

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

CIRTRAN CORP
Form 10KSB/A
April 24, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002, or

Transition report pursuant to section 13 or 15(d) of the Securities Exchange act of 1934 for the transition period from _____ to _____ .

Commission File No. 33-13674-LA

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

Nevada
(State or other jurisdiction of incorporation or organization)

68-0121636
(IRS Employer Identification No.)

4125 South 6000 West, West Valley City, Utah 84128
(Address of principal executive offices)

(801) 963-5112
(Issuer's telephone number)

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: Common Stock,
Par Value \$0.001

Check whether the issuer (1) filed all reports required to be filed by sections 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for its most recent fiscal year: \$2,299,668

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity as of March 31, 2003, was \$2,840,010.

As of March 31, 2003, the Registrant had outstanding 254,684,691 shares of Common Stock, par value \$0.001.

Documents incorporated by reference: None

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

TABLE OF CONTENTS

| ITEM NUMBER AND CAPTION | Page |
|--|------|
| Part I | |
| 1. Description of Business | 3 |
| 2. Description of Properties | 9 |
| 3. Legal Proceedings | 9 |
| 4. Submission of Matters to a Vote of Security Holders | 14 |
| Part II | |
| 5. Market for Common Equity and Related Stockholder Matters | 14 |
| 6. Management's Discussion and Analysis or Plan of Operations | 16 |
| 7. Financial Statements | 22 |
| 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 22 |
| Part III | |
| 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act | 23 |
| 10. Executive Compensation | 24 |
| 11. Security Ownership of Certain Beneficial Owners and Management | 25 |
| 12. Certain Relationships and Related Transactions | 27 |
| 13. Exhibits and Reports on Form 8-K | 28 |
| 14. Controls and Procedures | 30 |
| Signatures | 31 |

PART I

ITEM 1. DESCRIPTION OF BUSINESS

We are a full-service contract electronics manufacturer servicing original equipment manufactures ("OEMs") in the following industries: communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical and semi-conductor. We conduct our operations through two main divisions: circuit board manufacturing and assembly and Ethernet card design and manufacture.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Industry Background

The contract electronics manufacturing industry specializes in providing the program management, technical and administrative support and manufacturing expertise required to take an electronic product from the early design and prototype stages through volume production and distribution. The goal is to provide a quality product, delivered on time and at the lowest cost, to the OEM. This full range of services gives the OEM an opportunity to avoid large capital investments in plant, inventory, equipment and staffing and to concentrate instead on innovation, design and marketing. By using our contract electronics manufacturing services, our customers have the ability to improve the return on their investment with greater flexibility in responding to market demands and exploiting new market opportunities.

We believe two important trends have developed in the contract electronics manufacturing industry. First, we believe OEMs increasingly require contract manufacturers to provide complete turnkey manufacturing and material handling services, rather than working on a consignment basis where the OEM supplies all materials and the contract manufacturer supplies only labor. Turnkey contracts involve design, manufacturing and engineering support, the procurement of all materials, and sophisticated in-circuit and functional testing and distribution. The manufacturing partnership between OEMs and contract manufacturers involves an increased use of "just-in-time" inventory management techniques that minimize the OEM's investment in component inventories, personnel and related facilities, thereby reducing costs.

We believe a second trend in the industry has been the increasing shift from pin-through-hole, or PTH, to surface mount technology, or SMT, interconnection technologies. Surface mount and pin-through-hole printed circuit board assemblies are printed circuit boards on which various electronic components, such as integrated circuits, capacitors, microprocessors and resistors are mounted. These assemblies are key functional elements of many types of electronic products. PTH technology involves the attachment of electronic components to printed circuit boards with leads or pins that are inserted into pre-drilled holes in the boards. The pins are then soldered to the electronic circuits. The drive for increasingly greater functional density has resulted in the emergence of SMT, which eliminates the need for holes and allows components to be placed on both sides of a printed circuit. SMT requires expensive, highly automated assembly equipment and significantly more operational expertise than PTH technology. We believe the shift to SMT from PTH technology has increased the use of contract manufacturers by OEMs seeking to avoid the significant capital investment required for development and maintenance of SMT expertise.

Electronics Assembly and Manufacture

3

Approximately 80% of our revenues are generated by our electronics assembly activities, which consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables. We also assemble higher-level sub-systems and systems incorporating printed circuit boards and complex electromechanical components that convert electrical energy to mechanical energy, in some cases manufacturing and packaging products for shipment directly to our customers' distributors. In addition, we provide other manufacturing services, including refurbishment and remanufacturing. We manufacture on a turnkey basis, directly procuring any of the components necessary for production where the OEM customer does not supply all of the components that are required for assembly. We also provide design and new product introduction services, just-in-time delivery on low to medium volume

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

turnkey and consignment projects and projects that require more value-added services, and price-sensitive, high-volume production. Our goal is to offer customers significant competitive advantages that can be obtained from manufacturing outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management and increased purchasing power.

Ethernet Technology

Through our subsidiary, Racore Technology Corporation ("Racore"), we design, manufacture, and distribute Ethernet cards. These components are used to connect computers through fiber optic networks. In addition, we produce private label, custom designed networking products and technologies on an OEM basis. Our products serve major industrial, financial, and telecommunications companies worldwide. We market our products through an international network of distributors, value added resellers, and systems integrators who sell, install, and support our entire product catalogue.

Additionally, we have established, and continue to seek to establish, key business alliances with major multinational companies in the computing and data communications industries for which we produce private label, custom designed networking products and technologies on an OEM basis. These alliances generally require that Racore either develop custom products or adapt existing Racore products to become part of the OEM customer's product line. Under a typical contract, Racore provides a product with the customer's logo, packaging, documentation, and custom software and drivers to allow the product to appear unique and proprietary to the OEM customer. Contract terms generally provide for a non-recurring engineering charge for the development and customization charges, together with a contractual commitment for a specific quantity of product over a given term.

In June 2001, Racore received a \$225,000 order for specially-designed Ethernet cards for a federal law enforcement agency. In September 2001, Racore submitted a bid for business with the same agency that, if accepted, would have resulted in a contract valued at over \$2.0 million over three years. This bid was ultimately not accepted, but Racore remains committed to actively pursuing government contracts for its Ethernet card technology. These contracts are generally awarded in September of each year, the last month of the government's fiscal year. In February of 2003, Racore received additional orders from GTSI for another government agency in the amount of \$40,000. The final part of this order was shipped the first week in April 2003 and finally payment is expected in May 2003. Further, Racore expects to receive additional orders through 2003.

Market and Business Strategy

Our goal is to benefit from the increased market acceptance of, and reliance upon, the use of manufacturing specialists by many electronics OEMs. We believe the trend towards outsourcing manufacturing will continue. OEMs utilize manufacturing specialists for many reasons including the following:

4

- o To Reduce Time to Market. Due to intense competitive pressures in the electronics industry, OEMs are faced with increasingly shorter product life-cycles and, therefore, have a growing need to reduce the time required to bring a product to market. We believe OEMs can reduce their time to market by using a manufacturing specialist's manufacturing expertise and infrastructure.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

- o To Reduce Investment. The investment required for internal manufacturing has increased significantly as electronic products have become more technologically advanced and are shipped in greater unit volumes. We believe use of manufacturing specialists allows OEMs to gain access to advanced manufacturing capabilities while substantially reducing their overall resource requirements.
- o To Focus Resources. Because the electronics industry is experiencing greater levels of competition and more rapid technological change, many OEMs are focusing their resources on activities and technologies which add the greatest value to their operations. By offering comprehensive electronics assembly and related manufacturing services, we believe manufacturing specialists allow OEMs to focus on their own core competencies such as product development and marketing.
- o To Access Leading Manufacturing Technology. Electronic products and electronics manufacturing technology have become increasingly sophisticated and complex, making it difficult for OEMs to maintain the necessary technological expertise to manufacture products internally. We believe OEMs are motivated to work with a manufacturing specialist to gain access to the specialist's expertise in interconnect, test and process technologies.
- o To Improve Inventory Management and Purchasing Power. Electronics industry OEMs are faced with increasing difficulties in planning, procuring and managing their inventories efficiently due to frequent design changes, short product life-cycles, large required investments in electronic components, component price fluctuations and the need to achieve economies of scale in materials procurement. OEMs can reduce production costs by using a manufacturing specialist's volume procurement capabilities. In addition, a manufacturing specialist's expertise in inventory management can provide better control over inventory levels and increase the OEM's return on assets.

An important element of our strategy is to establish partnerships with major and emerging OEM leaders in diverse segments across the electronics industry. Due to the costs inherent in supporting customer relationships, we focus our efforts on customers with which the opportunity exists to develop long-term business partnerships. Our goal is to provide our customers with total manufacturing solutions for both new and more mature products, as well as across product generations.

Another element of our strategy is to provide a complete range of manufacturing management and value-added services, including materials management, board design, concurrent engineering, assembly of complex printed circuit boards and other electronic assemblies, test engineering, software manufacturing, accessory packaging and post-manufacturing services. We believe that as manufacturing technologies become more complex and as product life cycles shorten, OEMs will increasingly contract for manufacturing on a turnkey basis as they seek to reduce their time to market and capital asset and inventory costs. We believe that the ability to manage and support large turnkey projects is a critical success factor and a significant barrier to entry for the market it serves. In addition, we believe that due to the difficulty and long lead-time required to change manufacturers, turnkey projects generally increase an OEM's dependence on its manufacturing specialist, which can result in a more stable customer base.

Suppliers; Raw Materials

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Our sources of components for our electronics assembly business are either manufacturers or distributors of electronic components. These components include passive components, such as resistors, capacitors and diodes, and active components, such as integrated circuits and semi-conductors. Our suppliers include Siemens, Muriata-Erie, Texas Instruments, Fairchild, Harris and Motorola. Distributors from whom we obtain materials include Avnet, Future Electronics, Arrow Electronics, Digi-key and Force Electronics. Although we have experienced shortages of various components used in our assembly and manufacturing processes, we typically hedge against such shortages by using a variety of sources and, to the extent possible, by projecting our customer's needs.

Research and Development

During 2002 and 2001, CirTran Corporation spent approximately \$43,272 and \$159,271, respectively, on research and development of new products and services. The costs of that research and development were paid for by our customers. In addition, during the same periods, our subsidiary, Racore, spent approximately \$45,000 and \$148,287, respectively. None of Racore's expenses were paid for by its customers. We remain committed, particularly in the case of Racore, to continuing to develop and enhance our product line as part of our overall business strategy.

Sales and Marketing

Historically, we have had substantial recurring sales from existing customers, though we continue to seek out new customers to generate increased sales. We treat sales and marketing as an integrated process involving direct salespersons and project managers, as well as senior executives. We also use independent sales representatives in certain geographic areas.

During the sale 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 at a fixed contract price for a specified task.

In 2002, 94% of our net sales were derived from pre-existing customers, whereas during the year ended December 31, 2001, over 97% of our net sales were derived from customers that were also customers during 2000. Historically, a small number of customers accounted for a significant portion of our net sales. In 2002 our three largest customers accounted for approximately 45% of our total sales. However in 2001 no single customer accounted for more than 10% of our total sales. During the year ended December 31, 2000, our largest customer, Osicom Technology and its successor, Entrada Networks, Inc., accounted for 30% of consolidated net sales. We no longer do business with Entrada Networks, Inc.

During 2001 and 2002, we operated without a line of credit and many of our vendors stopped credit sales of components used by us in the manufacturing of products, thus hampering our ability to attract and retain turnkey customer business. In addition, although our sales in 2002 were higher than 2001, financial constraints experienced in 2001 and 2002 mandated a reduction in our general work force, which experienced a 50% reduction in size. These factors, as well as general economic conditions during the second half of 2002, resulted in a significant decrease in sales during 2002.

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. At December 31, 2002, our backlog was

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

approximately \$450,000. At December 31, 2001, our backlog was approximately \$1,750,000. As of March 27, 2003, our backlog has increased to \$800,000.

In September and October 2001, we issued several press releases relating to:

6

- Our "partnership with an offshore Malaysian entity . . . expects to commence bidding for multi-million dollar contracts through this entity in the very near future" in our September 19, 2001 press release;
- InterMotive Products and the "two contracts for new products and the vehicle orders that are "projected to blossom into a million dollar contract manufacturing opportunity" for CirTran in our October 10, 2001 press release; and
- The "implementation of . . . [new] software . . . bring CirTran the potential for multi- million dollar revenue relationships" in our October 16, 2001 press release.

We entered into the partnership with the Malaysian entity outlined in the September 19, 2001, press release, to enable us to submit more competitive bids for larger production contracts. The Company also implemented the software referenced in the October 16, 2001, press release to enable us to bid more competitively for larger contracts. Through December 31, 2002, in connection with the relationship with the Malaysian entity, we bid on large-scale contracts ranging from approximately \$2 million to \$4 million. Although we feel that our relationship with the Malaysian entity will enable us to continue to bid competitively for the larger contracts, to date we have been unsuccessful at being selected as a supplier on any of the larger bids we submitted.

Nevertheless, management feels that the Company's continued involvement in these relationships enables the Company to continue to bid competitively for these larger bids.

In December 2002, CirTran and SVI, an independent electronic manufacturing service company based in Thailand, announced a manufacturing accord. The two companies will work together to support mutual customers from product design to volume manufacturing. Under the agreement, both parties will work jointly as each other's respective vendor and/or partner on pursuing business contracts in the United States utilizing both parties' resources providing the contract manufacturing of electronics.

With respect to the contracts with Intermotive, Inc. ("Intermotive"), referenced in the October 10, 2001, press release, through December 31, 2002, we had entered into purchase orders with Intermotive ranging from approximately \$4,607 to \$34,077. The Company's relationship with Intermotive remains productive, and management believes that this relationship should continue to produce revenue for the Company, although there can be no guarantee that Intermotive will continue to order from us or that any future orders will be substantial.

In the last quarter of 2001 and into 2002, we also took steps to increase our sales volume by adding three new sales representatives, hiring a sales manager, implementing software to access databases containing potential new customers and sales opportunities, and continuing our efforts to improve our competitive position by installing additional surface-mount technology equipment that had previously been at our Colorado location and by seeking ISO (International Organization for Standardization) 9002 certification, which we hope to obtain by the end of 2003. This certification would allow us to ensure to prospective customers that we comply with internationally-recognized quality production

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

standards.

