

MIRENCO INC
Form 10QSB
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2002

**TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE EXCHANGE ACT**

For the transition period from _____ to _____

Commission file number 333-41092

Mirenco, Inc.

(Exact name of small business issuer as specified in its charter)

Iowa
(State or other jurisdiction of
incorporation or organization)

39-1878581
(IRS Employer
Identification No.)

206 May Street, P.O. Box 343, Radcliffe, Iowa 50230
(Address of principal executive offices)

(515) 899-2164
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No **Not applicable**

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **13,284,687 shares of no par value common stock as of June 30, 2002.**

Transitional Small Business Disclosure Format (Check one): Yes No

Cautionary Statement on Forward-Looking Statements.

The discussion in this Report on Form 10-QSB, including the discussion in Item 2 of PART I, contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about the Company's business, based on management's current beliefs and assumptions made by management. Words such as "expects", "anticipates", "intends", "believes", "plans", "seeks", "estimates", and similar expressions or variations of these words are intended to identify such forward-looking statements. Additionally, statements that refer to the Company's estimated or anticipated future results, sales or marketing strategies, new product development or performance or other non-historical future results, sale or marketing strategies, new product development or performance or other non-historical facts are forward-looking and reflect the Company's current perspective based on existing information. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results and outcomes may differ materially from what is expressed or forecasted in any such forward-looking statements. Such risks, and uncertainties include those set forth below in Item 1 as well as previous public filings with the Securities and Exchange Commission. The discussion of the Company's financial condition and results of operations included in Item 2 of PART I should also be read in conjunction with the financial statements and related notes included in Item 1 of PART I of this quarterly report. These quarterly 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 10K filed on April 1, 2002. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

[Balance of page left intentionally blank]

PART I Financial Information

Item I. Financial Statements

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

| | <u>June 30, 2002</u> | <u>June 30, 2001</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,533,188 | \$ 3,988,147 |
| Accounts receivable | 16,834 | 16,376 |
| Inventories | 225,103 | 84,666 |
| Other | 33,430 | 98,643 |
| | <u>2,808,555</u> | <u>4,187,832</u> |
| PROPERTY AND EQUIPMENT, net | 1,329,023 | 1,363,531 |
| PATENTS AND TRADEMARKS, net of accumulated amortization of \$3,186 and \$2,758 in 2002 and 2001, respectively | 6,615 | 7,043 |
| OTHER ASSETS | 11,693 | 12,207 |
| | <u>11,693</u> | <u>12,207</u> |
| TOTAL ASSETS | \$ 4,155,886 | \$ 5,570,613 |
| | <u>\$ 4,155,886</u> | <u>\$ 5,570,613</u> |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 31,960 | \$ 35,387 |
| Accrued liabilities | 2,507 | 23,611 |
| | <u>34,467</u> | <u>58,998</u> |
| Total current liabilities | 34,467 | 58,998 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCK SUBJECT TO RESCISSION OFFER | | |
| Common stock, no par value; 1,508,908 shares issued and outstanding | 7,544,540 | 7,544,540 |
| STOCKHOLDERS DEFICIT | | |
| Common stock, no par value; 30,000,000 shares authorized, 13,284,687, and 11,765,779 shares issued and outstanding at June 30, 2002 and 2001, respectively | 760,010 | 751,010 |
| Additional paid-in capital | 1,714,954 | 1,714,954 |
| Deficit accumulated during development stage | (5,898,085) | (4,498,889) |
| | <u>(3,423,121)</u> | <u>(2,032,925)</u> |
| | <u>(3,423,121)</u> | <u>(2,032,925)</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT | \$ 4,155,886 | \$ 5,570,613 |
| | <u>\$ 4,155,886</u> | <u>\$ 5,570,613</u> |

MIRENCO, Inc.
(a development stage company)

STATEMENTS OF OPERATIONS
(unaudited)

| | Six months ended June 30, 2002 | Six months ended June 30, 2001 | Period from February 21, 1997 (inception) to June 30, 2002 |
|--|---|---|---|
| Sales | \$ 59,117 | \$ 43,072 | \$ 494,485 |
| Cost of sales | 34,446 | 23,802 | 481,827 |
| Gross profit | 24,671 | 19,270 | 12,658 |
| Salaries and wages | 336,106 | 349,823 | 1,802,003 |
| Stock-based compensation | 9,000 | | 1,942,054 |
| Royalty expenses | 1,773 | 1,292 | 25,940 |
| Marketing and advertising | 30,939 | 238,529 | 490,550 |
| Other general and administrative expenses | 310,753 | 413,005 | 2,151,630 |
| | 688,571 | 1,002,649 | 6,412,177 |
| Loss from operations | (663,900) | (983,379) | (6,399,519) |
| Other income (expense) | | | |
| Interest income | 43,438 | 142,436 | 516,699 |
| Interest expense | (235) | | (15,265) |
| | 43,203 | 142,436 | 501,434 |
| NET LOSS | \$ (620,697) | \$ (840,943) | \$ (5,898,085) |
| Net loss per share available for common shareholders basic and diluted | \$ (0.05) | \$ (0.06) | |
| Weighted-average shares outstanding basic and diluted | 13,279,715 | 13,253,772 | |

