

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

CIRTRAN CORP  
Form 10KSB/A  
December 24, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-KSB  
Amendment No. 2

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001, 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 68-0121636  
(State or other jurisdiction of (IRS Employer Identification  
incorporation or organization) 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: \$1,870,848.

Due to the absence of a trading market for the common stock of the Registrant, the aggregate market value of voting stock held by non-affiliates as of March 31, 2002, was \$0.

As of March 31, 2002, the Registrant had outstanding 209,272,191 shares of Common Stock, par value \$0.001.

Documents incorporated by reference: None

PART I  
ITEM 1. DESCRIPTION OF BUSINESS

We are a full-service contract electronics manufacturer servicing OEMs in the following industries: communications, networking, peripherals, gaming, law

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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.

### 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

Approximately 75% 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

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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 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, 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.

### 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:

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.

To Reduce Investment. The investment required for internal manufacturing has increased significantly as electronic products have become more

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

technologically advanced and are shipped in greater unit volumes. We believe

3

use of manufacturing specialists allows OEMs to gain access to advanced manufacturing capabilities while substantially reducing their overall resource requirements.

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.

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.

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

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

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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 2001 and 2000, we and our predecessor corporation, Circuit Technology Inc., spent approximately \$159,271 and 217,395, 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

4

periods, our subsidiary, Racore, spent approximately \$148,287 and \$248,049 and , 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 2001, 97% of our net sales were derived from pre-existing customers, whereas during the year ended December 31, 2000, over 80% of our net sales were derived from customers that were also customers during 1999. Historically, a small number of customers accounted for a significant portion of our net sales. In 2001, however, no single customer accounted for more than 10% of our total sales, and our three largest customers accounted for approximately 25% 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 are currently involved in settlement negotiations regarding a breach of contract proceeding with Osicom Technology and its successor, Entrada Networks, which late in 2000 cancelled a significant portion of a large outstanding order with us.

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

Backlog consists of contracts or purchase orders with delivery dates scheduled

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

within the next twelve months. At December 31, 2001, our backlog was approximately \$1,750,000. The backlog was approximately \$4.0 million at December 31, 2000.

In the late summer and early fall of 2001, we announced several promising developments in our sales and marketing efforts. These developments included: (i) the receipt of orders from Tempo Research, a wholly-owned subsidiary of Textron, Inc. for purchases totaling \$425,923 over a nine-month period, \$194,330 of which had been shipped and recorded as sales by May 2002, the balance being shipped and recorded as sales by September 15, 2002; (ii) the receipt of orders from InterMotive Products for \$91,000; (iii) the receipt of orders from Nortel Networks for \$28,130; and (iv) the issuance of bids to SPX and Emerson totaling, which were subsequently not awarded to us.

As part of our effort to improve our competitive position in the electronics assembly and manufacturing industry, we also announced that we had formed business relationships with various offshore manufacturers in Singapore and Malaysia, the purpose of which was to improve our bidding position with respect to large orders. We had historically concentrated on such large orders and attempted to process the orders in our own facilities; however, we found that our high production costs rendered these contracts unprofitable to us. We

5

therefore sought to establish subcontracting relationships with offshore manufacturers, who experience lower production costs, to allow us to once again seek large-volume orders.

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 are hopeful of obtaining by the end of 2002. This certification would allow us to ensure to prospective customers that we comply with internationally-recognized quality production standards.

### 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

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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

### Employees

We employ 55 persons, five in administrative positions, 3 in engineering and design, 44 in clerical and manufacturing, and 3 in sales.

### Corporate Background

Our core business was commenced by Circuit Technology, Inc., or Circuit, in 1993

6

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 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 \$3,768,905 in 1999, \$4,179,654 in 2000 and \$2,933,084 in 2001. We have also experienced increasing levels of debt. Our management has been addressing this situation by, among other things, re-directing our sales and manufacturing efforts to smaller contracts with higher profit margins and negotiating debt forbearance arrangements with many of our creditors.