In February 2003, CirTran received Certification Approval under the Joint Certification Program ("JCP") from the United States/Canada Joint Certification Office, Defense Logistics Information Service. Certification under the JCP establishes the eligibility of a U.S. or Canadian contractor to receive technical data governed, in the U.S. by Department of Defense ("DoD") directive 5230.25 and, in Canada, by the Technical Data Control Regulations ("TDCR"). We feel JCP benefits the U.S. and Canadian defense and high technology industries by facilitating their continued access to unclassified technical data disclosing

7

critical technology in the possession of, or under the control of the U.S. DoD or the Canadian Department of National Defense ("DND"). This is an important recognition for CirTran and is consistent with our efforts to expand our revenue opportunities. Our approved access to technologies in the U.S. Department of Defense and the Canadian Department of National Defense will allow us to support the commercial activities of the broad range of manufacturers working with both governments.

Material Contracts and Relationships

We generally use form agreements with standard industry terms as the basis for our contracts with our customers. The form agreements typically specify the general terms of our economic arrangement with the customer (number of units to be manufactured, price per unit and delivery schedule) and contain additional provisions that are generally accepted in the industry regarding payment terms, risk of loss and other matters. We also use a form agreement with our independent marketing representatives that features standard terms typically found in such agreements.

Competition

The electronic manufacturing services industry is large and diverse and is serviced by many companies, including several that have achieved significant market share. Because of our market's size and diversity, we do not typically compete for contracts with a discreet group of competitors. We 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. We also face competition from current and prospective customers that evaluate our capabilities against the merits of manufacturing products internally.

We believe that the primary basis of competition in our targeted markets is manufacturing technology, quality, responsiveness, the provision of value-added services and price. To remain competitive, we must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

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. Other than as discussed in "Item 3 - Legal Proceedings"

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

concerning delinquent payroll taxes, we believe we are in substantial compliance with all relevant regulations applicable to our business and operations.

Employees

We employ 47 persons, 4 in administrative positions, 3 in engineering and design, 38 in clerical and manufacturing, and 2 in sales.

Corporate Background

Our core business was commenced by Circuit Technology, Inc. ("Circuit"), in 1993 by our president, Iehab Hawatmeh. Circuit enjoyed increasing sales and growth in the subsequent five years, going from \$2.0 million in sales in 1994 to \$15.4

8

million in 1998, leading to the purchase of two additional SMT assembly lines in 1998 and the acquisition of Racore Computer Products, Inc., in 1997. During that period, Circuit hired additional management personnel to assist in managing its growth, and Circuit executed plans to expand its operations by acquiring a second manufacturing facility in Colorado. Circuit subsequently determined in early 1999, however, that certain large contracts that accounted for significant portions of our total revenues provided insufficient profit margins to sustain the growth and resulting increased overhead. Furthermore, internal accounting controls then in place failed to apprise management on a timely basis of our deteriorating financial position. During the last several years, we have experienced significant losses, including \$4,179,654 in 2000, \$2,933,084 in 2001, and \$2,149,810 in 2002.

We were incorporated in Nevada in 1987, under the name Vermillion Ventures, Inc., for the purpose of acquiring other operating corporate entities. We were largely inactive until July 1, 2000, when we issued a total of 10,000,000 shares of our common stock (150,000,000 of our shares as presently constituted) to acquire, through our wholly-owned subsidiary, CirTran Corporation (Utah), substantially all of the assets and certain liabilities of Circuit.

In 1987, Vermillion Ventures, Inc. filed an S-18 registration statement with the United States Securities and Exchange Commission ("SEC") but did not at that time become a registrant under the Securities Exchange Act of 1934 ("1934 Act"). From 1989 until 2000, Vermillion did not make any filings with the SEC under the 1934 Act. In July 2000, we commenced filing regular annual, quarterly, and current reports with the SEC on Forms 10-KSB, 10-QSB, and 8-K, respectively, and have made all filings required of a public company since that time. In February 2001, we filed a Form 8-A with the SEC and became a registrant under the 1934 Act. We may be subject to certain liabilities arising from the failure of Vermillion to file reports with the SEC from 1989 to 1990, but we believe these liabilities are minimal because there was no public market for the common shares of Vermillion from 1989 until the third quarter of 1990 (when our shares began to be traded on the Pink Sheets) and it is likely that the statute of limitations has run on whatever public trades in the shares of our common stock may have taken place during the period during which Vermillion failed to file reports.

On August 6, 2001, we effected a 1:15 forward split and stock distribution which increased the number of our issued and outstanding shares of common stock from 10,420,067 to 156,301,005. We also increased our authorized capital from 500,000,000 to 750,000,000 shares.

ITEM 2. DESCRIPTION OF PROPERTIES

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

We lease approximately 40,000 square feet of office and manufacturing space in West Valley City, Utah, at a monthly lease rate of approximately \$16,000. The lease is renewable in November of 2006 for two additional ten-year periods. This facility serves as our principal offices and manufacturing facility and is leased from I&R Properties, LLC, a company owned and controlled by individuals who are officers, directors and principal stockholders. We believe our lease for the facility is on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2002, we had accrued liabilities in the amount of \$2,029,626 for delinquent payroll taxes, including interest estimated at \$304,917 and penalties estimated at \$229,285. Of this amount, approximately \$301,741 was due the State of Utah. During the first quarter of 2002, we negotiated a monthly payment schedule of \$4,000 to the State of Utah, which did not provide for the forgiveness of any taxes, penalties or interest. These monthly payments were not made during the third quarter. Assuming no reduction in penalties and interest, these payments would be required through March 2008. Approximately \$1,716,946 is owed to the Internal Revenue Service ("IRS"). During the first quarter of 2002,

9

we negotiated a payment schedule with respect to this amount, pursuant to which monthly payments of \$25,000 were required. Assuming no reduction in penalties and interest, these payments would be required through August 2007. In addition, we committed to keeping current on deposits of federal withholding amounts. The required monthly payments were made during each of the three months during the second quarter. None of the monthly payments were made during the third quarter, and the Company is renegotiating the payment schedule with the IRS. In addition, we failed to pay several of our current withholding obligations. Subsequent to year end we have paid the 2002 IRS payroll taxes for the third and fourth quarters. Approximately \$10,939 is owed to the State of Colorado.

We (as successor to Circuit Technology, Inc.) were a defendant in an action in El Paso County, Colorado District Court, brought by Sunborne XII, LLC, a Colorado limited liability company, for alleged breach of a sublease agreement involving facilities located in Colorado. Our liability in this action was originally estimated to range up to \$2.5 million, and we subsequently filed a counter suit in the same court against Sunborne in an amount exceeding \$500,000 for missing equipment. Effective January 18, 2002, we entered into a settlement agreement with Sunborne with respect to the above-described litigation. The settlement agreement required us to pay Sunborne the sum of \$250,000. Of this amount, \$25,000 was paid upon execution of the agreement, and the balance of \$225,000, together with interest at 8% per annum, was payable by July 18, 2002. As security for payment of the balance, we executed and delivered to Sunborne a Confession of Judgment and also issued to Sunborne 3,000,000 shares of our common stock, which are held in escrow and have been treated as treasury stock recorded at no cost. Because, 75% of the balance owing under the agreement was not paid by May 18, 2002, we were required to prepare and file with the Securities & Exchange Commission, at our expense, a registration statement with respect to the shares that were escrowed. The payment was not made, nor was a registration statement filed with respect to the escrowed shares.

Pursuant to a Termination of Sublease Agreement dated as of May 22, 2002 among the Company, Sunborne and other parties, the sublease agreement that was the subject of our litigation with Sunborne was terminated and a payment of approximately \$109,000 was credited against the amount owed by the Company to Sunborne under the Company's settlement agreement with them. Sunborne has filed a claim that this amount was to be an additional rent expense rather than a payment on the note payable. The Company disputes this claim and intends to

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

vigorously defend the action.

As of February 10, 2003, the Company was in default of its obligations under the settlement agreement with Sunborne, i.e., the total payment due thereunder had not been made, a registration statement with respect to the escrowed shares was not filed, and the Company did not replace the escrowed shares with registered, free-trading shares as per the terms of the agreement. Accordingly, Sunborne has filed the Confession of Judgment and proceeded with execution thereon. The Company is currently negotiating with Sunborne in an attempt to settle the remaining obligation under the settlement agreement.

We also assumed certain liabilities of Circuit Technology, Inc. in connection with our transactions with that entity in the year 2000, and as a result we are defendant in a number of legal actions involving nonpayment of vendors for goods and services rendered. We have accrued these payables and have negotiated settlements with respect to some of the liabilities, including those detailed below, and are currently negotiating settlements with other vendors.

Advanced Component Labs adv. Circuit Technology Corporation Civil No. 990912318, Third Judicial District Court, Salt Lake Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about December 8, 1999, under allegations that the Company owed \$44,269.43 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for breach of implied contract and unjust enrichment. The Company has answered, admitting that it owed certain sums for conforming goods and services and

10

denying all other claims. Initial discovery is beginning. No trial date has been set.

Advanced Electronics has notified the Company that it believes it has a claim against the Company in the amount of \$67,691.56 for the cost of goods or services provided to the Company for the Company's use and benefit. Negotiations for settlement of this claim have resulted in an agreement in principal whereby the Company will make a cash payment to this creditor and issue a promissory note and shares of its restricted common stock in satisfaction of the creditor's claims. The parties are presently negotiating the terms of the settlement documents. However, until the settlement documents are executed and delivered, there can be no assurance that the creditor's claims will be settled nor that the terms will be favorable to the Company.

Arrow Electronics adv. Circuit Technology Corporation, Civil No. 990409504, Third Judicial District Court Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about October 19, 1999, under allegations that the Company owes \$199,647.92 for materials and services and terms of a promissory note. The Company has answered, admitting that it owed certain sums and denying all other claims. The Company and Arrow have entered a settlement agreement under which the Company will pay \$6,256.24 each month until the obligation and interest thereon are paid. Judgment was entered April 24, 2001, against the Company for \$218,435.46 accruing at 16% per annum. The Company is currently attempting to negotiate a settlement of these claims.

Arrow Electronics adv. Circuit Technology Corporation, Civil No. 010406732, Third Judicial District Court, Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about June 28, 2001, under allegations that the Company owes \$41,486.26. Judgment was entered against the Company on January 7, 2002. The Company is currently attempting to negotiate a settlement of these claims.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Avnet Electronics has notified the Company that it believes it has a claim against the Company in the amount of \$180,331.02 for the cost of goods or services provided to the Company for the Company's use and benefit. No lawsuit has been filed. Negotiations for settlement of this claim have resulted in an agreement in principal whereby the Company will make a cash payment to this creditor and issue a promissory note and its restricted common stock in satisfaction of the creditor's claims. The parties are presently negotiating the terms of the settlement documents. However, until the settlement documents are executed and delivered, there can be no assurance that the creditor's claims will be settled nor that the terms will be favorable to the Company.

Contact East has notified the Company that it believes it has a claim against the Company in the amount of \$32,129.89 for the cost of goods or services provided to the Company for the Company's use and benefit. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

C/S Utilities has notified the Company that it believes it has a claim against the Company in the amount of \$32,472 regarding utilities services. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

Future Electronics Corp v. Circuit Technology Corporation, Civil No. 000900296, Third Judicial District Court, Salt Lake County, State of Utah. Suit was brought against the Company on or about January 12, 2000, under allegations that the Company owed \$646,283.96 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims were asserted for breach of contract, fraud, negligent misrepresentation, unjust enrichment, account stated and dishonored instruments. The Company answered the complaint, admitting that it owed certain sums for conforming goods and services and denying all other claims. Partial Summary Judgment was entered in the amount of \$646,783.96 as to certain claims against the Company. During 2000, the Company settled the lawsuit

11

by issuing 5,281,050 shares of the Company's common stock valued at \$324,284, paying \$83,000 in cash and issuing two notes payable totaling \$239,000. During 2002, Future filed a confession of judgment claiming that the Company defaulted on its agreement and claimed the 2000 lawsuit was not properly satisfied. At December 31, 2002, the Company owed \$60,133 of principal under terms of the remaining note payable. The Company denies the vendor's claim and intends to vigorously defend itself against the confession of judgment.

Christine Hindenes v. Racore Network, Inc., and CirTran Corporation, Superior Court of California, County of Santa Clara, Civil No. CV811051. Ms. Hindenes brought suit against the Company and Racore for unpaid wages seeking \$40,516.44. The case has been sent to non-binding arbitration which will commence in April 2003. The parties are also negotiating settlement.

Infineon Technologies North America Corp. adv. Circuit Technology, Inc. et al., Case No. CV 792634, Superior Court of the State of California, County of Santa Clara. Judgment was entered against Circuit Technology, Inc., on March 12, 2002, in the amount of \$181,342.15. As of March 25, 2003, we are not aware of any collection efforts made by Infineon.

John J. La Porta v. Circuit Technology, Inc. et al., Case No. 010900785, Third Judicial District Court, Salt Lake Department, Salt Lake County, State of Utah. Mr. La Porta filed suit on or about January 23, 2001, seeking to recover the principal sum of \$135,941 plus interest on a promissory note given by Racore Technology Corp. Mr. La Porta claims that the Company is a guarantor of the

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

promissory note and the Company should be held liable because of Racore's default on the note. The parties are presently negotiating settlement.

Molex has notified the Company that it believes it has a claim against the Company in the amount of \$90,000.00 for the cost of goods or services provided to the Company for the Company's use and benefit. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

Orbit Systems, Inc. adv. Circuit Technology, Inc. et al, Case No. 010100050DC, Third Judicial District Court, West Valley City Department, Salt Lake County, State of Utah. Orbit filed suit on January 4, 2001, seeking to recovery \$173,310 for the costs of goods that Orbit claims the Company was under contract to purchase. The Company filed an answer denying the substantive allegations and filed a Third-party Complaint against Osicom Technologies, Inc., and Entrada Networks, Inc. ("Entrada"), for contribution, indemnity and reimbursement in the event the Company is held liable to Orbit. Discovery was begun. Subsequently, the Company entered into an agreement with Entrada and Orbit. Under the agreement, Entrada agreed to purchase certain parts and equipment from Orbit. Once Entrada had paid Orbit for the parts and equipment, Orbit would dismiss its suit against the Company, and once Orbit had dismissed its suit against the Company, the Company would dismiss its suit against Entrada. To the Company's knowledge, Entrada ordered the parts and equipment from Orbit. As of April 4, 2003, the amount at issue is approximately \$600, but this suit has not been dismissed.

