costs were expensed as incurred. Approximately \$107,000 of the increase from 2000 to 2001 resulted from the change in recording payroll as production overhead to sales and R&D related expenses, adding medical benefits, and newly hired employees. Legal costs increased approximately \$83,000 as we incurred the expense of a prepaid expense paid to our securities counsel in stock. The stock

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was granted for work to complete registration of our Iowa-Only Offering shares which was completed on May 14, 2001 on Form SB-2. Accounting services required to complete the Rescission Offer prospectus and registration resulted in an additional \$60,000 in 2001 compared to 2000. Another \$55,000 increase in operating expenses occurred as a result of new research and development efforts including payments to U.S. DOE Kansas City Plant operated by Honeywell and purchasing engine components for testing with our products. We incurred an additional \$54,000 in postage expense in 2001, partly related to mailing the Rescission Offer to Iowa-Only Shareholders and in charges to deliver our patent announcement directly to many individuals we determined could be interested in our products and patents. The remaining approximately \$9,000 was from other G&A changes.

Royalty expense for the six months ended June 30, 2001 and 2000 was 3% of sales calculated per the patent purchase agreement with American Technologies.

Our net loss increased from \$387,100 in 2000 to \$840,943 in 2001 primarily as a result of increased costs to complete the rescission offer, low sales, and increased research and development and marketing efforts in 2001 to collect emissions data from existing customers.

Changes in sales, cost of sales and operating expenses for the three months ended June 30, 2001 compared to the three months ended June 30, 2000 mirror those for the six months ended June 30, 2001, primarily the advertising campaign in the second quarter of 2001.

Liquidity and Capital Resources

We have not yet commenced generating substantial revenue. We expect to fund development expenditures and incur losses until we are able to generate sufficient income and cash flows to meet these expenditures and other requirements. Having closed our Rescission Offer refunding \$261,700 or 3.4% of the original \$7,806,240, we believe we currently have adequate cash reserves to continue to cover anticipated expenditures and cash requirements. Prior to the effective date of the Rescission Offer, management believed less than 10% of the Iowa-Only Offering Shareholders would accept the Rescission Offer.

Since our inception in 1997, we have primarily relied on the sources of funds discussed in "Cash Flows" below to finance our testing and operations. We believe that the proceeds raised from the Iowa-Only Offering, net of the Rescission Offer, will be adequate to continue our operations, including the contemplated expansion of sales efforts, inventories, and accounts receivable through the next three years.

Since acceptance or the affirmative rejection or failure to respond to the Rescission Offer does not act as a release of claims, eligible Iowa-Only Offering Shareholders who have accepted, rejected or failed to respond to the Rescission Offer would retain any rights of claim they may have under federal securities laws. Any subsequent claims by an Iowa-Only Offering Shareholder would be subject to any defenses we may have, including the running of the statute of limitations and/or estoppel. In general, to sustain a claim based on violations of the registration provisions of federal securities laws, the claim must be brought within one year after discovery of the violation upon which the claim is based in this case, based on the date of the prospectus (or three years from the date of the original offer). Under the principle of estoppel, the person bringing a claim must carry the burden of proof of why he or she took no action under the rescission offer and/or how he or she may have been injured.

We have been evaluating financing and capitalization alternatives as part of our long-term business plans. These alternatives include the sale of preferred stock and warrants. To preserve operating funds, we have also developed a strategic plan that provides for reductions of expenditures and a

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prioritization of development options.

According to the terms of our purchase agreement with American Technologies to acquire the patents and trademarks, we will pay a 3% royalty of annual gross sales for a period of 20 years, which began November 1, 1999.

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Cash Flows for the Six Months Ended June 30, 2001 and 2000

Since our inception, February 21, 1997, through March 31, 2001, our activities have been organizational, devoted to developing a business plan and raising capital. Where these costs are indirect and administrative in nature, they have been expensed in the accompanying statements of operations. Where these costs relate to capital raising and are both directly attributable to our offerings and incremental, they have been treated as offering costs in the accompanying balance sheets. Therefore, all indirect costs, such as management salaries, have been expensed in the period in which they were incurred.

Net cash used in operating activities for the six months ended June 30, 2001 and 2000 was \$728,964 and \$499,098, respectively. The use of cash in operating activities was primarily related to our net losses and significant changes in working capital components, including payables and receivables.

Net cash used in investing activities for the six months ended June 30, 2001 and 2000 was \$732,972 and \$29,393, respectively. The use of cash in investing activities in 2001 was primarily attributed to approximately \$726,000 construction and furnishing costs for our new headquarters facility.

Net cash used by financing activities during the six months ended June 30, 2001 was \$241,980 compared to net cash provided by financing activities of \$3,647,729 during the six months ended June 30, 2000. The source of the financing in 2000 was proceeds from the issuance of shares of common stock in our Iowa-Only Offering, while in 2001, we refunded \$261,700 as a result of the Rescission Offer. Some option holders exercised options during May and early June 2001 accounting for \$19,720 of new common stock issued, representing 68,000 shares.

Recent Accounting Pronouncements

There are no recently issued accounting standards for which the impact on our financial statements at June 30, 2001 and 2000 is not known.

Forward-looking Statements

Statements contained in this document which are not historical fact are forward-looking statements based upon management's current expectations that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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None

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MIRENCO, INC.

Date: August 14, 2001 By: /s/ Dwayne Fosseen

Dwayne Fosseen
Chairman and Chief Executive Officer

Date: August 14, 2001 By: /s/ Darrell R. Jolley

Darrell R. Jolley
Chief Financial Officer