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

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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

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, 2001, we 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

7

the State of Utah. Concerning the amount owed the State of Utah, during the first quarter of 2002, we negotiated a monthly payment schedule of \$4,000, which did not provide for the forgiveness of any taxes, penalties or interest. Approximately \$1,713,996 is owed to the Internal Revenue Service (IRS). During the first quarter of 2002, we negotiated a payment schedule with respect to this amount, pursuant to which we are currently making monthly payments of \$25,000. Approximately \$10,939 is owed the State of Colorado. In addition, we have committed to keeping current on deposits of our federal withholding amounts. Monthly payments were made during each of the three months in the second quarter according to the agreed-upon schedule. As of June 30, 2002, a total of \$247,556 was owed to the State of Utah and a total of \$1,815,191 was owed to the IRS. Based on our commitment to the IRS to adhere for six months to our agreed-upon payment schedule, we anticipate being able to enter into a more definitive payment arrangement with the IRS later in the fall of 2002. If we do not adhere to our agreed-upon payment schedule to the IRS, the IRS is unlikely to enter into a more definitive payment arrangement with us and could levy tax liens against us.

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



## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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, to be held in escrow as security for performance of our obligations under the settlement agreement. We were also required, if 75% of the balance owing under the agreement was not paid by May 18, 2002, 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 us, 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 us to Sunborne under our settlement agreement with them.

As of July 18, 2002, we were in default of our obligations under our settlement agreement with Sunborne, and Sunborne is entitled to file the Confession of Judgment and proceed with execution thereon. We are currently negotiating with Sunborne in an attempt to settle our remaining obligation under the settlement agreement. If we are unable to reach a settlement with Sunborne, any attempts on their part to execute on the judgment could have a material adverse impact on our business. It is likely that Sunborne would execute on the shares of our common stock held in the escrow as security for performance of our obligations 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.

1. Arrow Electronics, Inc. obtained a judgment against Circuit Technology, Inc. in the amount of \$215,251, plus 8% interest as of March 17, 2000. In September 2000, we settled this judgment in the amount of \$199,678, plus 8%

8

interest as of September 23, 2000. The terms of the settlement require us to make monthly payments of \$6,256 to Arrow Electronics until the settlement amount is paid in full, or approximately three years.

2. Sager Electronics, another trade creditor, brought a claim against Circuit Technology, Inc., for unpaid goods and services in the amount of \$97,259. In November 2000, we settled this claim in the amount of \$97,259 plus 8% interest. The terms of the settlement require CirTran to make monthly payments of \$1,972 to Sager Electronics until the settlement amount is paid in full, or approximately five years.

3. In November 2000, we entered into a debt settlement agreement with Future Electronics Corporation ("Future") pursuant to which we issued 5,281,050 shares of our common stock, as currently constituted, in exchange

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

for \$324,284 of trade debt relief. We also granted Future "piggy-back" registration rights in respect of these shares, pursuant to which we are required, for a period of three years, i.e., until November 2003, to include up to 50% of Future's shares in any registration statement filed by us. We are also obligated to pay the costs of any such registration. These registration rights are assignable and transferable to any individual or entity that does not directly compete with us.

On July 31, 2002, we entered into a Mutual Release and Settlement Agreement (the "Osicom Agreement") with Osicom Technologies, Inc and Entrada Networks, Inc. In January 2001, we had filed a breach of contract action against Osicom, one of our customers, seeking damages of \$875,000 in respect of Osicom's cancellation of a portion of a manufacturing contract. Pursuant to the terms of the Osicom Agreement, we have agreed to dismiss our claims against Osicom and Entrada in consideration for a series of six payments by Entrada to us in August-October 2002 that total \$265,000. Of this amount, approximately \$158,000 is allocated to the purchase of inventory from us and the balance of approximately \$107,000 is allocated to amounts owed to us by Osicom and/or Entrada, which amounts represent a net receivable on our books from Osicom of approximately \$94,000 (the difference between an outstanding receivable of \$274,000 and an outstanding payable of \$180,000). Entrada also agreed to issue a purchase order to us for up to \$125,000 of inventory, which inventory is deliverable within 90 days following the last payment to be made under the agreement, due on October 29, 2002.

