

Edgar Filing: CIRTRAN CORP - Form 10QSB

CIRTRAN CORP
Form 10QSB
August 14, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2003

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 number 0-26059

CIRTRAN CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

68-0121636

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No)

4125 South 6000 West
West Valley City, Utah 84128

Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

The number of shares outstanding of the registrant's common stock as of August 13, 2003: 276,345,310.

Transitional Small Business Disclosure Format (check one): Yes NO X
-- --

Edgar Filing: CIRTRAN CORP - Form 10QSB

Table of Contents

	Page
PART I - FINANCIAL INFORMATION	
Item 1 Condensed Consolidated Financial Statements	
Balance Sheets as of June 30, 2003 (unaudited) and December 31, 2002	3
Statements of Operations for the Three and Six Months ended June 30, 2003 (unaudited) and 2002 (unaudited)	4
Statements of Cash Flows for the Six Months ended June 30, 2003 (unaudited) and 2002 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operation	17
Item 3 Controls and Procedures	21
PART II - OTHER INFORMATION	
Item 1 Legal Proceedings	22
Item 2 Changes in Securities	27
Item 6 Exhibits and Reports on Form 8-K	27
Signatures	27

CIRTRAN CORPORATION AND SUBSIDIARY CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2003	December 31, 2002
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 45,526	\$ 500
Trade accounts receivable, net of allowance for doubtful		

Edgar Filing: CIRTRAN CORP - Form 10QSB

accounts of \$37,037	89,628	37,464
Inventory	1,538,406	1,550,553
Other	102,322	100,189
Total Current Assets	1,775,882	1,688,706
Property and Equipment, Net	713,239	865,898
Other Assets, Net	6,390	12,236
Deferred Offering Costs	-	13,475
Total Assets	\$ 2,495,511	\$ 2,580,315
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Checks written in excess of cash in bank	\$ -	\$ 19,531
Accounts payable	1,499,474	1,359,723
Accrued liabilities	3,354,683	3,030,970
Current maturities of long-term notes payable	1,434,882	1,059,987
Notes payable to stockholders	31,550	20,376
Notes payable to related parties	788,742	688,742
Total Current Liabilities	7,109,331	6,179,329
Long-term notes payable, less current maturities	134,722	295,083
Commitments		
Stockholders' Deficit		
Common stock, par value \$0.001; authorized 750,000,000 shares; issued and outstanding shares: 262,021,502 and 247,184,691 net of 3,000,000 shares held in treasury at no cost at June 30, 2003 and December 31, 2002, respectively	262,022	247,185
Additional paid-in capital	11,435,955	11,089,020
Accumulated deficit	(16,446,519)	(15,230,302)
Total Stockholders' Deficit	(4,748,542)	(3,894,097)
Total Liabilities and Stockholders' Deficit	\$ 2,495,511	\$ 2,580,315

See accompanying notes to condensed consolidated
financial statements.

Edgar Filing: CIRTRAN CORP - Form 10QSB

	For the Three Months Ended June 30,		F
	2003	2002	
Net Sales	\$ 416,762	\$ 972,018	\$
Cost of Sales	271,211	957,395	
Gross Profit	145,551	14,623	
Operating Expenses			
Selling, general and administrative expenses	584,045	362,982	
Non-cash compensation expense	-	-	
Total Operating Expenses	584,045	362,982	
Loss From Operations	(438,494)	(348,359)	
Other Income (Expense)			
Interest	(122,984)	(103,864)	
Other, net	-	152,675	
Total Other Expense, Net	(122,984)	48,811	
Net Loss	\$ (561,478)	\$ (299,548)	\$
Basic and diluted loss per common share	\$ (0.00)	\$ (0.00)	\$
Basic and diluted weighted-average common shares outstanding	256,305,246	209,272,191	2

See accompanying notes to condensed consolidated
financial statements.