Sager Electronics adv. Circuit Technology Corporation, Civil No. 000403535, Third Judicial District Court, Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about March 23, 2000, under allegations that the Company owed \$97,259.23 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for non payment of amount owing. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Negotiations for settlement have resulted in an agreement for settlement of all claims of Sager against the Company. The Company has arranged certain payments and is required to pay Sager \$1,972.07 each month until paid. The

12

Company defaulted on its obligations in December 2002. The Company is negotiating a new settlement with Sager.

Signal Transformer Co., Inc., has notified the Company that it believes it has a claim against the Company in the amount of \$38,989 for the cost of goods or services provided to the Company for the Company's use and benefit. Negotiations for settlement of this claim have resulted in an agreement in principal whereby the Company will arrange for a cash payment to this creditor. The parties are presently negotiating the terms of the settlement documents. However, until the settlement documents are executed and delivered, there can be no assurance that the creditor's claims will be settled nor that the terms will be favorable to the Company.

SuhTech Electronics adv. Circuit Technology Corporation, Civil No. 00L14505, Circuit Court of Cook County Department, Law Division, State of Illinois. Suit was brought against the Company on or about December 23, 1999, under allegations that the Company owed \$213,717.70 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for breach of contract, unjust enrichment and account stated. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Judgment was subsequently entered against the Company

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

on May 29, 2002. The parties are presently negotiating the terms of settlement documents, pursuant to which the Company will facilitate a payment to this creditor a cash payment and issue a promissory note and shares of its restricted common stock in satisfaction of the creditors' claims. However, until the settlement documents are executed and delivered, there can be no assurance that the creditors claims will be settled nor that the terms will be favorable to the Company.

University of Utah v. CirTran Corporation, Third District Court, Salt Lake County, Civil No. 020900494 . The University of Utah filed a claim against the Company on January 18, 2002, seeking \$37,473.10 in damages. The University filed a motion for summary judgment in early 2003. The parties are presently negotiating settlement.

Volt Temporary Services has notified the Company that it believes it has a claim against the Company in the amount of \$30,986 for the cost of goods or services provided to the Company for the Company's use and benefit. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

Wells Fargo Equipment Finance adv. Circuit Technology Corporation, Civil No. 901207 Third Judicial District Court, Salt Lake County, State of Utah. Suit was brought against the Company on or about February 10, 2000, under allegations that the Company owed \$439,493.56 for a loan provided to the Company for the Company's use and benefit. Claims are asserted for breach of contract, breach of guarantee and replevin. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Initial discovery is beginning. Judgment has been entered against the Company and certain guarantors in the amount of \$427,291.69 plus interest at the rate of 8.61% per annum from June 27, 2000. The parties have reached a settlement agreement under which the Company will pay approximately \$12,000 per month beginning in January 2003 to resolve this claim.

Zion's First National Bank has notified the Company that it believes it has a claim against the Company in the amount of \$240,000.00 for loans made to the Company for the Company's use and benefit. The Company has entered into a Fifth Forbearance and Loan Modification Agreement, requiring monthly payments of \$20,000.00. The Company subsequently renegotiated a settlement with Zions Bank under which the Company will pay approximately \$12,000 per month beginning in January 2003.

George M. Madanat, Civil No. KC 035616, Superior Court of the State of California for the County of Los Angeles, East District. Suit was brought

13

against the company on or about April 2, 2001, under allegations that the company owed \$121,824.90 under the terms of a promissory note. A Stipulation for Settlement and for Entry of Judgment was executed by the parties wherein the Company agreed to arrange for payment of a principal amount of \$145,000 in 48 monthly installments. The Company subsequently defaulted on its obligations under the settlement agreement, and judgment was entered against the Company. As of April 4, 2003, the Company is not aware of any collection efforts.

Internal Revenue Service. The Internal Revenue Service has notified the Company that the Company owes approximately \$2.0 million in employee payroll taxes. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

Dickson Circuits USA, Third District Court, Sandy Department, Civil No.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

030401796. Dickson Circuits filed suit against the Company in the amount of \$31,744.64 for the cost of goods and services provided to the Company for the Company's use and benefit. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations. The lawsuit is currently pending.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders in the fourth quarter of the year ended December 31, 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock traded sporadically on the Pink Sheets under the symbol "CIRT" from July 2000 to July 2002. Effective July 15, 2002, the NASD approved our shares of common stock for quotation on the NASD Over-the-Counter Electronic Bulletin Board. The following table sets forth, for the respective periods indicated, the prices of our common stock as reported and summarized on the Pink Sheets. These prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

| Calendar Quarter Ended | High Bid | Low Bid |
|------------------------|----------|---------|
| December 31, 2002 | \$0.12 | \$0.03 |
| September 30, 2002 | \$0.16 | \$0.03 |
| June 30, 2002 | \$0.07 | \$0.02 |
| March 31, 2002 | \$0.08 | \$0.02 |
| December 31, 2001 | \$0.10 | \$0.04 |
| September 30, 2001 (1) | \$0.36 | \$0.06 |
| June 30, 2001 | \$3.500 | \$1.500 |
| March 31, 2001 | \$5.500 | \$3.000 |
| December 31, 2000 | \$4.000 | \$4.000 |

(1) Our 15 for 1 forward stock split was made effective August 6, 2001 and our stock price decreased accordingly.

As of March 31, 2003, we had 542 shareholders of record holding 254,684,691

14

shares of common stock.

We have not paid, nor declared, any dividends on our common stock since our inception and do not intend to declare any such dividends in the foreseeable future. Our ability to pay dividends is subject to limitations imposed by Nevada law. Under Nevada law, dividends may be paid to the extent the corporation's assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business.

Recent Sales of Unregistered Securities

In December, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 30,000,000 shares of common stock in exchange for cancellation of an aggregate amount of \$1,500,000 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.05

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

per share, for the aggregate amount of \$1,500,000. The Company did not grant registration rights to the four creditors. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

In January, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 19,987,853 shares of common stock in exchange for cancellation of an aggregate amount of \$1,499,090 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.075 per share, for the aggregate amount of \$1,500,000. The Company did not grant registration rights to the four creditors. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

Penny Stock Rules

Our shares of common stock are subject to the "penny stock" rules of the Securities Exchange Act of 1934 and various rules under this Act. In general terms, "penny stock" is defined as any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. The rules provide that any equity security is considered to be a penny stock unless that security is registered and traded on a national securities exchange meeting specified criteria set by the SEC, authorized for quotation from the NASDAQ stock market, issued by a registered investment company, and excluded from the definition on the basis of price (at least \$5.00 per share), or based on the issuer's net tangible assets or revenues. In the last case, the issuer's net tangible assets must exceed \$3,000,000 if in continuous operation for at least three years or \$5,000,000 if in operation for less than three years, or the issuer's average revenues for each of the past three years must exceed \$6,000,000.

Trading in shares of penny stock is subject to additional sales practice requirements for broker-dealers who sell penny stocks to persons other than established customers and accredited investors. Accredited investors, in general, include individuals with assets in excess of \$1,000,000 or annual income exceeding \$200,000 (or \$300,000 together with their spouse), and certain institutional investors. For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of the security and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, the rules require the delivery, prior to the first transaction, of a risk disclosure document relating to the penny stock. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the security. Finally, monthly statements must be sent disclosing recent price information for the penny stocks. These rules may restrict the ability of broker-dealers to trade or maintain a market in our common stock, to the extent it is penny stock, and may affect the ability of shareholders to sell their shares.

Securities authorized for issuance under equity compensation plans

The following table sets forth information about the Company's equity compensation plans, including the number of securities to be issued upon the exercise of outstanding options, warrants, and rights; the weighted average exercise price of the outstanding options, warrants, and rights; and the number of securities remaining available for issuance under the specified plan.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted average exercise price of outstanding options, warrants, and rights |
|--|--|--|
| Equity compensation plans approved by shareholders | 0 | 0 |
| Equity compensation plans not approved by shareholders | 2001 Plan: 15,000,000 options | 2001 Plan: 0 options * |
| | 2002 Plan: 7,500,000 options | 2002 Plan: 0 options * |
| Total | 22,500,000 | 0 |

* All options issued under this plan to date have been exercised.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS
OR PLAN OF OPERATION.

Overview

We provide a mixture of high and medium size volume turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole and custom injection molded cabling for leading electronics OEMs in the communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our services include pre-manufacturing, manufacturing and post-manufacturing services. Through our subsidiary, Racore Technology Corporation, we design and manufacture Ethernet technology products. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management, and increased purchasing power.

Significant Accounting Policies

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

Our discussion and analysis of our financial condition and results of operations

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Estimated amounts may differ under different assumptions or conditions, and actual results could differ from the estimates.

Revenue Recognition

Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment. Returns for defective items are repaired and sent back to the customer. Historically, expenses experienced with such returns have not been significant and have been recognized as incurred.

Inventories

Inventories are stated at the lower of average cost or market value. Costs include labor, material and overhead costs. Overhead costs are based on indirect costs allocated among cost of sales, work-in-process inventory and finished goods inventory. Indirect overhead costs have been charged to cost of sales or capitalized as inventory based on management's estimate of the benefit of indirect manufacturing costs to the manufacturing process.

17

When there is evidence that the inventory's value is less than original cost, the inventory is reduced to market value. The Company determines market value on current resale amounts and whether technological obsolescence exists. The Company has agreements with most of its customers that require the customer to purchase inventory items related to their contracts in the event that the contracts are cancelled. The market value of related inventory is based upon those agreements. The Company typically orders inventory on a customer-by-customer basis. In doing so the Company enters into binding agreements that the customer will purchase any excess inventory after all orders are complete. Almost 80% of the total inventory is secured by these agreements.

Checks Written in Excess of Cash in Bank

Historically, banks have temporarily lent funds to us by paying out more funds than were in our accounts under existing lines of credit with those banks. Subsequent to May 2000, when Abacas purchase our line of credit obligation, the Company no longer had lines of credit with banks, and those loans were no longer available or made to us.

Under our cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes. These overdrafts are included as a current liability in the balance sheets.

Related Party Transactions

Certain transactions involving Abacas Ventures, Inc., the Saliba Private Annuity Trust and the Saliba Living Trust are regarded as related party transactions under FAS 57. Disclosure concerning these transactions is set out in this Item 6 under "Liquidity and Capital Resources - Liquidity and Financing Arrangements," and in "Item 12 - Certain Relationships and Related Transactions."

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

We lease approximately 40,000 square feet of office and manufacturing space in West Valley City, Utah, at a monthly lease rate of approximately \$16,000. The lease is renewable in November of 2006 for two additional ten-year periods. This facility serves as our principal offices and manufacturing facility and is leased from I&R Properties, LLC, a company owned and controlled by individuals who are officers, directors and principal stockholders. We believe our lease for the facility is on commercially reasonable terms.

Results of Operations - Comparison of Years Ended December 31, 2002 and 2001

Sales and Cost of Sales

Net sales increased 22.9 % to \$2,299,668 for the year ended December 31, 2002 as compared to \$1,870,848 for the year ended December 31, 2001. The increase is partially due to the increased orders from pre-existing customers. For CirTran Corporation, we had two pre-existing customers that have generated approximately 40% of the sales for 2002. These customers are Tempo at 25% and General Cable at 15% of sales. For Racore, pre-existing customer SGI accounted for 65% of sales.

Cost of sales for the year ended December 31, 2002 was \$1,966,851, as compared to \$2,340,273 during the prior year. Those costs as a percentage of net sales

18

were 85.5% during 2002 as compared to 125% during 2001. The improvement in the Cost of sales was due to the higher margin contracts the company completed.

Additionally, improvement of inventory management and control has positively affected our gross margins. We traditionally tracked inventory by customer rather than by like-inventory item, and, as a result, we often purchased new inventory to produce products for a new customer, when we likely had the necessary inventory on hand under a different customer name. This prior practice led to a reserve for obsolescence and excess inventory, which for the year 2002 was \$540,207, as compared to \$506,381 in 2001. However, because of the higher margin sales, our cost of sales decreased. We have changed our method of managing and controlling our inventory so that we can identify inventory by a general part number, rather than a customer number, and we have instituted monthly reviews to better update and control our inventory. We believe these improvements have lead to better inventory control and will contribute to decreased cost of sales. If we are successful in decreasing our cost of sales further, and if we are able to maintain and increase our levels of sales, we believe we will be successful in generating sufficient gross profit to cover our selling, general and administrative expenses.

The following charts present (i) comparisons of sales, cost of sales and gross profit generated by our two main areas of operations, i.e., electronics assembly and Ethernet technology, during 2001 and 2002; and (ii) comparisons during these two years for each division between sales generated by pre-existing customers and sales generated by new customers.

| Year | Sales | Cost of Sales | Gross Lo |
|------|-------|---------------|----------|
|------|-------|---------------|----------|

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

| | | | |
|-------------------------|------|-----------|-----------|
| Electronics Assembly | 2002 | 1,838,781 | 1,673,739 |
| | 2001 | 1,352,085 | 1,718,687 |
| Ethernet Technology | 2002 | 460,887 | 293,112 |
| | 2001 | 518,763 | 621,586 |

| | Year | Total Sales | Pre-existing Customers | N Cust |
|-------------------------|------|----------------|------------------------|-----------|
| Electronics Assembly | 2002 | 1,838,781 | 1,817,312 | |
| | 2001 | 1,352,085 | 1,311,522 | |
| Ethernet Technology | 2002 | 460,887 | 338,927 | |
| | 2001 | 518,763 | 462,844 | |

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at December 31, 2002 was \$1,550,553, as compared to \$1,773,888 at December 31, 2001. The decrease in inventory was primarily the result of the settlement with Entrada, repeated customer orders, and the implementation of our inventory control system.