#### 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, 2001.

### 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 -----
March 31, 2002	\$0.08	\$0.02

9

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.

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

As of March 31, 2002, we had 557 shareholders of record holding 209,272,191 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.

We did not sell any shares of common stock during 2001 that were not registered under the Securities Act of 1933.

### 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.

10

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### 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

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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 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. Overhead costs are subject to management's discretion regarding which inventory and cost of sale accounts are subject to overhead allocation. Determining overhead costs also requires estimation based on management's allocation of indirect costs.

When there is evidence that the inventory's value is less than original cost, the inventory will be lowered to market value. We evaluate market value on current resale amounts and whether there is technological obsolescence. Currently, some of our inventory is over one year old but still considered the industry standard and will continue to be used in the production process.

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. Approximately 78% of the total inventory is secured by these agreements.

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

### 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 Abacus purchased 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 Abacus 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."

### Results of Operations - Comparison of Years Ended December 31, 2001 and 2000

#### Sales and Cost of Sales

Net Sales decreased 70.6% to \$1,870,848 for the year ended December 31, 2001 as compared to \$6,373,096 for the year ended December 31, 2000. The decrease is partially due to the loss of a major customer, Entrada Networks, Inc., successor in interest to Osicom Technologies, which generated approximately 30% of our total revenues in 2000. Additional factors include the following: operating without a line of credit; the unwillingness of many of our vendors to continue credit sales of components used by us in the manufacture of products, thus hampering our ability to attract and retain turnkey customer business; financial constraints which mandated a reduction in our general work force, including our sales department, which experienced a 50% reduction in size; and general economic conditions during the second half of 2001

Cost of sales for the year ended December 31, 2001 was \$2,340,273, as compared to \$6,792,393 incurred during the prior year. Those costs as a percentage of net sales were 125% during 2001 as compared to 106.6% during 2000. We believe the increase in our already high cost of sales was primarily attributable to significant write-offs for obsolete inventory resulting from inadequate inventory control. These costs were offset, to some extent, through our sale, or use in the production process, of inventory totaling \$205,287, which had been fully allowed against in previous periods. The effect of this is to reduce cost of sales as a percentage of sales.

Lack of adequate inventory management and control has negatively 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 may have had the necessary inventory on hand under a different customer name. This practice has led to a reserve for obsolescence and excess inventory, which for the year 2001 was \$340,579, as compared to \$545,866 in 2000, and has increased cost of sales. 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

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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, 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 2000 and 2001; 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 Loss
	----	-----	-----	-----
Electronics Assembly	2000	4,686,045	4,972,689	(286,644)
	2001	1,352,085	1,718,687	(366,602)
Ethernet Technology	2000	1,687,051	1,819,704	(132,653)
	2001	518,763	621,586	(102,823)
	Year	Total Sales	Pre- existing Customers	New Customers
	----	-----	-----	-----
Electronics Assembly	2000	4,686,045	4,317,668	(368,357)
	2001	1,352,085	1,311,522	40,563
Ethernet Technology	2000	1,687,051	787,649	899,402
	2001	518,763	462,844	55,919

### 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, 2001 was 1,773,888 at December 31, 2001, as compared to \$1,755,786 at December 31, 2000. This marginal increase was due to the net effect of an increase in raw materials in anticipation of orders to be processed in the first quarter of 2002 and decreases in work-in-process and finished goods.

### Selling, General and Administrative Expenses

During the year ended December 31, 2001, selling, general and administrative expenses were \$1,690,837 versus \$2,710,275 for 2000, a 37.6% decrease which was primarily attributable to an almost 50% reduction in the size of our workforce.