F-4

CIRTRAN CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Edgar Filing: CIRTRAN CORP - Form 10QSB

For the Six Months Ended June 30,

200

Cash flows from operating activities

Net loss

\$ (1,216,21

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation and amortization

157,15

Provision for loss on trade receivables

Cash paid for settlement of litigation

Non-cash compensation expense

72,50

Payments made on behalf of the Company as settlement of a sublease agreement

Changes in assets and liabilities:

Trade accounts receivable

(52,16

Inventories

12,14

Prepaid expenses and other assets

3,71

Accounts payable

187,31

Accrued liabilities

455,76

Total adjustments

836,42

Net cash used in operating activities

(379,78

Cash flows from investing activities

Purchase of property and equipment

(4,49

Net cash used in investing activities

(4,49

Cash flows from financing activities

Decrease in checks written in excess of cash in bank

(19,53

Payments for deferred offering costs

(30,75

Proceeds from notes payable to stockholders

107,72

Payments on notes payable to stockholders

(96,55

Proceeds from notes payable

240,00

Principal payments on notes payable

(59,08

Proceeds from notes payable to related parties

100,00

Proceeds from exercise of options and warrants to purchase common stock

187,50

Proceeds from issuance of common stock

Net cash provided by financing activities

429,30

Net increase in cash and cash equivalents

45,02

Cash and cash equivalents at beginning of year

50

Cash and cash equivalents at end of year

\$ 45,52

Edgar Filing: CIRTRAN CORP - Form 10QSB

See accompanying notes to condensed consolidated financial statements.

F-5

CIRTRAN CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(CONTINUED)

	For the Six Months Ended June 30
	200

Supplemental disclosure of cash flow information	
Cash paid during the period for interest	\$ 85,80
Noncash investing and financing activities	
Notes issued for accounts payable and capital lease obligations	\$ 47,56
Common stock issued for notes payable to stockholders	\$
Common stock issued for notes payable	\$
Legal fees to be paid on behalf of lender	\$
Accrued interest converted to notes payable	\$ 32,05
Stock options exercised for settlement of accrued interest and accrued compensation	\$ 90,00
Common stock issued for accrued compensation	\$ 10,00

See accompanying notes to condensed consolidated financial statements.

F-6

CIRTRAN CORPORATION AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Financial Statements -- The accompanying unaudited condensed consolidated financial statements include the accounts of CirTran Corporation and its subsidiary (the "Company"). These financial statements are condensed

Edgar Filing: CIRTRAN CORP - Form 10QSB

and, therefore, do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the Company's annual financial statements included in the Company's December 31, 2002 Annual Report on Form 10-KSB. In particular, the Company's significant accounting principles were presented as Note 1 to the consolidated financial statements in that report. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2003.

Stock-Based Compensation -- At June 30, 2003, the Company had one stock-based employee compensation plan, which is described more fully in Note 7. The Company accounts for the plan under APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. During the six months ended June 30, 2003 and 2002, the Company recognized compensation expense relating to stock options and warrants of \$72,500 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:

Six Months Ended June 30,	2003	2002
	-----	-----
Net loss, as reported	\$ (1,216,217)	\$ (725,000)
Add: Stock-based employee compensation expense included in net loss	72,500	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(199,528)	(88,000)
	-----	-----
Pro forma net loss	\$ (1,343,245)	\$ (813,000)
	-----	-----
Basic and diluted loss per common share as reported	\$ (0.00)	\$ (0.00)
	-----	-----
Basic and diluted loss per common share pro forma	\$ (0.01)	\$ (0.00)
	-----	-----
	2003	2002
	-----	-----
Net loss, as reported	\$ (561,478)	\$ (299,000)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(57,863)	
	-----	-----
Pro forma net loss	\$ (619,341)	\$ (299,000)
	-----	-----

Edgar Filing: CIRTRAN CORP - Form 10QSB

Basic and diluted loss per common share as reported	\$ (0.00)	\$ (
	-----	-----
Basic and diluted loss per common share pro forma	\$ (0.00)	\$ (
	-----	-----

7

NOTE 2 - REALIZATION OF ASSETS

The accompanying condensed 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 \$1,216,217 and \$2,149,810 for the six months ended June 30, 2003 and the year ended December 31, 2002, respectively. As of June 30, 2003 and December 31, 2002, the Company had an accumulated deficit of \$16,446,519 and \$15,230,302, respectively, and a total stockholders' deficit of \$4,748,542 and \$3,894,097, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of \$378,788 and \$1,142,148 for the six months ended June 30, 2003 and the year ended December 31, 2002, respectively.

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 4). 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.

During 2002, the Company entered into agreements whereby the Company has issued common stock to certain principals of Abacas Ventures, Inc. ("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 service. The Company intends to continue to pursue this type of debt conversion going forward with other creditors. As discussed in Note 5, the Company has entered into an equity line of credit agreement with a private investor. Realization of any additional proceeds under the equity line of credit is not assured.