Selling, General and Administrative Expenses

During the year ended December 31, 2002, selling, general and administrative expenses were \$2,167,107 versus \$1,690,837 for 2001, a 28.2% increase. The

19

increase is a result of our increase in the size of our sales staff, an increase in the commission structure for the sales staff, and our effort to aggressively market our products during a period of economic downturn.

Interest Expense

Interest expense for 2002 was \$437,074 as compared to \$773,034 for 2001, a

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

decrease of 43.4%. This decrease is primarily attributable to a decrease in debt which was attributed to the conversions of notes payable to shares of common stock in January and December 2002 and in delinquent payroll tax liabilities, the penalties on which were previously recorded as part of interest expense. As of December 31, 2002 and 2001, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was \$2,029,626 and \$1,982,445, respectively.

Other income increased from \$212 in 2001 to \$7,173 in 2002.

As of December 31, 2002 there was a gain on the settlement of the sub-lease in Colorado Springs of \$152,500.

As a result of the above factors, our overall net loss decreased 26.7% to \$2,149,810 for the year ended December 31, 2002, as compared to \$2,933,084 for the year ended December 31, 2001.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses and our accumulated deficit was \$15,230,302 at December 31, 2002 and was \$13,080,492 at December 31, 2001. Our net operating loss for the year ending December 31, 2002 was \$2,149,810, compared to \$2,933,084 for the year ending December 31, 2001. Our current liabilities exceeded our current assets by \$4,490,623 as of December 31, 2002 and \$7,832,259 as of December 31, 2001. The decrease in the difference is mostly attributed to all the debt to equity conversions done in January and December 2002. For the years ended December 31, 2002 and 2001, we recorded negative cash flows from operations of \$1,142,148 and \$288,723, respectively.

Cash

We had cash on hand of \$500 at December 31, 2002 and 2001.

Net cash used in operating activities was \$1,142,148 for the fiscal year ended December 31, 2002. During 2002, net cash used in operations was primarily attributable to \$2,149,810 in net losses from operations, partially offset by a non-cash charge and increases in accrued liabilities of \$765,480 and in decreases to trades accounts receivables and inventories of \$361,065 and \$194,506, respectively. The non-cash charge was for depreciation and amortization of \$470,849.

Net cash used in investing activities during the fiscal year ended December 31, 2002, consisted of equipment purchases of \$2,822.

Net cash provided by financing activities was \$1,144,970 during the fiscal year ended December 31, 2002. Principal sources of cash were proceeds from stockholder notes payable of \$618,305, proceeds of \$845,000 from long-term notes payable, proceeds from the exercise of options to purchase common stock of \$424,000 and proceeds of \$500,000 from the issuance of our common stock. Principal uses of cash during 2002 consisted of \$738,054 principal payments of notes payable and a decrease to checks written in excess of cash in the bank of \$140,433.

Accounts Receivable

At December 31, 2002, we had receivables of \$37,464, net of a reserve for

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

doubtful accounts of \$37,037, as compared to \$369,250 at December 31, 2001, net of a reserve of \$66,316. The smaller reserve for doubtful accounts in 2002 is attributable to increased efforts to improve the aging and quality of our current receivables. Of the amount shown for receivables as of December 31, 2001, \$273,328, or approximately 63%, was owed to us by Osicom, one of our former customers against whom we had filed a breach of contract suit in January 2001. During 2002, we entered into a settlement agreement with Osicom which provides for the payment of all amounts owed to us by Osicom. See "Item 3 - Legal Proceedings."

Accounts Payable

Accounts payable were \$1,359,723 at December 31, 2002 as compared to \$2,141,290 at December 31, 2001. This decrease is primarily attributed to Abacas' negotiations with several of our vendors whereby Abacas purchased past due amounts for goods and services provided by vendors, as well as capital leases.

Liquidity and Financing Arrangements

We sustained substantial losses from operations in 2002 and 2001. We had an accumulated deficit of \$15,230,302 and a total stockholders' deficit of \$3,843,097 at December 31, 2002. In addition, during 2002 and 2001, we have used, rather than provided, cash in our operations. As of December 31, 2002, our monthly operating costs and interest expenses averaged approximately \$220,000 per month.

Since February 2000, we have operated without a line of credit. Abacas Ventures, Inc., an entity whose shareholders include the Saliba Private Annuity Trust, one of our major shareholders (see "Item 11 - Security Ownership of Certain Beneficial Owners and Management") and a related entity, the Saliba Living Trust, purchased our line of credit of \$2,792,609, and this amount was converted into a note payable to Abacas bearing an interest rate of 10%. As of December 31, 2001, a total of \$2,405,507, plus \$380,927 in accrued interest, was owed to Abacas pursuant to this note payable. During 2002, we entered into agreements with the Saliba Private Annuity Trust and the Saliba Living Trust to exchange 19,987,853 shares of our common stock for \$1,499,090 in principal amount of this debt and to issue an additional 6,666,667 shares to these trusts for \$500,000 cash which was used for working capital for the Company. During December 2002, an additional \$1,020,154 of principal and \$479,846 of accrued interest owed to Abacas was converted to 30,000,000 shares of our common stock. See "Item 12 - Certain Relationships and Related Transactions."

During 2002 and 2001, we converted approximately \$316,762 and \$32,500, respectively of trade payables into notes and stock. During January 2002, in addition to the above-described transactions with the Saliba trusts, we issued 16,666,666 shares of restricted common stock at a price of \$0.075 per share in exchange for the cancellation of \$1,250,000 of notes payable to various stockholders. See "Item 12 - Certain Relationships and Related Transactions." We continue to work with vendors in an effort to convert other trade payables into long-term notes and common stock and to cure defaults with lenders with forbearance agreements that we are able to service.

Despite our efforts to make our debt-load more serviceable, significant amounts of additional cash will be needed to reduce our debt and fund our losses until such time as we are able to become profitable. As at December 31, 2002, we were in default of notes payable whose principal amount, not including the amount owing to Abacas Ventures, Inc., exceeded \$580,000. In addition, the principal amount of notes that either mature in 2003 or are payable on demand exceed \$97,000. The total amount per month that we have committed to paying pursuant to

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

various settlements for outstanding debt, litigation and delinquent payroll taxes is currently approximately \$42,000, all of which is against accrued liabilities and notes payable. None of these settlements, however, have resulted in the forgiveness of any amounts owed, but have simply resulted in a restructuring in the terms of the various debts.

Management believes that each of the related party transactions were as fair to the Company as could have been made with unaffiliated third parties.

In conjunction with our efforts to improve our results of operations, discussed above, we are also actively seeking infusions of capital from investors and are seeking to replace our line of credit. It is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to pay the debt and secure the debt with assets. We may therefore have to rely on equity financing to meet our anticipated capital needs. There can be no assurances that we will be successful in obtaining such capital. If we issue additional shares for debt and/or equity, this will serve to dilute the value of our common stock and existing shareholders' positions.

Subsequent to our acquisition of Circuit in July 2000, we took steps to increase the marketability of our shares of common stock and to make an investment in our company by potential investors more attractive. These efforts consisted primarily of seeking to become current in our filings with the Securities and Exchange Commission and of seeking approval for quotation of our stock on the NASD Over the Counter Electronic Bulletin Board. NASD approval for quotation of our stock was obtained in July 2002.

There can be no assurance that we will be successful in obtaining more debt and/or equity financing in the future or that our results of operations will materially improve in either the short- or the long-term. If we fail to obtain such financing and improve our results of operations, we will be unable to meet our obligations as they become due. That would raise substantial doubt about our ability to continue as a going concern.

Forward-looking statements

All statements made in this prospectus, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that we expect or anticipate will or may occur in the future, including such things as expansion and growth of operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect our operations and financial condition. These factors include competitive pressures, success or failure of marketing programs, changes in pricing and availability of parts inventory, creditor actions, and conditions in the capital markets. Forward-looking statements made by us are based on knowledge of our business and the environment in which we currently operate. Because of the factors listed above, as well as other factors beyond our control, actual results may differ from those in the forward-looking statements.

ITEM 7. FINANCIAL STATEMENTS

Our financial statements appear at the end of this report beginning with the Index to Financial Statements on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON
ACCOUNTING AND FINANCIAL DISCLOSURE

As was disclosed in the information previously filed in our Current Report on Form 8-K filed on March 14, 2002 and in subsequent amendments to this Form 8-K, on March 12, 2002, we engaged Hansen, Barnett & Maxwell as our independent auditor with respect to our fiscal year ending December 31, 2001. Hansen, Barnett & Maxwell was subsequently retained to also audit and provide a report on our financial statements for the fiscal year ending December 31, 2000, and is thus providing a report on all financial statements for the year ending December 31, 2002, included in this Annual Report on Form 10KSB.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;
COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Directors and Officers

The following sets forth the names, ages and positions of our directors and officers and the officers of our operating subsidiary, CirTran Corporation (Utah), along with their dates of service in such capacities.

| Name | Age | Positions |
|-------------------|-----|---|
| Iehab J. Hawatmeh | 36 | President, Chief Financial Officer, Secretary and Director of CirTran Corporation; President of CirTran Corporation (Utah). Served since July 2000. |
| Raed Hawatmeh | 38 | Director since June 2001. |
| Trevor Saliba | 28 | Director since June 2001. Senior Vice-President, Sales and Marketing since January 2002. |
| Shaher Hawatmeh | 37 | Vice-President of CirTran Corporation (Utah). Served since July 2000. |

Iehab J. Hawatmeh. Mr. Hawatmeh is our President and Secretary and a member of our Board of Directors. Mr. Hawatmeh served as the President and Chief Executive Officer of Circuit Technology, Inc. from 1993 until we acquired it in July 2000. In this position, he was responsible for all operational, financial, marketing and sales activities of Circuit Technology. He now performs similar functions for us and our operating subsidiary, CirTran Corporation (Utah). Mr. Hawatmeh is the brother of Shaher Hawatmeh.

Shaher Hawatmeh. Shaher Hawatmeh served as the Vice-President and Treasurer of Circuit Technology, Inc. from 1993 until July 2000 and now serves as a Vice-President of our operating subsidiary, CirTran Corporation (Utah). In such capacities, he is responsible for budget development, strategic planning, asset management and marketing. Mr. Hawatmeh is the brother of Iehab Hawatmeh.

Raed Hawatmeh. Raed Hawatmeh, who is not related to Iehab and Shaher Hawatmeh, has served as a director since June 2001. Mr. Hawatmeh has been a self-employed investor and venture capitalist for the past five years, specializing in financing start-up companies in the electronics industry.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Trevor Saliba. Mr. Saliba has served as a director since June 2001 and was appointed Senior Vice-President, Sales and Marketing in January 2002. In 1997, Mr. Saliba founded Saliba Corporation, a San Francisco construction company, and has served as its president

23

since that time. Prior to 1997, Mr. Saliba was employed as a project engineer for Tutor-Saliba Corporation.

Indemnification Provisions

Our Bylaws provide, among other things, that our officers or directors are not personally liable to us or to our stockholders for damages for breach of fiduciary duty as an officer or director, except for damages for breach of such duty resulting from (a) acts or omissions which involve intentional misconduct, fraud, or a knowing violation of law, or (b) the unlawful payment of dividends. Our Bylaws also authorize us to indemnify our officers and directors under certain circumstances. We anticipate we will enter into indemnification agreements with each of our executive officers and directors pursuant to which we will agree to indemnify each such person for all expenses and liabilities incurred by such person in connection with any civil or criminal action brought against such person by reason of their being an officer or director of the Company. In order to be entitled to such indemnification, such person must have acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company and, with respect to criminal actions, such person must have had no reasonable cause to believe that his conduct was unlawful.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information regarding the annual and long-term compensation for services to us in all capacities (including Circuit Technologies, Inc.) for the prior fiscal years ended December 31, 2001, 2000, and 1999, of those persons who were either (i) the chief executive officer during the last completed fiscal year or (ii) one of the other four most highly compensated executive officers as of the end of the last completed fiscal year. The individuals named below received no other compensation of any type, other than as set out below, during the fiscal years indicated.

| Name and Principal Position ----- | Year ---- | Annual Compensation | | Long-Term Compe Restricted Stock Awards (\$) ----- |
|--|--------------|-----------------------|----------------------|---|
| | | Salary (\$) --- | Bonus (\$) --- | |
| Iehab J. Hawatmeh President, Secretary, Treasurer and Director | 2002 | 175,000 | - | - |
| | 2001 | 175,000 | - | - |
| | 2000 | 175,000 | - | - |
| Shaher Hawatmeh Executive Vice President of CirTran Corporation (Utah) | 2002 | 130,000 | - | - |
| | 2001 | 130,000 | - | - |
| | 2000 | 109,000 | - | - |

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

| | | | | | |
|---------------------------------|------|---------|---|---|--|
| Trevor M. Saliba | | | | | |
| Sr. Vice President and Director | 2002 | 118,000 | - | - | |
| of CirTran Corporation | 2001 | - | | | |
| | 2000 | - | | | |
| Raed S. Hawatmeh | | | | | |
| Director of CirTran Corporation | 2002 | - | | | |
| | 2001 | - | | | |
| | 2000 | - | | | |

24

Employment Agreements

Iehab Hawatmeh entered into an employment agreement with Circuit in 1993 that was assigned to us as part of the reverse acquisition of Circuit in July 2000. This agreement, which is of indefinite term, provides for a base salary for Mr. Hawatmeh, plus a bonus of 2% of our net profits before taxes, payable quarterly, and any other bonus our board of directors may approve. The agreement also provides that, if Mr. Hawatmeh is terminated without cause, we are obligated to pay him, as a severance payment, an amount equal to five times his then-current annual base compensation, in one lump-sum payment or otherwise, as Mr. Hawatmeh may direct.

Trevor Saliba entered into an agreement with us in January 2002 pursuant to which we retained Mr. Saliba as Senior Vice-President, Sales and Marketing. The agreement provides for remuneration to Mr. Saliba of \$6,000 per month, plus reimbursement for all pre-approved business expenses. In addition, we agreed to pay Mr. Saliba an amount equal to 5.0% of all gross investments made into our company that are generated and arranged by Mr. Saliba. The agreement has an initial term of one year, renewable upon agreement of the parties, but is terminable by either party for any reason upon 90 days written notice to the other party. In addition, we may terminate the agreement upon 30 days written notice if Mr. Saliba fails to comply with the terms of the agreement.