### Interest Expense

Interest expense for 2001 was \$773,034 as compared to \$1,015,027 for 2000, a decrease of 24%. This decrease is primarily attributable to a decrease in delinquent payroll tax liabilities, the penalties on which were previously recorded as part of interest expense. As of December 31, 2000 and 2001, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was \$1,309,990 and \$1,982,445, respectively.

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Other income declined from \$945 in 2000 to \$212 in 2001.

13

As a result of the above factors, our overall net loss decreased 29.8% to \$2,933,084 for the year ended December 31, 2001, as compared to \$4,179,654 for the year ended December 31, 2000.

### Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses and our accumulated deficit was \$13,080,492 at December 31, 2001 and was \$10,147,408 at December 31, 2000. Our net operating loss for the year ending December 31, 2001 was \$2,933,084, compared to \$4,179,654 for the year ending December 31, 2000. Our current liabilities exceeded our current assets by \$5,664,395 as of December 31, 2000 and \$7,832,259 as of December 31, 2001. For the years ended December 31, 2001 and 2000, we recorded negative cash flows from operations of \$288,724 and \$140,961, respectively.

#### Cash

At December 31, 2001, we had cash on hand of \$499, a decrease of \$10,569 from December 31, 2000.

Net cash used in operating activities was \$288,724 for the fiscal year ended December 31, 2001. During 2001, net cash used in operations was primarily attributable to \$2,933,084 in net losses from operations, partially offset by non-cash charges and increases in accrued liabilities of \$808,648 and in accounts payable of \$612,038. The non-cash charges include depreciation and amortization of \$504,090, provision for doubtful trade accounts receivable of \$(16,186), and provision for inventory obsolescence of \$(205,287).

Net cash used in investing activities during the fiscal year ended December 31, 2001 consisted of equipment purchases of \$2,939.

Net cash provided by financing activities was \$281,094 during the fiscal year ended December 31, 2001. Principal sources of cash were stockholder notes payable of \$301,159, proceeds of \$158,255 from long-term notes payable, an increase of \$154,473 in checks written in excess of cash in bank, and proceeds of \$117,660 from the exercise of options to purchase shares of our common stock. Principal uses of cash during 2001 consisted of \$445,903 principal payments of long-term obligations and \$4,550 payments on capital lease obligations.

#### Accounts Receivable

At December 31, 2001, we had receivables of \$369,250, net of a reserve for doubtful accounts of \$66,316, as compared to \$874,097 at December 31, 2000, net of a reserve of \$82,502. The smaller reserve for doubtful accounts in 2001 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. Subsequent to year-end, 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 \$2,141,290 at December 31, 2001 as compared to \$1,561,752 at December 31, 2000. This increase is primarily attributable to a lack of cash

flows available to pay vendors.

#### Liquidity and Financing Arrangements

We sustained substantial losses from operations in 2001 and 2000. We had an accumulated deficit of \$13,080,492 and a total stockholders' deficit of \$6,942,377 at December 31, 2001. In addition, during 2001 and 2000, we have used, rather than provided, cash in our operations. As of December 31, 2001, our monthly operating costs and interest expenses averaged approximately \$205,000 per month. As of June 30, 2002, this amount had decreased to approximately \$187,000 per month. In addition, the total amount per month that we have committed to paying against accrued liabilities and notes payable pursuant to various settlements for outstanding debt, litigation and delinquent payroll taxes is currently approximately \$38,000.

Since February 2000, we have operated without a line of credit. Abacus 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 Abacus 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 Abacus pursuant to this note payable. Subsequent to year-end, 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. See "Item 12 - Certain Relationships and Related Transactions."