MIRENCO, Inc.
(a development stage company)

STATEMENTS OF OPERATIONS
(unaudited)

| | Three months ended June 30, 2002 | Three months ended June 30, 2001 |
|--|--|--|
| Sales | \$ 36,063 | \$ 22,443 |
| Cost of sales | 18,844 | 8,538 |
| Gross profit (loss) | 17,219 | 13,905 |
| Salaries and wages | 163,374 | 192,650 |
| Stock-based compensation | 9,000 | |
| Royalty expenses | 1,082 | 673 |
| Marketing and advertising | 14,990 | 217,300 |
| Other general and administrative expenses | 145,132 | 249,389 |
| | 333,578 | 660,012 |
| Loss from operations | (316,359) | (646,107) |
| Other income (expense) | | |
| Interest income | 18,585 | 61,667 |
| Interest expense | | |
| | 18,585 | 61,667 |
| NET LOSS | \$ (297,774) | \$ (584,440) |
| Net loss per share available for common shareholders basic and diluted | \$ (0.02) | \$ (0.04) |
| Weighted-average shares outstanding basic and diluted | 13,279,715 | 13,253,772 |

MIRENCO, Inc.
(a development stage company)

STATEMENTS OF CASH FLOWS
(unaudited)

| | Six months ended June 30, 2002 | Six months ended June 30, 2001 | 1997 (inception) to June 30, 2002 |
|--|---|--------------------------------------|---|
| Cash flows from operating activities | | | |
| Net loss | \$ (620,697) | \$ (840,943) | \$ (5,898,085) |
| Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities: | | | |
| Stock-based compensation | 9,000 | | 1,942,054 |
| Depreciation and amortization | 43,354 | 21,797 | 125,587 |
| (Increase) decrease in assets: | | | |
| Accounts receivable | (4,979) | 23,991 | (16,834) |
| Inventories | (60,573) | 7,835 | (225,103) |
| Other | 12,502 | 69,268 | 29,727 |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | (15,503) | 16,028 | 31,960 |
| Accrued liabilities | (10,659) | (26,940) | 2,507 |
| Net cash used in operating activities | (647,555) | (728,964) | (4,008,187) |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (21,056) | (732,972) | (1,451,425) |
| Purchase of patents and trademarks | | | (9,800) |
| Net cash used in investing activities | (21,056) | (732,972) | (1,461,225) |
| Cash flows from financing activities | | | |
| Proceeds from sale of stock, net of offering costs | | 19,720 | 8,504,500 |
| Refund of common stock in rescission offer | | (261,700) | (261,700) |
| Distribution to stockholders | | | (240,200) |
| Net cash provided by (used in) financing activities | | (241,980) | 8,002,600 |
| Change in cash and cash equivalents | (668,611) | (1,703,916) | 2,533,188 |
| Cash and cash equivalents, beginning of period | 3,201,799 | 5,692,063 | |
| Cash and cash equivalents, end of period | \$ 2,533,188 | \$ 3,988,147 | \$ 2,533,188 |

Supplementary disclosure of cash flow information:

Cash paid during the year for:

Interest

MIRENCO, Inc.
(a development stage company)

NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and 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 global marketing company that performs testing services and distributes a variety of automotive and aftermarket products for which they have exclusive licensing rights. The products primarily reduce emissions and increase vehicle performance.

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 7 years. The company recorded amortization expense of \$490 and \$893 for the six months ended June 30, 2002 and 2001, respectively.

MIRENCO, Inc.
(a development stage company)

NOTES TO FINANCIAL STATEMENTS CONTINUED
June 30, 2002 and 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.

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, 2002 and 2001 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 and were \$30,939 and \$238,529 for the six months ended June 30, 2002 and 2001, respectively.

MIRENCO, Inc.
(a development stage company)

NOTES TO FINANCIAL STATEMENTS CONTINUED
June 30, 2002 and 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 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. Costs incurred for research and development were \$66,229 and \$58,031 for the six months ended June 30, 2002 and 2001, respectively.

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 accounting standards generally accepted in the United States of America, 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 10K filed on April 1, 2002.