2001 Stock Plan

The 2001 Stock Plan has been fully distributed.

2002 Stock Plan

In December 2002, our board approved and adopted our 2002 Stock Plan, or the 2002 Plan, subject to shareholder approval. An aggregate of 25,000,000 shares of our common stock are subject to the 2002 Plan, which provides for grants to employees, officers, directors and consultants of both non-qualified (or non-statutory) stock options and "incentive stock options" (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended). The 2002 Plan also provides for the grant of certain stock purchase rights, which are subject to a purchase agreement between us and the recipient. The purpose of the 2002 Plan is to enable us to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to such persons, and to promote the success of our business.

The 2002 Plan is administered by our board of directors, which designates from time to time the individuals to whom awards are made under the 2002 Plan, the amount of any such award and the price and other terms and conditions of any such award. The 2002 Plan shall continue in effect until the date which is ten years from the date of its adoption by the board of directors, subject to earlier termination by our board. The board may suspend or terminate the 2002

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Plan at any time.

The board determines the persons to whom options are granted, the option price, the number of shares to be covered by each option, the period of each option, the times at which options may be exercised and whether the option is an incentive or non-statutory option. No employee may be granted options or stock purchase rights under the 2002 Plan for more than an aggregate of 15,000,000 shares in any given fiscal year. We do not receive any monetary consideration upon the granting of options. Options are exercisable in accordance with the terms of an option agreement entered into at the time of grant.

The board may also award our shares of common stock under the 2002 Plan as stock purchase rights. The board determines the persons to receive awards, the number of shares to be awarded and the time of the award. Shares received pursuant to a stock purchase right are subject to the terms, conditions and restrictions determined by the board at the time the award is made, as evidenced by a

25

restricted stock purchase agreement. No stock purchase rights have been granted under the 2002 Plan.

As of March 31, 2003, options to purchase 7,500,000 shares of our common stock have been granted under the 2002 Plan.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number and percentage of the 254,684,691 outstanding shares of our common stock which, according to the information supplied to us, were beneficially owned, as of March 31, 2003, by (i) each person who is currently a director, (ii) each executive officer, (iii) all current directors and executive officers as a group and (iv) each person who, to our knowledge, is the beneficial owner of more than 5% of our outstanding common stock. None of the individuals listed below own any options or warrants to purchase our common stock.

Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable. Beneficial ownership is determined according to the rules of the Securities and Exchange Commission, and generally means that person has beneficial ownership of a security if he or she possesses sole or shared voting or investment power over that security. Each director, officer, or 5% or more shareholder, as the case may be, has furnished us information with respect to beneficial ownership. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below, based on the information each of them has given to us, have sole investment and voting power with respect to their shares, except where community property laws may apply.

| Name and Address | Relationship | Common |
|---|-------------------|--------|
| Saliba Private Annuity Trust (2) 115 S. Valley Street Burbank, CA 91505 | 5% Shareholder | 52,17 |

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

| | | |
|---|--|-------|
| Roger Kokozyon 4539 Haskell Avenue Encino, CA 91436 | 5% Shareholder | 27,71 |
| Iehab J. Hawatmeh 4125 South 6000 West West Valley City, Utah 84128 | Director, Officer & 5% Shareholder | 46,75 |
| Raed Hawatmeh 10989 Bluffside Drive Studio City, CA 91604 | Director & 5% Shareholder | 29,59 |
| Shaher Hawatmeh 4125 South 6000 West West Valley City, Utah 84128 | Officer | 3,77 |
| Trevor Saliba (1) 5 Thomas Mellon Circle, Suite 108 San Francisco, California 94134 | Director | 50 |
| All Officers and Directors as a Group (4 persons) | | 80,62 |

 * Less than 1%.

26

(1) Includes 7,164,620 shares held by the Saliba Living Trust. Thomas L. Saliba and Betty R. Saliba are the trustees of The Saliba Living Trust and Thomas L. Saliba is the sole trustee of The Saliba Private Annuity Trust. These persons control the voting and investment decisions of the shares held by the respective trusts. Mr. Thomas L. Saliba is a nephew of the grandfather of Mr. Trevor Saliba, one of our directors and officers. Mr. Trevor Saliba is one of five passive beneficiaries of Saliba Private Annuity Trust and has no control over its operations or management. Mr. Saliba disclaims beneficial control over the shares indicated.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We lease our principal offices and manufacturing facility from I&R Properties LLC, a Utah limited liability company, at a monthly lease rate of approximately \$16,000 under a lease that has a current term expiring in November 2006. We have the option of renewing the lease for two additional 10-year terms. I & R Properties, LLC is owned and controlled by Iehab J. Hawatmeh, an officer, director and principal stockholder, Raed Hawatmeh, a principal stockholder and director, and Shaher Hawatmeh, a Vice president in CirTran Corporation (Utah), our operating subsidiary.

In January, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 19,987,853 shares of common stock to four of Abacas's shareholders in exchange for cancellation by Abacas of an aggregate amount of \$1,499,090 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.075 per share, for the aggregate amount of \$1,500,000.

In December, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 30,000,000 shares of common stock to four of Abacas's shareholders in exchange for cancellation by Abacas of an aggregate

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

amount of \$1,500,000 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.05 per share, for the aggregate amount of \$1,500,000.

As of December 31, 2001, Iehab Hawatmeh had loaned us a total of \$1,390,125. The loans were demand loans, bore interest at 10% per annum and were unsecured. Effective January 14, 2002, we entered into four substantially identical agreements with existing shareholders pursuant to which we issued an aggregate of 43,321,186 shares of restricted common stock at a price of \$0.075 per share for \$500,000 in cash and the cancellation of \$2,749,090 principal amount of our debt. Two of these agreements were with the Saliba Private Annuity Trust, one of our principal shareholders, and a related entity, the Saliba Living Trust. The Saliba trusts are also principals of Abacas Ventures, Inc., which entity purchased our line of credit in May 2000. (See "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Liquidity and Financing Arrangements.") Pursuant to the Saliba agreements, the trusts were issued a total of 26,654,520 shares of common stock in exchange for \$500,000 cash and the cancellation of \$1,499,090 of debt. We used the \$500,000 cash from the sale of the shares for working capital. As a result of this transaction, the percentage of our common stock owned by the Saliba Private Annuity Trust and the Saliba Living Trust increased from approximately 6.73% to approximately 17.76%. Mr. Trevor Saliba, one of our directors and officers, is a passive beneficiary of the Saliba Private Annuity

27

Trust. Pursuant to the other two agreements made in January, we issued an aggregate of 16,666,666 shares of restricted common stock at a price of \$0.075 per share in exchange for the cancellation of \$1,250,000 of notes payable by two shareholders, Mr. Iehab Hawatmeh (our president, a director and our principal shareholder) and Mr. Rajai Hawatmeh. Of these shares, 15,333,333 were issued to Iehab Hawatmeh in exchange for the cancellation of \$1,150,000 in debt. As a result of this transaction, the percentage of our common stock owned by Mr. Hawatmeh increased from 19.9% to approximately 22.18%.

In February 2000, prior to its acquisition of Vermillion Ventures, Inc., a public company, Circuit Technology, Inc., while still a private entity, redeemed 680,145 shares (as presently constituted) of common stock held by Raed Hawatmeh, who was a director of Circuit Technology, Inc. at that time, in exchange for \$80,000 of expenses paid on behalf of the director. No other stated or unstated rights, privileges, or agreements existed in conjunction with this redemption. This transaction was consistent with other transactions where shares were offered for cash.

In 1999, Circuit entered into an agreement with Cogent Capital Corp., or "Cogent," a financial consulting firm, whereby Cogent agreed to assist and provide consulting services to Circuit in connection with a possible merger or acquisition. Pursuant to the terms of this agreement, we issued 800,000 (pre-forward split) restricted shares (12,000,000 post-forward split shares) of our common stock to Cogent in July 2000 in connection with our acquisition of the assets and certain liabilities of Circuit. The principal of Cogent was appointed a director of Circuit after entering into the financial consulting agreement and resigned as a director prior to the acquisition of Circuit by Vermillion Ventures, Inc. on July 1, 2000.

Management believed at the time of each of these transactions and continues to believe that each of these transactions were as fair to the Company as could have been made with unaffiliated third parties.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-B.

Exhibit No. Document

- 3.1 Articles of Incorporation (previously filed as Exhibit No. 2 to our 8-K dated July 1, 2000, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 3.2 Bylaws (previously filed as Exhibit No. 3 to our 8-K dated July 1, 2000, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10. Material Contracts:
 - 10.1 Lease Agreement dated 2 November 1996 between I & R Properties, LLC and Circuit Technology, Inc. (previously filed as Exhibit No. 4 to our 8-K dated July 1, 2000, Commission File No. 33-13674-LA, and incorporated herein by reference).
 - 10.2 Financial Advisory Agreement dated 12 May 1999 between Circuit Technology, Inc. and Cogent Capital Corp. (previously filed as Exhibit No. 2 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
 - 10.3 Form of Product Representative Agreement between CirTran Corporation and a Representative (previously filed as Exhibit No. 3 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
 - 10.4 Security and Loan Agreement dated April 6, 1998 between Imperial Bank and Circuit Technology, Inc. (previously filed as Exhibit No. 4 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
 - 10.5 Line of Credit Purchase Agreement dated May 1, 2000 between Imperial Bank and Abacas Ventures, Inc. (previously filed as Exhibit No. 5 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
 - 10.6 Assignment of Loan dated May 1, 2000 from Imperial Bank to Abacas Ventures, Inc. (previously filed as Exhibit No. 6 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
 - 10.7 Unsecured Promissory Note for \$73,000.00 dated November 3, 2000 from CirTran Corporation to Future Electronics Corporation (previously filed as Exhibit No. 7 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

33-13674-LA, and incorporated herein by reference).

- 10.8 Unsecured Promissory Note for \$166,000.00 dated November 3, 2000 from CirTran Corporation to Future Electronics Corporation (previously filed as Exhibit No. 8 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.9 Lock-Up Agreement dated November 3, 2000 between Iehab Hawatmeh and Future Electronics Corporation (previously filed as Exhibit No. 9 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.10 Lock-Up Agreement dated November 3, 2000 between Raed Hawatmeh and Future Electronics Corporation (previously filed as Exhibit No. 10 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.11 Lock-Up Agreement dated November 3, 2000 between Roger Kokozyon and Future Electronics Corporation (previously filed as Exhibit No. 11 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.12 Registration Rights Agreement dated November 3, 2000 between CirTran Corporation and Future Electronics Corporation (previously filed as Exhibit No. 12 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.13 Promissory Note and Confession of Judgment dated September 26, 2000 by Circuit Technology Corp. in favor of Arrow Electronics, Inc. (previously filed as Exhibit No. 13 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).

29

- 10.14 Promissory Note and Confession of Judgment dated November 16, 2000 by Circuit Technology Corp. in favor of Sager Electronics (previously filed as Exhibit No. 14 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.15 Confession of Judgment dated November 3, 2000 by CirTran Corporation and Iehab Hawatmeh in favor of Future Electronics Corporation (previously filed as Exhibit No. 15 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.16 Settlement Agreement and Release of Claims dated November 3, 2000 between CirTran Corporation, Iehab Hawatmeh and Future Electronics Corporation (previously filed as Exhibit No. 16 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

- 10.17 Sublease dated 30 November 1998 between Colorado Electronics Corporation, LLC and Circuit Technology Corporation (previously filed as Exhibit No. 10.17 to our Registration Statement on Form SB-2, Amendment No. 1, dated October 29, 2001, and incorporated herein by reference).
- 10.18 Attornment Agreement dated 30 November 1998 among Sun Borne XII, LLC et al, Colorado Electronics Corporation LLC and Circuit Technology Corporation (previously filed as Exhibit No. 10.17 to our Registration Statement on Form SB-2, Amendment No. 1, dated October 29, 2001, and incorporated herein by reference).
- 10.19 Form of Subscription Agreement entered into between CirTran Corporation and various subscribers pursuant to a debt settlement and private placement completed in January 2002 (previously filed as Exhibit 10.2 to our Current Report on Form 8-K dated March 19, 2002, and incorporated herein by this reference).
- 10.20 Settlement Agreement entered into on January 18, 2002 among Sunborne XII, LLC, CirTran Corporation et al. (previously filed as Exhibit 10.1 to our Current Report on Form 8-K dated March 19, 2002, and incorporated herein by this reference).

21. Subsidiaries of the Registrant

99.1 Certification pursuant to 18 U.S.C. Section 1350

We did not file any reports on Form 8-K during the last quarter of 2002.

ITEM 14.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. The Company's chief executive officer and chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934, Rules 13a-14(c) and 15-d-14(c)) as of a date (the "Evaluation Date") within 90 days before the filing date of this quarterly report, has concluded that, as of the Evaluation Date, the Company's

30

disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and its subsidiaries would be made known to them by others within those entities.

(b) Changes in Internal Controls. There were no significant changes in the Company's internal controls, or, to the Company's knowledge, in other factors that could significantly affect these controls subsequent to the Evaluation Date.