NOTE 3 - RELATED PARTY TRANSACTIONS

Edgar Filing: CIRTRAN CORP - Form 10QSB

Stockholder Notes Payable --The Company had amounts due to stockholders from two separate notes. The balance due to stockholders at June 30, 2003 and December 31, 2002, was \$31,500 and \$20,376, respectively. Interest associated with amounts due to stockholders is accrued at 10 percent. Unpaid accrued interest was \$5,247 and \$2,378 at June 30, 2003 and December 31, 2002, respectively, and is included in accrued liabilities. These notes are due on demand.

8

Related Party Notes Payable --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 six ended June 30, 2003, the Company was advanced \$100,000. The outstanding balance on the bridge loan was \$788,742 as of June 30, 2003. The total accrued interest owed to Abacas on the bridge loan was \$160,335 as of June 30, 2003 and is included in accrued liabilities.

NOTE 4 - 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 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.

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

Edgar Filing: CIRTRAN CORP - Form 10QSB

\$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

9

terms of the remaining note payable. The Company denies the vendor's claims and intends to vigorously defend itself against the confession of judgment.

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 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 entered into a settlement with the vendor that will allow the Company to pay the entire balance over three years. This amount has been reclassified as a note payable.

An individual filed suit during January 2001, seeking to recover the principal

Edgar Filing: CIRTRAN CORP - Form 10QSB

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

10

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 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 5), the Company granted to the Equity Line

Edgar Filing: CIRTRAN CORP - Form 10QSB

Investor (the "Equity Line Investor") registration rights, in connection with 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 June 30, 2003, the Company had accrued liabilities in the amount of \$2,074,134 for delinquent payroll taxes, including

11

interest estimated at \$349,298 and penalties estimated at \$230,927. Of this amount, approximately \$321,828 was due the State of Utah. During the first quarter of 2003, no payments were made to the State of Utah. During the second quarter of 2003, partial payments were made to the State of Utah. Approximately \$1,741,367 was owed to the Internal Revenue Service as of June 30, 2003. The required monthly payments were made during the six months ended June 30, 2003. The Company is currently renegotiating the terms of the payment schedule with the Internal Revenue Service. Approximately \$10,939 was owed to the State of Colorado as of June 30, 2003.

Deferred Compensation to Officers -- Certain officers of the Company have deferred \$152,500 of salary during the six months ended June 30, 2003. The total amount of salary deferred by these officers as of June 30, 2003 is \$310,240 and is included in accrued liabilities.

NOTE 5 - STOCKHOLDER'S EQUITY

Common Stock Issuance -- During June 2003, the Company issued 500,000 shares of restricted common stock to a relative of a director for \$10,000 of accrued compensation owed to the director. The \$0.02 cost per share was equal to the market value of the Company's stock on the date the shares were issued.

Equity Line of Credit -- On April 8, 2003, the Company entered into a revised 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, 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

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 order to facilitate the issuance of shares of common stock to the Equity Line Investor, the Company placed 10,000,000 shares of common stock into an escrow account held by its transfer agent. All shares issued to the Equity Line Investor are to be issued from these escrowed shares.

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 in 2002. The Company also granted registration rights to the Equity Line Investor, in connection with which the Company has filed a registration statement and had it declared effective by the Securities and Exchange Commission. During the six months ended June 30, 2003, the Company issued 2,836,811 shares of common stock from the escrowed shares under the Equity Line Agreement for proceeds of

Edgar Filing: CIRTRAN CORP - Form 10QSB

\$46,000, which was offset by prior offering costs of \$44,228.

During July 2003, the Company placed an additional 10,000,000 common shares in escrow to fund conversions related to the Equity Line Agreement and issued 8,323,808 shares of common stock from the escrowed shares under the Equity Line Agreement for proceeds of \$92,000.

12

NOTE 6 - 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").

Stock Option Plan - 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 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.