[Balance of page left intentionally blank]

MIRENCO, Inc.
(a development stage company)

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002 and 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. As a result, the Iowa-Only Offering Shares, 1,561,248 shares, in the amount of \$7,806,240, were classified as temporary equity.

Once approved for distribution, the Rescission Offer was outstanding from January 26, 2001 to February 26, 2001. During this period Iowa-Only Offering Stockholders had the option to reject the Rescission Offer formally in writing, to take no action within the thirty days, thereby retaining their outstanding Iowa-Only Offering Shares, or to accept the Rescission Offer formally in writing. Seventy-one formal rescission acceptances representing 52,340 shares were received from Iowa-Only Offering Stockholders, resulting in a total of \$276,690 being paid in cash to these stockholders for the return of their original investment plus \$14,990 in interest at 8% annually.

As a result of the Rescission Offer, the Company classified the Iowa-Only Offering Shares and proceeds as temporary equity. These shares will remain in temporary equity until such time as the violations under the securities laws have been cured. The Company believes that Iowa-Only Offering Stockholders are estopped from arguing injury now that the Iowa-Only Offering is closed. However, the Company will continue to be contingently liable to such stockholders during the statute of limitations, a period of three years from the date of the original sale of Iowa-Only Offering Shares. The Company is unable to quantify the amount of such contingent liability because 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 to be remote. The Company will continue to assess the effect of this contingent liability on its financial statements during the three-year period.

During the three-year period that the Company continues to be contingently liable, to the extent that any of the Iowa-Only Offering Stockholders obtain a judgment for damages against the Company, if material, the judgment could impact the Company's liquidity and its ability to implement its business plan and continue as a going concern.

NOTE C STOCK WARRANTS

On May 15, 1999, the Company's stockholders authorized the Company to sell up to 150,000 shares of the Company's common stock at \$5 per share. These shares will also require the Company to issue four stock warrants for each share of common stock purchased. The exercise price for these warrants totals \$5 per share and were originally exercisable at any time prior to June 15, 2002. Total shares issued were 66,979, which resulted in proceeds of \$334,895. At June 30, 2002 and 2001, the Company had 267,916 outstanding warrants. On April 24, 2002 the Company's Board of Directors voted to extend the expiration date for these warrants to 5:00 PM Central Daylight Savings Time (CDST) on June 24, 2004.

NOTE D STOCK COMPENSATION

On April 25, 2002, directors, Jerrold Handsaker and Donald Williams, were each granted 5,000 shares of common stock as compensation for their past service to the Company as directors since February, 1997. In conjunction with the issuance of the shares, the Company recorded compensation expense of \$9,000, which approximated the fair market value of the shares at the time of issuance. There was no stock-based compensation during the six months ended June 30, 2001.

MIRENCO, Inc.
(a development stage company)

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002 and 2001

NOTE E LONG-LIVED ASSETS

In August 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of . SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company is in the process of assessing the impact that the adoption of this standard will have on its financial position and results of operations.

[Balance of page left intentionally blank]

Item 2.

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

General and Background

We have incurred annual losses since inception while developing and introducing our original products and focusing management and other resources on capitalizing the Company to support future growth. DriverMax[®] accounts for approximately 73% of our product sales during our development stage, being the most readily marketable of our fully developed products. HydroFire[®] accounts for the remainder. No sales have been conditioned on other performance or approval. Relatively high management, personnel, consulting and marketing expenditures have been incurred since inception in preparation for the commercialization of our products.

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 52,340 shares or \$261,700, incurring interest expense of \$14,990. As a result, at June 30, 2002, 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. Now that the Rescission Offer is closed, management believes that Iowa-Only Offering Stockholders are estopped from alleging injury. However, we will continue to be contingently liable to such stockholders during the statute of limitations, a period of three years from the date of the original sale of Iowa-Only Offering Shares. We are unable to quantify the amount of any such contingent liability because the claim must be brought through individual lawsuit, which we would vigorously defend with valid defenses, and we consider the probability of any obligation under such contingent liability to be remote. We will continue to assess the effect of this contingent liability on our financial statements during the statute of limitations.

Liquidity and capital resources

Cash and Equivalents are currently the Company's only source of liquidity. There were no material commitments for capital expenditures as of June 30, 2002. In addition there are no planned material capital expenditures as of June 30, 2002 which may require the use of financing. The changes in Cash and Equivalents for the three months ended June 30, 2002 and 2001 can be reviewed in the Statements of Cash Flows in PART I Item 1 above. As planned sales of our products and services occur during 2002, management hopes to achieve greater economies of scale with regard to distribution, selling, general and administrative expenses. A five-year contract was signed on July 19, 2002 with the Iowa Foundation for Educational Administration, Inc., which may provide consideration to Mirencos, Inc. in exchange for the emissions testing services conducted on the Iowa School Bus fleet of approximately 4,500 buses twice a year. This contract alone could produce gross revenues of up to \$900,000 per year over the contract term, assuming sufficient funding. Furthermore, management believes this program can be used as a model in other states to produce similar results for the Company.