31

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIRTRAN CORPORATION

Date: April 15, 2003

By: /s/ Iehab J. Hawatmeh, President

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 15, 2003

/s/ Iehab J. Hawatmeh
Iehab J. Hawatmeh
President, Chief Financial
Officer and Director

Date: April 15, 2003

/s/ Raed Hawatmeh
Raed Hawatmeh, Director

Date: April 15, 2003

/s/ Trevor Saliba
Trevor Saliba, Director

CERTIFICATION

I, Iehab J. Hawatmeh, certify that:

1. I have reviewed this annual report on Form 10-KSB of CirTran Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 15, 2003

/s/ Iehab J. Hawatmeh
Iehab J. Hawatmeh, President,
Chief Financial Officer and Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements of CirTran Corporation and related notes thereto and auditors' report thereon are filed as part of this Form 10-KSB:

Report of Independent Certified Public Accountants
Consolidated Balance Sheets as of December 31, 2002 and 2001
Consolidated Statements of Operations for the Years Ended December 31, 2002 and 2001
Consolidated Statement of Stockholders' Deficit for the Years Ended December 31, 2001 and 2002

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Consolidated Statements of Cash Flows for the Years Ended December 31, 2002 and 2001

Notes to Consolidated Financial Statements

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

(801) 532-22
Fax (801) 532-7944
5 Triad Center, Suite 750
Salt Lake City, Utah 84180
www.hbmcpas.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the of Directors and the Stockholders
CirTran Corporation

We have audited the accompanying consolidated balance sheets of CirTran Corporation and Subsidiary as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CirTran Corporation and Subsidiary as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has an accumulated deficit, has suffered losses from operations and has negative working capital that raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

HANSEN, BARNETT & MAXWELL

/s/ Hansen, Barnett & Maxwell

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Salt Lake City, Utah
March 13, 2003

CIRTRAN CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

| | December 31, | |
|---|--------------|----------|
| | 2002 | 2001 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 500 | \$ |
| Trade accounts receivable, net of allowance for doubtful accounts of \$37,037 and \$66,316 in 2002 and 2001, respectively | 37,464 | 369 |
| Inventory | 1,550,553 | 1,773 |
| Other | 100,189 | 97 |
| Total Current Assets | 1,688,706 | 2,240 |
| Property and Equipment, Net | 865,898 | 1,333 |
| Other Assets, Net | 12,236 | 10 |
| Deferred Offering Costs | 13,475 | |
| Total Assets | \$ 2,580,315 | \$ 3,585 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Checks written in excess of cash in bank | \$ 19,531 | \$ 159 |
| Accounts payable | 1,359,723 | 2,141 |
| Accrued liabilities | 3,030,970 | 3,071 |
| Current maturities of long-term notes payable | 1,059,987 | 863 |
| Notes payable to stockholders | 20,376 | 1,390 |
| Notes payable to related parties | 688,742 | 2,405 |
| Current maturities of capital lease obligations | - | 41 |
| Total Current Liabilities | 6,179,329 | 10,072 |
| Long-Term Liabilities | | |
| Long-term notes payable, less current maturities | 295,083 | 447 |
| Capital lease obligations, less current maturities | - | 7 |
| Total Long-Term Liabilities | 295,083 | 454 |

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Commitments

Stockholders' Deficit

Common stock, par value \$0.001; authorized 750,000,000 shares; issued and outstanding shares: 247,184,691 at December 31, 2002 net of 3,000,000 shares held in treasury at no cost and 160,951,005 at December 31, 2001

Additional paid-in capital

Accumulated deficit

Total Stockholders' Deficit

Total Liabilities and Stockholders' Deficit

| | |
|--------------|----------|
| 247,185 | 160 |
| 11,089,020 | 5,977 |
| (15,230,302) | (13,080) |
| ----- | ----- |
| (3,894,097) | (6,942) |
| ----- | ----- |
| \$ 2,580,315 | \$ 3,585 |
| ===== | ===== |

The accompanying notes are an integral part of these financial statements.

F-3

CIRTRAN CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended December 31 | |
|--|------------------------------------|-------|
| | 2002 | |
| | ----- | ----- |
| Net Sales | \$ 2,299,668 | \$ |
| Cost of Sales | 1,966,851 | |
| | ----- | ----- |
| Gross Profit (Loss) | 332,817 | |
| | ----- | ----- |
| Operating Expenses | | |
| Selling, general and administrative expenses | 2,180,226 | |
| Non-cash compensation expense | 25,000 | |
| | ----- | ----- |
| Total Operating Expenses | 2,205,226 | |
| | ----- | ----- |
| Loss From Operations | (1,872,409) | |
| | ----- | ----- |
| Other Income (Expense) | | |
| Interest | (437,074) | |
| Gain on settlement of sublease | 152,500 | |
| Other, net | 7,173 | |

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

| | | | |
|--|----|-------------|----|
| Total Other Expense, Net | | (277,401) | |
| Net Loss | \$ | (2,149,810) | \$ |
| Basic and diluted loss per common share | \$ | (0.01) | \$ |
| Basic and diluted weighted-average common shares outstanding | | 208,236,039 | |

The accompanying notes are an integral part of these financial statements.

F-4

CIRTRAN CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit |
|---|---------------------|------------|----------------------------------|------------------------|
| | Number of Shares | Amount | | |
| Balance - December 31, 2000 | 156,301,005 | \$ 156,301 | \$ 5,664,154 | \$ (10,147,408) |
| Warrants issued as a sales commission | - | - | 200,000 | - |
| Exercise of warrants | 3,000,000 | 3,000 | (990) | - |
| Exercise of employee stock options | 1,650,000 | 1,650 | 114,000 | - |
| Net loss | - | - | - | (2,933,084) |
| Balance - December 31, 2001 | 160,951,005 | 160,951 | 5,977,164 | (13,080,492) |
| Shares issued for cash | 6,666,667 | 6,667 | 493,333 | - |
| Shares issued for conversion of notes payable | 36,654,519 | 36,654 | 2,712,436 | - |
| Exercise of employee stock options | 10,350,000 | 10,350 | 438,650 | - |

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

| | |
|---|---------|
| Net cash used in investing activities | (2,8 |
| <hr/> | |
| Cash flows from financing activities | |
| Increase (decrease) in checks written in excess of cash in bank | (140,4 |
| Proceeds from notes payable to stockholders | 618,3 |
| Payments on notes payable to stockholders | (738,0 |
| Principal payments on notes payable | (363,8 |
| Proceeds from notes payable | 845,0 |
| Payments on capital lease obligations | |
| Proceeds from exercise of options and warrants to purchase common stock | 424,0 |
| Proceeds from issuance of common stock | 500,0 |
| <hr/> | |
| Net cash provided by financing activities | 1,144,9 |
| <hr/> | |
| Net increase (decrease) in cash and cash equivalents | |
| Cash and cash equivalents at beginning of year | 5 |
| <hr/> | |
| Cash and cash equivalents at end of year | \$ 500 |
| <hr/> | |

The accompanying notes are an integral part of these financial statements.

F-6

| | |
|---|--------------|
| | For the Y |
| | De |
| <hr/> | |
| | 2002 |
| <hr/> | |
| Supplemental disclosure of cash flow information | |
| Cash paid during the year for interest | \$ 152,093 |
| Noncash investing and financing activities | |
| Notes issued for accounts payable and capital lease obligations | \$ 316,762 |
| Accrued interest converted to note payable | \$ 52,955 |
| Common stock issued for deferred offering costs | \$ 205,000 |
| Common stock issued for notes payable to stockholders | \$ 1,250,000 |
| Common stock issued for notes payable to related parties | \$ 2,519,244 |
| Common stock issued for accrued interest payable to related parties | \$ 479,846 |
| Accrued and deferred offering costs | \$ 13,475 |

The accompanying notes are an integral

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

part of these financial statements.

F-7

CIRTRAN CORPORATION AND SUBSIDIARY NOTES CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations - CirTran Corporation (the "Company") provides turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole, and custom injection molded cabling for leading electronics original equipment manufacturers ("OEMs") in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. The Company also designs, develops, manufactures, and markets a full line of local area network products, with emphasis on token ring and Ethernet connectivity.

Principles of Consolidation--The consolidated financial statements include the accounts of CirTran Corporation and its wholly owned subsidiary, Racore Technology Corporation. All significant intercompany transactions have been eliminated in consolidation.

Revenue Recognition--Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment. Returns for defective items are repaired and sent back to the customer. Historically, expenses experienced with such returns have not been significant and have been recognized as incurred.

Cash and Cash Equivalents--The Company considers all highly-liquid, short-term investments with an original maturity of three months or less to be cash equivalents.

Inventories -- Inventories are stated at the lower of average cost or market value. Costs include labor, material and overhead costs. Overhead costs are based on indirect costs allocated among cost of sales, work-in-process inventory and finished goods inventory. Indirect overhead costs have been charged to cost of sales or capitalized as inventory based on management's estimate of the benefit of indirect manufacturing costs to the manufacturing process. When there is evidence that the inventory's value is less than original cost, the inventory is reduced to market value. The Company determines market value on current resale amounts and whether technological obsolescence exists. The Company has agreements with most of its customers that require the customer to purchase inventory items related to their contracts in the event that the contracts are cancelled. The market value of related inventory is based upon those agreements.

Property and Equipment --Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated service lives. Leasehold improvements are amortized over the shorter of the life of the lease or the service life of the improvements. The straight-line method of depreciation and amortization is followed for financial reporting purposes. Maintenance, repairs, and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

incurred. Gains or losses on dispositions of property and equipment are included in operating results.

Impairment of Long-Lived Assets --The Company reviews its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred that indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets

F-8

over their remaining life in measuring whether the assets are recoverable. As of December 31, 2002, the Company does not consider any of its long-lived assets to be impaired.

Checks Written in Excess of Cash in Bank--Under the Company's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes. These overdrafts are included as a current liability in the balance sheets.

Stock-Based Compensation -- At December 31, 2002, the Company has one stock-based employee compensation plan, which is described more fully in Note 12. The Company accounts for the plan under APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. During the years ended December 31, 2002 and 2001, the Company recognized compensation expense relating to stock options and warrants of \$25,000 and \$0, respectively. The following table illustrates the effect on net loss and basic and diluted loss per common share as if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

| | Years Ended Decem | |
|---|-------------------|-------|
| | 2002 | |
| | ----- | ----- |
| Net loss, as reported | \$ (2,149,810) | \$ |
| Add: Stock-based employee compensation expense included in net loss | 25,000 | |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards | (193,387) | |
| | ----- | ----- |
| Pro forma net loss | \$ (2,318,197) | \$ |
| | ===== | ===== |
| Basic and diluted loss per common share as reported | \$ (0.01) | \$ |
| | ===== | ===== |
| Basic and diluted loss per common share pro forma | (0.01) | \$ |
| | ===== | ===== |

Income Taxes --The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and the carryforward of operating losses and tax credits and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. An allowance against deferred tax assets is recorded when it is more likely than not that such tax benefits will

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

not be realized. Research tax credits are recognized as utilized.

Use of Estimates --In preparing the Company's financial statements in accordance with accounting principles 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 the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

F-9

Concentrations of Risk --Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade accounts receivable. The Company sells substantially to recurring customers, wherein the customer's ability to pay has previously been evaluated. The Company generally does not require collateral. Allowances are maintained for potential credit losses, and such losses have been within management's expectations. At December 31, 2002 and 2001, this allowance was \$37,037 and \$66,316, respectively.

During the year ended December 2002, sales to three customers accounted for 11 percent, 12 percent, and 13 percent, each, of net sales. No individual customer account receivable balance at December 31, 2002 created a concentration of credit risk.

At December 31, 2001, accounts receivable from a former customer and a current customer represented approximately 63 percent and 12 percent, respectively, of total trade accounts receivable. Sales to these same customers accounted for 0 percent and 3 percent of 2001 net sales, respectively. During 2002, the former customer and the Company agreed to a settlement which provided for the payment of all amounts owed to the Company by the former customer.

Fair Value of Financial Instruments --The carrying value of the Company's cash and cash equivalents and trade accounts receivable, approximates their fair values due to their short-term nature. The carrying value of the Company's notes payable also approximates fair value because notes are recorded at fair value plus any default provisions.

Loss Per Share --Basic loss per share is calculated by dividing loss available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted loss per share is similarly calculated, except that the weighted-average number of common shares outstanding would include common shares that may be issued subject to existing rights with dilutive potential when applicable. The Company had no potentially issuable common shares at December 31, 2002 and 2001; therefore, basic and diluted loss per share are the same.

Reclassifications --Certain previously reported 2001 amounts have been reclassified to conform with the 2002 presentation. These reclassifications had no effect on previously reported net loss.

New Accounting Standards - Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations," requires usage of the purchase method for all business combinations initiated after June 30, 2001, and prohibits the usage of the pooling-of-interests method of accounting for business combinations. The provisions of SFAS No. 141 relating to the application of the purchase method are generally effective for business combinations completed after July 1, 2001. Such provisions include guidance on the identification of the acquiring entity, the recognition of intangible assets other than goodwill acquired in a business

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

combination and the accounting for negative goodwill. The application of this standard did not have an impact on the Company's financial position and results of operations.

SFAS No. 142, "Goodwill and Other Intangible Assets," changes the current accounting model that requires amortization of goodwill, supplemented by impairment tests, to an accounting model that is based solely upon impairment tests. SFAS No. 142 also provides guidance on accounting for identifiable intangible assets that may or may not require amortization. The provisions of SFAS No. 142 related to accounting for goodwill and intangible assets are generally effective for the Company at the beginning of 2002, except that certain provisions related to goodwill and other intangible assets are effective for business combinations completed after July 1, 2001. The application of this standard did not have an impact on the Company's financial position and results of operations.

In June 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of intangible long-lived assets and associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it has occurred. The asset retirement obligations will be capitalized as a part of the carrying amount of the long-lived asset. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal operation of long-lived assets. SFAS No. 143 is effective for years beginning after June 15,

F-10

2002, with earlier adoption permitted. The adoption of this standard is not expected to have a material effect on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and the recognition of impairment of long-lived assets to be held and used. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with an earlier adoption encouraged. The adoption of this standard did not have a material effect on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other provisions, the statement modifies the criteria classification of gains and losses on debt extinguishments such that they are not required to be classified as extraordinary items if they do not meet the criteria for classification as extraordinary items in APB Opinion No. 30. The Company elected to adopt this standard during the year ended December 31, 2002. The adoption of this standard did not have a material effect on the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal activities." The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee plan severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The Company will be required to apply this statement prospectively for any exit or disposal activities initiated after December 31, 2002. The adoption of this standard is

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

not expected to have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This statement amends Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based employee compensation. It also amends the disclosure provisions of Statement No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Statement No. 148 also requires disclosure about those effects in interim financial information. The adoption of this standard has had no material effect on the Company's financial position or results of operations.

NOTE 2 - REALIZATION OF ASSETS

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company sustained losses of \$2,149,810 and \$2,933,084 for the years ended December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, the Company had an accumulated deficit of \$15,230,302 and \$13,080,492, respectively, and a total stockholders' deficit of \$3,894,097 and \$6,942,377, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of \$1,142,148 and \$288,723 for the years ended December 31, 2002 and 2001, respectively.