During May 2003, the Company granted options to purchase 2,500,000 shares of common stock to certain employees of the Company and options to purchase 4,500,000 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 \$0.02 per share for employee options and for options to members of the board of directors. The market value of the common stock on the grant date was \$0.02, which resulted in no non-cash compensation. The options are exercisable through May 2008. All employee options granted were exercised for cash of \$50,000. 1,500,000 of the options issued to directors were exercised for \$20,000 of accrued interest to directors and \$10,000 of accrued

Edgar Filing: CIRTRAN CORP - Form 10QSB

compensation. There were 3,000,000 options outstanding to members of the board of directors at June 30, 2003. The Company estimated 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

13

the Black-Scholes model to determine the fair value of the employee and director options to purchase a share of common stock of \$0.02: risk-free interest rate of 2.35 percent, dividend yield of 0 percent, volatility of 343 percent, and expected lives of 0.10 years.

NOTE 7 - NOTES PAYABLE

During June 2003, the Company issued a \$230,000 note payable to the Equity Line Investor for \$200,000 cash and \$30,000 in fees and offering costs. The note is due seventy days after issuance and bears no interest. Because of the short term of the note, no interest rate has been imputed. Should the Company fail to pay the note in full, within seventy days; the note will accrue interest at 24% per annum. The Company will use proceeds from the Equity Line Agreement to pay the balance due. As of June 30, 2003, the Company made principal payments of \$46,000, leaving an unpaid balance of \$184,000.

NOTE 8 -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:

14

June 30, 2003	Electronics Assembly	Ethernet Technology
	-----	-----
Sales to external customers	\$ 552,442	\$ 134,094
Intersegment sales	52,242	-
Segment loss	(1,137,551)	(78,666)
Segment assets	2,252,257	243,254
Depreciation and amortization	154,354	2,800
June 30, 2002		
	-----	-----
Sales to external customers	\$ 1,225,225	\$ 388,123
Intersegment sales	161,553	-
Segment loss	(647,307)	(77,998)
Segment assets	3,169,357	330,993
Depreciation and amortization	245,663	10,470

Edgar Filing: CIRTRAN CORP - Form 10QSB

June

Sales	2003
Total sales for reportable segments	\$ 738,778
Elimination of intersegment sales	(52,242)
Consolidated net sales	\$ 686,536
Net Loss	
Net loss for reportable segments	\$(1,216,217)
Elimination of intersegment losses	-
Consolidated net loss	\$(1,216,217)
Total Assets	June 30, 2003
Total Assets for reportable segments	\$ 2,495,511
Elimination of intersegment amounts	-
Consolidated total assets	\$ 2,495,511

NOTE 9 -SUBSEQUENT EVENTS

During July 2003, the Company granted options to purchase 6,000,000 shares of common stock to certain employees of the Company pursuant to the 2002 Plan. These options vested on the date of grant. The related exercise price was \$0.005 and \$0.01 per share. The market value of the common stock on the grant date was \$0.01, which resulted in non-cash compensation of \$25,000. The options are exercisable through July 2008. The Company estimated the fair value of the 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 options to purchase a share of common stock of

15

\$0.004 and \$0.006: risk-free interest rate of 2.65 percent, dividend yield of 0 percent, volatility of 338 percent, and expected lives of 0.10 years. Employees exercised 6,000,000 of these options for \$35,000 of cash.

Also in July 2003, the Company issued an additional 10,000,000 shares to escrow for future funding of the equity line of credit agreement (see Note 5).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with Managements' Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-KSB for the year ended December 31, 2002.

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 contained in our Annual Report on form 10-KSB 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 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.

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."

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 of the company. We believe our lease for the facility is on commercially reasonable terms.

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

Results of Operations - Comparison of Periods Ended June 30, 2003 and 2002

Sales and Cost of Sales

Net sales decreased significantly to \$416,762 for the three-month period ended

Edgar Filing: CIRTRAN CORP - Form 10QSB

June 30, 2003, as compared to \$972,018 during the same period in 2002. Cost of sales decreased by 71.7%, from \$957,395 during the three-month period ended June 30, 2003, to \$271,211 during the same period in 2003. Our gross profit margin for the three-month period ended June 30, 2003, was 34.9%, up from 1.5% for the same period in 2002. The large increase in the gross profit margin is attributed to our selling more consigned products than turkey products, and doing more higher margin lower quantity products. Though we sustained decreased sales for the three-month period ended June 30, 2003, compared to the same period in 2002, we were able to increase our gross profit margin.

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 June 30, 2003, was \$1,538,406, as compared to \$1,550,553 at December 31, 2002. The decrease in inventory is negligible.