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 Stockholders who have accepted, rejected, or failed to respond to the Rescission Offer retain any rights of claim they may have under federal securities laws. Any subsequent claims by an Iowa-Only Offering Stockholder are 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 sale (or three years from the date of the original sale of Iowa-Only Offering Shares). 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.

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.

Results of Operations

There were no material changes in gross sales and cost of sales for the six months ended June 30, 2002 compared to the six months ended June 30, 2001. Management continues to plan for increased licensing revenue from the sales representation agreement between the Company and SPAP COMPANY LLC, which was signed on February 19, 2002. SPAP, a limited liability company based in California, is engaged in international trade on a worldwide basis with over fourteen years of experience in the international marketplace. SPAP has developed a significant presence and expertise in the Asian Pacific, European and other world markets. The Company is desirous of selling or licensing its product(s) into the Japanese market and world market and has contracted with SPAP to contact Original Equipment Manufacturers (OEM) and Aftermarket customers in the Asian Pacific market and determine the methods by which that market can be commercially penetrated through SPAP as a sales representative. Management continues to pursue other means of distributing our products and services domestically as well.

A total of thirteen individuals were employed with the Company at June 30, 2002 compared fifteen at June 30, 2001 causing a decrease of \$29,276 in salaries and wages expense for the three months ended June 30, 2002 over the same period a year ago. In order to more aggressively promote our services and products, two additional employees were hired in mid July, 2002, who will serve as officers of the Company. As an incentive, these individuals will be paid sales commissions in addition to regular salaries. These personnel changes will likely cause salaries and wages expense to meet or exceed 2001 year-end levels.

On April 25, 2002, directors, Jerrold Handsaker and Donald Williams, were each granted 5,000 shares of common stock as compensation for their past service to the Company as directors since February, 1997. At \$.90 per share face value, this resulted in \$9,000 of stock-based compensation expense for the three months ended June 30, 2002. There was no stock-based compensation during the six months ended June 30, 2001.

Royalty expense for the six months ended June 30, 2002 and 2001 was 3% of sales calculated per the patent purchase agreement with American Technologies.

Marketing and advertising expenses have been significantly lower during the three months ended June 30, 2002 compared to the same period a year ago due to the high cost of advertisements placed in the Wall Street Journal and USA Today publications in May, 2001 announcing Mirencos entrance onto the Over-the-Counter Bulletin Board (OTCBB) at an approximate cost of \$210,000. Additional costs of approximately \$7,000 were incurred during the three months ended June 30, 2002 related to newsletters sent to individuals on our mailing list keeping them informed of our progress with several projects. Advertising expenses during the second quarter of 2002 were product related and placed in three major transportation, fleet maintenance and Original Equipment Manufacturers (OEM) publications.

A comparative breakdown of Other general and administrative expenses per the Statements of Operations included in PART I Item 1 above is as follows:

| | Six months ended June 30, 2002 | Six months ended June 30, 2001 | Note |
|---|---|---|------|
| Depreciation and amortization | \$ 43,354 | \$ 21,797 | 1 |
| Insurance | 26,588 | 5,823 | 2 |
| Professional fees | 71,140 | 193,614 | 3 |
| Office expenses | 22,312 | 81,020 | 4 |
| Research and development | 67,876 | 59,520 | 5 |
| Travel | 48,829 | 24,496 | 6 |
| Utilities | 30,654 | 26,735 | 1 |
| | <u> </u> | <u> </u> | |
| Total general and administrative expenses | \$ 310,753 | \$ 413,005 | |
| | <u> </u> | <u> </u> | |

1 The corporate headquarters facility, valued at \$1,226,292 was placed into service during the second quarter of 2001, which explains the material increase in depreciation and amortization expense for the six months ended June 30, 2002 compared to the same three-month period a year ago. Since this facility is larger than the former headquarters location, utilities expenses are also slightly higher in 2002 compared to 2001.

2 The increase in insurance expense is primarily due to a rise in premium rates for directors and officers liability coverage. Rates for this type of coverage have increased nationwide over the past year.