F-11

Since February of 2000, the Company has operated without a line of credit. Many of the Company's vendors stopped credit sales of components used by the Company to manufacture products, and as a result, the Company converted certain of its turnkey customers to customers that provide consigned components to the Company for production. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

In addition, the Company is a defendant in numerous legal actions (see Note 8). These matters may have a material impact on the Company's financial position, although no assurance can be given regarding the effect of these matters in the future.

In view of the matters described in the preceding paragraphs, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheets is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain or replace present financing, to acquire additional capital from investors, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Abacas Ventures, Inc. ("Abacas") purchased the Company's line of credit from the lender. During 2002, the Company has entered into agreements whereby the Company has issued common stock to certain principals of Abacas in exchange for a portion of the debt. The Company's plans include working with vendors to convert trade payables into long-term notes payable and common stock and cure defaults with lenders through forbearance agreements that the Company will be able to

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

service. During 2002 and 2001, the Company successfully converted trade payables of approximately \$316,762 and \$32,500, respectively, into notes. The Company intends to continue to pursue this type of debt conversion going forward with other creditors. As discussed in Note 10, the Company has entered into an equity line of credit agreement with a private investor. Realization of any proceeds under the equity line of credit is not assured.

The Company is currently renegotiating certain terms of the line of credit agreement that are not deemed to have a material impact on the line of credit agreement.

NOTE 3 - INVENTORIES

Inventories consist of the following:

| | 2002 | 2001 | |
|-----------------|--------------|--------------|--|
| | ----- | ----- | |
| Raw materials | \$ 1,363,276 | \$ 1,223,160 | |
| Work-in process | 170,724 | 142,048 | |
| Finished goods | 16,553 | 408,680 | |
| | ----- | ----- | |
| | \$ 1,550,553 | \$ 1,773,888 | |
| | ===== | ===== | |

F-12

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment and estimated service lives consist of the following:

| | 2002 | |
|---|--------------|-------|
| | ----- | ----- |
| Production equipment | \$ 3,141,993 | \$ |
| Leasehold improvements | 958,940 | |
| Office equipment | 631,645 | |
| Other | 118,029 | |
| | ----- | ----- |
| | 4,850,607 | |
| Less accumulated depreciation and amortization | 3,984,709 | |
| | ----- | ----- |
| | \$ 865,898 | \$ |
| | ===== | ===== |

NOTE 5 - NOTES PAYABLE

Notes Payable consist of the following:

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Note payable to a company, interest at 8.00%, matured August 2002, collateralized by 3,000,000 shares of the Company's common stock currently held in escrow, in default.

\$

Note payable to a financial institution, due in monthly installments of \$9,462, interest at 8.61%, matures April 2004, collateralized by equipment.

Note payable to a company, due in monthly installments of \$6,256, interest at 8.00%, matures July 2003, collateralized by equipment, in default

Note payable to a financial institution, due in monthly installments of \$9,000, interest at 13.50%, matures December 2004, collateralized by equipment.

Note payable to an individual, due in monthly installments of \$12,748, matures February 2006, interest at 10.00% unsecured, in default.

Note payable to a company, due in monthly installments of \$1,972, matures November 2005, interest at 8.00%, unsecured, in default.

F-13

Note payable to an individual, due in monthly installments of \$5,000, interest at a rate of 9.50%, matured May 2000, collateralized by all assets of the Company, in default.

Note payable to a finance corporation, due in monthly installments of \$4,127, interest at prime plus 3.00% (7.25% at December 31, 2002), matures December 2004, collateralized by equipment.

Note payable to a company, due in 18 monthly installments of \$1,460 followed by six monthly installments of \$2,920, interest at 6.00%, matures April 2003, unsecured.

Note payable to a finance corporation, due in monthly installments of \$2,736, interest at 9.00%, matures December 2004, collateralized by equipment and trade accounts receivable.

Note payable to a finance corporation, due in monthly installments of \$562, interest at 9.00%, matures December 2004, collateralized by equipment and trade accounts receivable.

Note payable to a finance corporation, due in monthly installments of \$637, interest at 9.00%, matures December 2004, collateralized by equipment and trade accounts receivable.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Note payable to a company, due in monthly installments of \$2,827, interest at 8.00%, unsecured, paid in full during 2002.

Note payable to a bank, payable on demand, interest at 10.00%, unsecured

Note payable to a finance corporation, due in increasing monthly installments of \$50 to \$5,443, interest at 12.00%, matures December 2004, collateralized by equipment and trade accounts receivable

Total Notes Payable
Less current maturities

Long-Term Notes Payable

F-14

The Company's notes payable at December 31, 2002, mature as follows:

| | | | | | |
|--------------------------|-------|----|-----------|--|-------|
| Year Ending December 31, | | | | | |
| | 2003 | \$ | 1,059,987 | | |
| | 2004 | | 295,083 | | |
| | | | ----- | | |
| | Total | \$ | 1,355,070 | | ===== |

Certain of the Company's notes payable contain various covenants and restrictions, including providing for the acceleration of principal payments in the event of a covenant violation or a material adverse change in the operations of the Company. The Company is out of compliance on several notes payable, primarily due to a failure to make monthly payments. In instances where the Company is out of compliance, these amounts have been shown as current. Additionally, all default provisions have been accrued as part of the principal balance of the related notes payable.

NOTE 6 - LEASES

The Company conducts a substantial portion of its operations utilizing leased facilities consisting of a warehouse and a manufacturing plant from a related party. The Company has an option to renew the lease for two additional ten-year periods upon expiration of the term in 2006.

The following is a schedule of future minimum lease payments under the operating lease:

| | | | | | |
|--------------------------|------|----|---------|--|--|
| Year Ending December 31, | | | | | |
| | 2003 | \$ | 191,688 | | |
| | 2004 | | 191,688 | | |
| | 2005 | | 191,688 | | |
| | 2006 | | 175,714 | | |
| | | | ----- | | |

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

| | | |
|-------|-------|---------|
| Total | \$ | 750,778 |
| | ===== | |

The building lease provides for payment of property taxes, insurance, and maintenance costs by the Company. Rental expense for operating leases totaled \$200,992 and \$189,157 for 2002 and 2001, respectively.

NOTE 7 - RELATED PARTY TRANSACTIONS

Stockholder Notes Payable --The Company had amounts due to stockholders from two separate notes. The balance due to stockholders at December 31, 2002 and 2001, was \$20,376 and \$1,390,125, respectively. Interest associated with amounts due to stockholders is accrued at 10 percent. Unpaid accrued interest was \$2,378 and \$205,402 at December 31, 2002 and 2001, respectively, and is included in accrued liabilities. These notes are due on demand.

Related Party Notes Payable -- The Company had amounts due to Abacas Ventures, Inc., a related party, under the terms of a note payable and a bridge loan. The balance due to Abacas related to the note payable at December 31, 2002 and 2001, was \$0 and \$2,405,507, respectively. The note accrued interest at 10%. The amounts owed were due on demand with no required monthly payments. This note was collateralized by assets of the Company. As discussed in Note 10, a significant amount of the Abacas note was converted to shares of the Company's common stock during 2002.

F-15

During the year ended December 31, 2002, Abacas completed negotiations with several vendors of the Company, whereby Abacas purchased various past due amounts for goods and services provided by vendors, as well as capital leases. The total of these obligations was \$316,762. In addition, Abacas agreed to deduct as an offset of the amount owed to Abacas of \$120,000, constituting the amounts paid by the Company as legal fees incurred by the Company as part of its negotiations with the Company's vendors. The Company has recorded this transaction as a \$316,762 non-cash increase and a \$120,000 non-cash payment to the note payable owed to Abacas, pursuant to the terms of the Abacas agreement.

Also during 2002, the Company entered into a bridge loan agreement with Abacas. This agreement allows the Company to request funds from Abacas to finance the build-up of inventory relating to specific sales. The loan bears interest at 24% and is payable on demand. There are no required monthly payments. During the year ended December 31, 2002, the Company was advanced \$845,000 and made cash payments of \$156,258 for an outstanding balance on the bridge loan of \$688,742.

The total principal amount owed to Abacas between the note payable and the bridge loan was \$688,742 and \$2,405,507 as of December 31, 2002 and 2001, respectively. The total accrued interest owed to Abacas between the note payable and the bridge loan was \$71,686 and \$380,927 as of December 31, 2002 and 2001, respectively, and is included in accrued liabilities.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Settlement of Litigation -- During January 2002, the Company settled a lawsuit that had alleged a breach of facilities sublease agreement involving facilities located in Colorado. The Company's liability in this action was originally estimated to range up to \$2.5 million. The Company had filed a counter suit in the same court for an amount exceeding \$500,000 for missing equipment.

Effective January 18, 2002, the Company entered into a settlement agreement

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

which required the Company to pay the plaintiff the sum of \$250,000. Of this amount, \$25,000 was paid upon execution of the settlement, and the balance, together with interest at 8% per annum, was payable by July 18, 2002. As security for payment of the balance, the Company executed and delivered to the plaintiff a Confession of Judgment and also issued 3,000,000 shares of common stock, which are currently held in escrow and have been treated as treasury stock recorded at no cost. The fair value of the 3,000,000 shares was less than the carrying amount of the note payable. Because 75 percent of the balance had not been paid by May 18, 2002, the Company was required to prepare and file with the Securities & Exchange Commission, at its own expense, a registration statement with respect to the escrowed shares. The remaining balance has not been paid, and the registration statement with respect to the escrowed shares has not been declared effective and the Company has not replaced the escrowed shares with registered free-trading shares pursuant to the terms of the settlement agreement; therefore, the plaintiff filed the Confession of Judgment and proceeded with execution thereon. The Company is currently negotiating with the plaintiff to settle this obligation without the release of the shares held in escrow.

In connection with a separate sublease agreement of these facilities, the Company received a settlement from the sublessee during May 2002, in the amount of \$152,500, which has been recorded as other income. The Company did not receive cash from this settlement, but certain obligations of the Company were paid directly. \$109,125 of the principal balance of the note related to the settlement mentioned above was paid. Also, \$7,000 was paid to the Company's legal counsel as a retainer for future services. The remaining \$36,375 was paid to the above mentioned plaintiff as a settlement of rent expense.

F-16

During September 2002, the plaintiff filed a claim that the \$109,125 portion of the payment was to be applied as additional rent expense rather than a principal payment on the note payable. The Company estimates that the probability of the \$109,125 being considered additional rent expense is remote and disputes the claim. The Company intends to vigorously defend the action.

Litigation - During 2000, the Company settled a lawsuit filed by a vendor by issuing 5,281,050 shares of the Company's common stock valued at \$324,284, paying \$83,000 in cash and issuing two notes payable totaling \$239,000. During 2002, the vendor filed a confession of judgement claiming that the Company defaulted on its agreement and claims the 2000 lawsuit was not properly satisfied. At December 31, 2002, the Company owed \$60,133 of principal under the terms of the remaining note payable. The Company denies the vendor's claims and intends to vigorously defend itself against the confession of judgement.

In December 1999, a vendor of the Company filed a lawsuit that alleges breach of contract and seeks payment in the amount of approximately \$213,000 of punitive damages from the Company related to the Company's non-payment for materials provided by the vendor. Judgment was entered against the Company in May 2002 in the amount of \$213,718. The Company has accrued the entire amount due under the judgment.

The Company has been a party to a lawsuit with a customer stemming from an alleged breach of contract. In July 2002, the Company reached a settlement with the customer in which the customer was to make payments from August 1, 2002, through October 29, 2002, to the Company totaling \$265,000. As part of the settlement, the Company returned inventory valued at \$158,010, settled receivables from the customer of \$287,277, settled payables owed to the customer in the amount of \$180,287 and sold inventory to a Company related to the

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

customer for \$13,949. During 2002, the Company received the entire \$265,000.

During October 1999, a former vendor of the Company brought action against the Company alleging that the Company owed approximately \$199,600 for materials and services and pursuant to the terms of a promissory note. The Company entered a settlement agreement under which the Company is to pay \$6,256 each month until the obligation and interest thereon are paid. This did not represent the forgiveness of any obligation, but rather the restructuring of the terms of the previous agreement. At December 31, 2002, the Company owed \$183,429 for this settlement. The Company has defaulted on its payment obligations under the settlement agreement. The Company is currently negotiating a new settlement agreement.

Judgment was entered in favor of a vendor during March 2002, in the amount of \$181,342 for nonpayment of costs of goods or services provided to the Company. At December 31, 2002, the Company had accrued the entire amount of the claim. The Company is currently in settlement negotiations with the vendor.

In December 1999, a vendor of the Company filed a lawsuit that seeks payment in the amount of \$44,269 for the cost of goods provided to the Company. The Company admits owing certain amounts to the vendor and has accrued the entire amount claimed. No trial date has been set and the Company is currently negotiating a settlement of these claims.

During 2002, a vendor of the Company filed a lawsuit that seeks payment in the amount of \$31,745 for the cost of goods provided to the Company. The Company has not yet determined the validity of the claim, but has accrued the entire amount claimed. No trial date has been set and the Company is currently negotiating a settlement of these claims.

F-17

An individual filed suit during January 2001, seeking to recover the principal sum of \$135,941, plus interest on a promissory note. The parties are presently negotiating settlement.

During March 2000, a vendor brought suit against the Company under allegations that the Company owed approximately \$97,000 for the cost of goods or services provided to the Company for the Company's use and benefit. The Company issued a note payable to the vendor in settlement of the amount owed and is required to pay the vendor \$1,972 each month until paid. At December 31, 2002, the Company owed \$87,632 on this settlement agreement. The Company is currently in default on this obligation and is currently negotiating a new settlement agreement.

A financial institution brought suit against the Company during February 2000, alleging that the Company owed approximately \$439,000 for a loan provided to the Company for the Company's use and benefit. Judgment was entered against the Company and certain guarantors in the amount of \$427,292 plus interest at the rate of 8.61% per annum from June 27, 2000. The Company has subsequently made payments to the financial institution, reducing the obligation to \$258,644 at December 31, 2002, plus interest accruing from January 1, 2002. The Company is in default on this obligation and is negotiating for settlement of the remaining claims.