Selling, General and Administrative Expenses

During the quarter ended June 30, 2003, selling, general and administrative expenses were \$584,045 versus \$362,982 for 2002, a 60.9% increase. The increase is substantially the result of our increase in legal fees for the equity line and also the result of additional travel expenses for the sales staff in our effort to aggressively market our products during a period of economic downturn.

Interest Expense

Interest expense for quarter ended June 30, 2003, was \$122,984 as compared to \$103,864 for 2002, an increase of 18.4%. This increase is primarily attributable to an increase in debt which was attributed to the increase in notes payable and an increase in interest rates. As of June 30, 2003, and December 31, 2002, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was \$2,074,134 and \$2,029,626, respectively.

As a result of the above factors, our overall net loss increased 87.4% to \$561,478 for the quarter ended June 30, 2003, as compared to \$299,548 for the quarter ended June 30, 2002 and 67.7% to \$1,216,217 for the six months ended June 30, 2003, as compared to \$725,305 for the same period in 2002.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses and our accumulated deficit was \$16,446,519 at June 30, 2003, and \$15,230,302 at December 31, 2002. Our net operating loss for the quarter ending June 30, 2003, was \$561,478, compared to \$299,548 for the quarter ended June 30, 2002. Our current liabilities exceeded our current assets by \$5,333,449 as of June 30, 2003, and \$4,490,623 as of December 31, 2002. The increase in the difference is mostly attributed to increasing account payables, notes payable,

and accrued liabilities. For the six months ended June 30, 2003 and 2002, we had negative cash flows from operations of \$379,788 and \$918,652, respectively.

Cash

Edgar Filing: CIRTRAN CORP - Form 10QSB

We had cash on hand of \$45,526 at June 30, 2003, and \$500 at December 31, 2002.

Net cash used in operating activities was \$379,788 for the six months ended June 30, 2003. During 2003, net cash used in operations was primarily attributable to \$1,216,217 in net losses from operations, partially offset by non-cash charges, increases in accrued liabilities of \$455,767 and in increases to trades accounts payable of \$187,312, and in a decrease to inventories of \$12,147. The non-cash charges were for depreciation and amortization of \$157,154 and non-cash compensation expense of \$72,500.

Net cash used in investing activities during the six months ended June 30, 2003, consisted of equipment purchases of \$4,495.

Net cash provided by financing activities was \$429,309 during the six months ended June 30, 2003. Principal sources of cash were proceeds of \$100,000 from notes payable to related parties, proceeds from notes payable of \$240,000 and proceeds from the exercise of options to purchase common stock of \$187,500.

Accounts Receivable

At June 30, 2003, we had receivables of \$89,628, net of a reserve for doubtful accounts of \$37,037, as compared to \$37,464 at December 31, 2002, net of a reserve of \$37,037. This increase is primarily attributed to sales having increased compared to the last two months of last year.

Accounts Payable

Accounts payable were \$1,499,474 at June 30, 2003, as compared to \$1,359,723 at December 31, 2002. This increase is primarily attributed to additional accounting and legal fees.

Liquidity and Financing Arrangements

We have a history of substantial losses from operations and using rather than providing cash in operations. We had an accumulated deficit of \$16,446,519 and a total stockholders' deficit of \$4,748,542 at June 30, 2003. As of June 30, 2003, our monthly operating costs and interest expenses averaged approximately \$230,000 per month.

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. At June 30, 2003, we were in default of notes payable whose principal amount, not including the amount owing to Abacas Ventures, Inc., was approximately \$685,000. In addition, the principal amount of notes that either mature in 2003 or are payable on demand was approximately \$630,000.

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.

Edgar Filing: CIRTRAN CORP - Form 10QSB

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 on the Over the Counter Electronic Bulletin Board 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.

In conjunction with our efforts to improve our results of operations, discussed above, on November 5, 2002, we entered into an Equity Line of Credit Agreement (the "Equity Line Agreement") with Cornell Capital Partners, LP, a private investor ("Cornell"). We subsequently terminated the Equity Line Agreement, and on April 8, 2003, we entered into an amended equity line agreement (the "Amended Equity Line Agreement") with Cornell. Under the Amended Equity Line Agreement, we have the right to draw up to \$5,000,000 from Cornell against an equity line of credit (the "Equity Line"), and to put to Cornell shares of our common stock 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 our common stock over the five trading days after the advance notice is tendered. Cornell is required under the Amended Equity Line Agreement to tender the funds requested by us within two trading days after the five-trading-day period used to determine the market price.