3 The legal and accounting expenses incurred during the first quarter of 2001 were related to the rescission offer described above. More one-time legal and accounting expenses were incurred during the

second quarter of 2001 with the filing of formal documents necessary to become listed on the OTCBB. The expenses recorded for the first half of 2002 in this category relate to ordinary audit and legal expenses associated with public filings and normal business operations.

4 During the first two quarters of 2001 regular periodic mailings were being prepared and sent to all shareholders for the purpose of keeping them informed of corporate progress. Once the Company was listed on the OTCBB, these mailings ceased. All press releases are now done electronically, thereby reducing the cost of office supplies and postage.

5 An outside consultant was hired during June of 2001 for the purpose of developing our EconoCruise[®] product line resulting in project payments of \$43,180 and \$3,533 for the six months ended June 30, 2002 and 2001, respectively. In addition, the final payment of \$25,000 was made on May 24, 2001 to Honeywell's Kansas City Plant for the Mirencro Product Development project, which also relates to the EconoCruise[®] product line. The remaining research and development expenses for the six months ended June 30, 2002 and 2001 relate to in-house testing of the DriverMax[®] product line.

6 The increase in travel expenses for the six months ended June 30, 2002 over 2001 was due to five major sales trips taken in 2002 for the purpose of promoting our products. Only one trip of this nature was made during the first six months of 2001. In addition, in the April of 2002 the Company began to incur travel costs associated with its newest marketing effort aimed at cleaning up the diesel school bus fleet in the United States. Basically, we intend to have our first marketing model in the state of Iowa, where we have entered into an agreement to test approximately 4,500 school buses twice each year through the year 2007 to identify and monitor the acuteness of Iowa's school bus particulate (black smoke) problem. Once the initial baseline testing has been completed, we will be using our DriverMax[®] technology plus our knowledge of engine combustion to advise maintenance personnel in each school district in maintaining their diesel engines more effectively.

Interest income continues to decline with decreasing Cash and Equivalent balances and low certificate of deposit interest rates.

Recent Accounting Pronouncements

There are no recently issued accounting standards for which the impact on our financial statements at June 30, 2002 and 2001 is not known.

[Balance of page left intentionally blank]

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

[Balance of page left intentionally blank]

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

- 3.1 Certificate of Incorporation of Registrant (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 3.2 Certificates of Amendment to the Certification of Incorporation (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 3.3 Bylaws of Registrant (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.2(d) Stock Option Agreement between Registrant and Betty Fosseen (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.2(f) Stock Option Agreement between Registrant and J. Richard Relick (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.3 American Technologies LLC, Fosseen Manufacturing & Development, Mirencos, Inc., Ethaco Agreements to Terminate Prior Agreements and Transfer License, respectively (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.4 Purchase Agreement Between Registrant and American Technologies, LLC (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.5 Environmental Regulatory Approvals with the U.S. Environment Protection Agency and California Air Resources Board (incorporated by reference to the Company's Registration Statement filed on July 10, 2000)
- 10.6 Summary of Patents and Associated Service Marks (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.7 Copies of U.S. and Canadian Patents Issued to Dwayne L. Fosseen (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.8 Summary of Mexican Patents and Associated Protections Issued to Dwayne L. Fosseen (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.9 Rental Agreement Between Registrant and Fosseen Manufacturing & Development, Inc (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.10 March 31, 2000 Warrant Agreement between Registrant and Duncan, Blum & Associates (incorporated by reference to the Company's Registration Statement filed on July 10, 2000).
- 10.13(a) Lease for Land (incorporated by reference to the Company's Registration Statement Amendment filed on April 17, 2001).
- 10.13(b) Stock Option Agreement between Registrant and Betty Fosseen (incorporated by reference to the Company's Registration Statement Amendment filed on April 17, 2001).
- 10.14 2001 Common Stock Compensation Plan (incorporated by reference to the Company's 10KSB for the fiscal year ended December 31, 2001).
- *10.15 Cooperative Agreement between registrant and Iowa Foundation for Educational Administration, Inc.
- *99.1 Dwayne Fosseen's Certification pursuant to 18 U.S.C. SECTION 1350, as adopted pursuant to SECTION 906 of the Sarbanes-Oxley Act of 2002
- *99.2 Debbie L. Pickard's Certification pursuant to 18 U.S.C. SECTION 1350, as adopted pursuant to SECTION 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

b. Reports on Form 8-K

There were no reports filed on Form 8-K during the three months ended June 30, 2002.

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.

By: /s/ DWAYNE FOSSEEN

**Dwayne Fossean
Chairman and Chief
Executive Officer**

Date: August 14, 2002

By: /s/ DEBBIE L.
PICKARD

**Debbie L. Pickard
Chief Financial Officer**

Date: August 14, 2002