Suit was brought against the Company during April 2001, by a former shareholder alleging that the Company owed \$121,825 under the terms of a promissory note. A Stipulation for Settlement and for Entry of Judgment was executed by the parties wherein the Company agreed to arrange for payment of a principal amount of \$145,000 in 48 monthly installments. The Company made seven payments and then

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

failed to make subsequent payments, at which time the shareholder obtained a consent judgment against the Company. The Company is currently in settlement negotiations with the former shareholder regarding the judgment.

Various vendors have notified the Company that they believe they have claims against the Company totaling \$370,152. None of these vendors have filed lawsuits in relation to these claims. The Company has accrued the entire amount of these claims and it is included in accounts payable.

The Company is the defendant in numerous legal actions, primarily resulting from nonpayment of vendor invoices for goods and services received, that it has determined the probability of realizing any loss is remote. The total amount of these legal actions is \$179,757. The Company has made no accrual for the legal actions and is currently in the process of negotiating the dismissal of these claims with the various vendors.

The Company is also the defendant in numerous immaterial legal actions primarily resulting from nonpayment of vendors for goods and services received. The Company has accrued the payables and is currently in the process of negotiating settlements with these vendors.

Registration Rights - In connection with the conversion of certain debt to equity during 2000, the Company has granted the holders of 5,281,050 shares of common stock the right to include 50% of the common stock of the holders in any registration of common stock of the Company, under the Securities Act for offer to sell to the public (subject to certain exceptions). The Company has also agreed to keep any filed registration statement effective for a period of 180 days at its own expense.

Additionally, in connection with the Company's entering into an Equity Line of Credit Agreement (described in Note 11), the Company granted to the equity line investor (the "Equity Line Investor") registration rights, in connection with

F-18

which the Company is required to file a registration statement covering the resale of shares put to the Equity Line Investor under the equity line. The Company is also required to keep the registration statement effective until two years following the date of the last advance under the equity line. The Company has not yet filed such registration statement.

Accrued Payroll Tax Liabilities -- As of December 31, 2002, the Company had accrued liabilities in the amount of \$2,029,626 for delinquent payroll taxes, including interest estimated at \$304,917 and penalties estimated at \$229,285. Of this amount, approximately \$301,741 was due the State of Utah. During the first quarter of 2002, the Company negotiated a monthly payment schedule of \$4,000 to the State of Utah, which did not provide for the forgiveness of any taxes, penalties or interest. These monthly payments were not made during the third quarter. Approximately \$1,716,946 was owed to the Internal Revenue Service as of December 31, 2002. During the first quarter of 2002, the Company negotiated a payment schedule with respect to this amount, pursuant to which monthly payments of \$25,000 were required. In addition, the Company committed to keeping current on deposits of federal withholding amounts. The required monthly payments were made during each of the three months during the second quarter. None of the monthly payments were made during the third quarter. The Company is currently renegotiating the terms of the payment schedule with the Internal Revenue Service. In addition, the Company failed to pay several of its current withholding obligations. Approximately \$10,939 was owed to the State of Colorado as of December 31, 2002.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

As of December 31, 2001, the Company had accrued liabilities in the amount of \$1,982,445 for delinquent payroll taxes, including interest estimated at \$215,268 and penalties estimated at \$242,989. Of this amount, approximately \$257,510 was due the State of Utah. Approximately \$1,713,996 was owed to the Internal Revenue Service as of December 31, 2001. Approximately \$10,939 was owed to the State of Colorado as of December 31, 2001.

NOTE 9 - INCOME TAXES

The Company has paid no federal or state income taxes. The significant components of the Company's deferred tax assets and liabilities at December 31, 2002 and 2001, are as follows:

Deferred Income Tax Assets:

Inventory reserve
Bad debt reserve
Vacation reserve
Research and development credits
Net operating loss carryforward
Intellectual property

\$

Total Deferred Income Tax Assets
Valuation allowance

Deferred Income Tax Liability - depreciation

Net Deferred Income Tax Asset

\$
=====

The Company has sufficient long-term deferred income tax assets to offset the deferred income tax liability related to depreciation. The long-term deferred income tax assets relate to the net operating loss carryforward and the intellectual property.

F-19

The Company has sustained net operating losses in both periods presented. There were no deferred tax assets or income tax benefits recorded in the financial statements for net deductible temporary differences or net operating loss carryforwards because the likelihood of realization of the related tax benefits cannot be established. Accordingly, a valuation allowance has been recorded to reduce the net deferred tax asset to zero and consequently, there is no income tax provision or benefit presented for the years ended December 31, 2002 and 2001.

As of December 31, 2002, the Company had net operating loss carryforwards for tax reporting purposes of approximately \$9,232,376. These net operating loss carryforwards, if unused, begin to expire in 2019. Utilization of approximately \$1,193,685 of the total net operating loss is dependent on the future profitable operation of Racore Technology Corporation under the separate return limitation rules and limitations on the carryforward of net operating losses after a change

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

in ownership.

The following is a reconciliation of the amount of tax benefit that would result from applying the federal statutory rate to pretax loss with the benefit from income taxes for the years ended December 31, 2002 and 2001:

| | |
|---|----|
| Benefit at statutory rate (34%) | \$ |
| Non-deductible expenses | |
| Change in valuation allowance | |
| State tax benefit, net of federal tax benefit | |
| Net Benefit from Income Taxes | \$ |

NOTE 10 - STOCKHOLDER'S EQUITY

Forward Stock Split - On August 6, 2001, the Company effected a 15-for-1 forward stock split of its outstanding shares of common stock. The Company also increased authorized common shares from 500,000,000 to 750,000,000 shares. The stock split has been retroactively reflected in the accompanying consolidated financial statements for all periods presented.

Common Stock Issued for Cash and Debt - Effective January 14, 2002, the Company entered into four substantially identical agreements with existing shareholders pursuant to which the Company issued an aggregate of 43,321,186 shares of restricted common stock at a price of \$0.075 per share, the fair value of the shares, for \$500,000 in cash and the reduction of principal of \$1,499,090 of notes payable and \$1,250,000 of notes payable to stockholders. No gain or loss has been recognized on these transactions as the fair value of the stock issued was equal to the consideration given by the shareholders. The Company used the \$500,000 cash as working capital.

Common Stock Issued for Conversion of Debt - Effective December 23, 2002, the Company entered into four substantially identical agreements with existing shareholders pursuant to which the Company issued an aggregate of 30,000,000 shares of restricted common stock at a price of \$0.05 per share, the fair value of the shares, for the reduction of principal of \$1,020,154 of notes payable and \$479,846 of accrued interest. No gain or loss has been recognized on these transactions as the fair value of the stock issued was equal to the consideration given by the shareholders.

Equity Line of Credit -- On November 5, 2002, the Company entered into an Equity Line of Credit Agreement (the "Equity Line Agreement") with a private investor (the "Equity Line Investor"). Under the Equity Line Agreement, the Company has the right to draw up to \$5,000,000 from the Equity Line Investor against an equity line of credit (the "Equity Line"). As part of the Equity Line Agreement,

F-20

the Company may issue shares of the Company's common stock to the Equity Line Investor in lieu of repayment of the draw. The number of shares to be issued is determined by dividing the amount of the draw by the lowest closing bid price of the Company's common stock over the five trading days after the advance notice is tendered. The maximum amount of any single draw is \$85,000.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

The Equity Line Investor is required under the Equity Line Agreement to tender the funds requested by the Company within two trading days after the five-trading-day period used to determine the market price.

In connection with the Equity Line Agreement, the Company issued 2,562,500 shares of the Company's common stock as placement shares at no cost. The Company also granted registration rights to the Equity Line Investor, in connection with which the Company is required to use its best efforts to file a registration statement and have it declared effective by the Securities and Exchange Commission. The Company is unable to draw on the Equity Line until the registration statement has been declared effective.

NOTE 11 - STOCK OPTIONS AND WARRANTS

Stock-Based Compensation - The Company accounts for stock options issued to directors, officers and employees under Accounting Principles Board Opinion No. 25 and related interpretations ("APB 25"). Under APB 25, compensation expense is recognized if an option's exercise price on the measurement date is below the fair value of the Company's common stock. For options that provide for cashless exercise or that have been modified, the measurement date is considered the date the options are exercised or expire. Those options are accounted for as variable options with compensation adjusted each period based on the difference between the market value of the common stock and the exercise price of the options at the end of the period. The Company accounts for options and warrants issued to non-employees at their fair value in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Non-Employee Grant - During 2001, the Company granted options to purchase 3,000,000 shares of common stock to a non-employee sales consultant as the settlement of a \$200,000 prepaid sales commission agreement. The options vested on the date granted and expire in September 2006. The exercise price of these options was \$.00067 per share. Because there is not an active market for the Company's common stock in this case, the fair value of the sales commission agreement is more reliably measurable, and the value of the options was determined to be \$200,000 in accordance with the provisions of SFAS No. 123. By December 31, 2001, the sales consultant had not generated any sales and management felt the probability that the sales consultant would generate any future sales was remote. Accordingly, the \$200,000 was expensed December 31, 2001. All 3,000,000 options were exercised during 2001 for cash proceeds of \$2,010. There were no non-employee options outstanding at December 31, 2001. No options were granted to non-employees during 2002.

Employee Grants - On July 26, 2001 the Company adopted the 2001 Stock Option Plan (the "2001 Plan") with 15,000,000 shares of common stock reserved for issuance there under. The Company's Board of Directors administers the plan and has discretion in determining the employees, directors, independent contractors and advisors who receive awards, the type of awards (stock, incentive stock options or non-qualified stock options) granted, and the term, vesting and exercise prices.

During the years ended December 31, 2002 and 2001, the Company granted options to purchase 10,350,000 and 1,650,000 shares of common stock, respectively, to certain employees of the Company pursuant to the 2001 Plan. These options vested on the date of grant. The related exercise price for all options was \$0.03 to \$0.05 per share for 2002 grants and \$0.07 per share for 2001 grants. The exercise price for 2,500,000 options granted during 2002 was less than the fair market value of the Company's common stock on the date granted, resulting in

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

\$25,000 non-cash compensation expense. All other grants during 2002 and 2001 had exercise prices equal to the fair value of the Company's common stock on the date of grant. The options were exercisable through December 2007. During 2002 and 2001, all employee options granted were exercised for \$424,000 and \$115,650, respectively. There were no employee options outstanding at December 31, 2002 and 2001.

Compensation Expense - During the year ended December 31, 2002 and 2001, the Company recognized \$25,000 and \$0, respectively, as non-cash compensation expense relating to stock options. SFAS 123 requires the presentation of pro forma operating results as if the Company had accounted for stock options granted to employees under the fair value method prescribed by SFAS 123. The Company estimated the fair value of the employee stock options at the grant date using the Black-Scholes option-pricing model. The following weighted-average assumptions were used in the Black-Scholes model for options issued during the years ended December 31, 2002 and 2001 to determine the fair value of the employee options of \$0.01 to \$0.02 for 2002 options and \$0.03 for 2001 options to purchase a share of common stock: risk-free interest rate of 3.78 and 3.94 percent, dividend yield of 0 percent, volatility of 399 and 411 percent, and expected lives of 0.10 and 0.01 years, respectively.

NOTE 12 -SEGMENT INFORMATION

Segment information has been prepared in accordance with SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." The Company has two reportable segments: electronics assembly and Ethernet technology. The electronics assembly segment manufactures and assembles circuit boards and electronic component cables. The Ethernet technology segment designs and manufactures Ethernet cards. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies. The Company evaluates performance of each segment based on earnings or loss from operations. Selected segment information is as follows:

| 2002 ---- | Electronics Assembly ----- | T ----- |
|-------------------------------|----------------------------------|------------|
| Sales to external customers | \$ 1,838,781 | \$ |
| Intersegment sales | 179,451 | |
| Segment loss | (1,890,097) | |
| Segment assets | 2,342,881 | |
| Depreciation and amortization | 449,914 | |
| 2001 | | |
| Sales to external customers | \$ 1,352,085 | \$ |
| Intersegment sales | 309,374 | |
| Segment loss | (2,336,084) | |
| Segment assets | 3,152,815 | |
| Depreciation and amortization | 519,217 | |

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Sales

| | |
|-------------------------------------|-------------|
| Total sales for reportable segments | \$ |
| Elimination of intersegment sales | ----- |
| Consolidated net sales | \$ ===== |

Total Assets

| | |
|--------------------------------------|-------------|
| Total assets for reportable segments | \$ |
| Adjustment for intersegment amounts | ----- |
| Consolidated total assets | \$ ===== |

NOTE 13 - REVENUES

All revenue-producing assets are located in North America. Revenues are attributed to the geographic areas based on the location of the customers purchasing the products. The Company's net sales by geographic area are as follows:

| | |
|---------------------------|-------|
| United States of America | \$ |
| Canada | |
| Europe/Africa/Middle East | ----- |

\$
=====

NOTE 14 - SUBSEQUENT EVENTS

On February 11, 2003, the Company adopted the 2002 Stock Option Plan (the "2002 Plan") with 25,000,000 shares of common stock reserved for issuance there under. The Company's Board of Directors administers the plan and has discretion in determining the employees, directors, independent contractors and advisors who receive awards, the type of awards (stock, incentive stock options or non-qualified stock options) granted, and the term, vesting and exercise prices.

During February 2003, the Company granted options to purchase 5,500,000 shares of common stock to certain employees of the Company and options to purchase 2,000,000 shares of common stock to members of the board of directors pursuant to the 2002 Plan. These options vested on the date of grant. The related exercise price was \$0.025 per share for employee options and \$0.03 per share for members of the board of directors. The market value of the common stock on the grant date was \$0.036, which resulted in non-cash compensation of \$72,500. The options are exercisable through February 2008. All options granted were exercised. The options were exercised for \$137,500 of cash, \$45,000 of accrued interest to directors and \$15,000 of accrued compensation. The Company estimated

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

the fair value of the employee and director stock options at the grant date using the Black-Scholes option-pricing model. The following weighted-average assumptions were used in the Black-Scholes model to determine the fair value of the employee and director options to purchase a share of common stock of \$0.019 and \$0.018, respectively: risk-free interest rate of 2.92 percent, dividend yield of 0 percent, volatility of 364 percent, and expected lives of 0.10 years.

F-23