Our issuances of shares of our common stock pursuant to the Amended Equity Line Agreement will serve to dilute the value of our common stock and existing shareholders' positions.

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 3. Evaluation of Disclosure 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

Edgar Filing: CIRTRAN CORP - Form 10QSB

quarterly report, have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and its consolidated 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As of June 30, 2003, the Company had accrued liabilities in the amount of \$2,074,134 for delinquent payroll taxes, including interest estimated at \$349,298 and penalties estimated at \$230,927. Of this amount, approximately \$321,828 was due the State of Utah. During the first quarter of 2003, no payments were made to the State of Utah. During the second quarter of 2003, partial payments were made to the State of Utah. Approximately \$1,741,367 was owed to the Internal Revenue Service as of June 30, 2003. The required monthly payments were made during each of the three months during the first quarter of 2003. The Company is currently renegotiating the terms of the payment schedule with the Internal Revenue Service, discussed more fully below under the heading "Internal Revenue Service." Approximately \$10,939 was owed to the State of Colorado as of March 31, 2003.

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 vigorously defend the action.

Edgar Filing: CIRTRAN CORP - Form 10QSB

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 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.

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

Edgar Filing: CIRTRAN CORP - Form 10QSB

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 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 Company and Racore are defending these claims. The parties are also conducting settlement negotiations.

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 promissory note and the Company should be held liable because of Racore's default on the note. The Company and Racore are defending these claims and are also 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 entered into a settlement agreement with Orbit and has performed all its obligations under the agreement. Orbit has made demand for an additional payment of approximately \$600. The Company believes it has no obligation to pay this amount. The Company will seek to enforce the parties' settlement agreement if Orbit continues to demand this additional payment.

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 nonpayment 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 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 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. Summary judgment was entered against the Company. The Company is making payments pursuant to a settlement agreement.

Edgar Filing: CIRTRAN CORP - Form 10QSB

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

25

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 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. The Company recently made an offer to enter into an installment agreement, whereby the Company would pay \$30,000 per month. The Service rejected the Company's offer. On August 6, 2003, the Company appealed the rejection to the Internal Revenue Service Office of Appeals, and has requested a due process hearing on the matter. No hearing date has been set.

Dickson Circuits USA, Third District Court, Sandy Department, Civil No. 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 has entered into a settlement agreement with Dickson Circuits, whereby the Company will make monthly payments of approximately \$1,500 over the course of three years.

Cardio Pulmonary Technologies, Inc., vs. Patrick M. Volz, Peripheral Systems, Inc., and CirTran Corporation, Civil No. 03090501B, Third Judicial

Edgar Filing: CIRTRAN CORP - Form 10QSB

District Court, Salt Lake County, State of Utah. On April 4, 2003, suit was brought against the Company and two other named defendants by plaintiff Cardio Pulmonary Technologies ("CPT"), alleging a breach of contract between CPT and the other two named defendants. Plaintiff's claims against the Company arise out of an alleged breach of an alleged agreement between the Company and Peripheral

26

Systems, Inc. The Company has answered the Complaint, and intends to defend vigorously against these claims.

Item 2. Changes in Securities

Recent Sales of Unregistered Securities

Pursuant to the Amended Equity Line of Credit Agreement (discussed above), the Company will put to the Equity Line Investor, in lieu of repayment of amounts drawn on the Equity Line, shares of the Company's common stock. Although the Company has filed a registration statement to register the resale by the Equity Line Investor of the shares put to it by the Company, the issuances of shares to the Company will be made in reliance on Section 4(2) of the Securities Act of 1933 as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the shares will be issued to only one investor which has represented that it is an "accredited investor" as that term is defined in Regulation D promulgated pursuant to the Securities Act of 1933. Through August 13, 2003, the company has issued 11,160,619 shares of common stock to the Equity Line Investor in connection with draws on the Equity Line.

Item 6. Exhibits and Reports on Form 8-K

Reports on Form 8-K: The following reports on Form 8-K were filed by us during the three-month period ended March 31, 2003:

- (i) Form 8-K/A filed March 21, 2003, to amend exhibits to a Current Report on Form 8-K originally filed December 31, 2002, setting forth terms of shares of stock issued in connection with release of claims against the Company.

Exhibits:

- 31 Certifications
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIRTRAN CORPORATION

Date: August 14, 2003

By: /s/ Iehab J. Hawatmeh
President