During 2001, we converted approximately \$32,500 of trade payables into notes and stock. Subsequent to year-end, 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, 2001, we were in default of notes payable whose principal amount, not including the amount owing to Abacus Ventures, Inc., exceeded \$666,000. In addition, the principal amount of notes that either mature in 2002 or are payable on demand exceed \$165,000. The total amount per month that we have committed to paying pursuant to various settlements for outstanding debt, litigation and delinquent payroll taxes is currently approximately \$38,000, 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.

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



## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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

15

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 included in this Annual Report on Form 10KSB.

16

### PART III

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

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

### 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	35	President, Chief Financial Officer, Secretary and Director of CirTran Corporation; President of CirTran Corporation (Utah). Served since July 2000.
Raed Hawatmeh	37	Director since June 2001.
Trevor Saliba	27	Director since June 2001. Senior Vice-President, Sales and Marketing since January 2002
Shaher Hawatmeh	36	Executive 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 Executive 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.

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

#### Criminal Proceeding Involving Iehab and Shaher Hawatmeh

Two of our directors and officers, Iehab Hawatmeh and Shaher Hawatmeh, were subject to a criminal proceeding in Third District Court in Salt Lake City, Utah (Case No. 991920656FS) that is unrelated to our business and operations. Messrs. Hawatmeh, along with their parents, were charged with the offenses of assault and aggravated kidnapping of their sister and daughter, Muna Hawatmeh, in October 1999. Effective December 18, 2001, Iehab and Shaher Hawatmeh entered

into Diversion Agreements with the State of Utah with respect to these proceedings. These agreements provide that the prosecution of the offenses be

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

deferred for a period not to exceed two years and, upon satisfactory completion of the terms of the diversion agreements by the Hawatmehs, the State of Utah will conduct no further prosecution relating to the offenses. The terms of the Agreements provided that the Hawatmehs must have no contact with their sister and must not commit any criminal offenses (excluding minor traffic offenses). If the Hawatmehs violate these terms of the Agreements, the Diversion Agreements may be revoked or modified, and, if revoked, the Hawatmehs will once again be subject to prosecution for the offenses charged. If the Diversion Agreements are revoked and the Hawatmehs are prosecuted and convicted of the kidnapping charges, Shaher Hawatmeh could face a prison sentence and Iehab Hawatmeh could face deportation out of the United States. Iehab Hawatmeh is a permanent resident of the United States, but is not a U.S. citizen. Shaher Hawatmeh is a U.S. citizen. As Iehab Hawatmeh is our chief executive officer and Shaher Hawatmeh is also one of our senior officers, the imprisonment and/or deportation of these men would deprive us of their presence and leadership. Because we view the continued employment of both men as critical to the success of our business, their absence would have a serious adverse material affect on our company.

### 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.

18

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards		All Other Compensation
		Salary (\$)	Bonus (\$)	Restricted Stock Awards (\$)	Stock Options (#)	
Iehab J. Hawatmeh President, Secretary	2001	175,000	-	-	-	-
	2000	175,000	-	-	-	-

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Treasurer and Director	1999	187,230	-	-	-	-
Shaher Hawatmeh	2001	130,000	-	-	500,000	-
Executive Vice President of CirTran Corporation (Utah)	2000	109,000	-	-	-	-
	1999	86,154	-	-	-	-

### 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

On July 25, 2001, our board approved and adopted our 2001 Stock Plan, or the Plan, subject to shareholder approval. An aggregate of 15,000,000 (post forward split) shares of our common stock are subject to the 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 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 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.

All of our and our affiliates' and subsidiaries' employees, officers and directors are eligible to participate in the Plan. Under the Plan, each of our current non-employee directors is entitled to receive an initial option covering 375,000 (post forward-split) shares of common stock, and, commencing in 2002, each non-employee director is entitled to receive an annual grant of an option covering an additional 375,000 (post forward-split) shares of common stock. No grants of options were made during 2001 to non-employee directors or to any other directors. Our non-employee agents, consultants, advisors and independent contractors are also eligible to participate in our stock plan.

The Plan is administered by our board of directors, which designates from time to time the individuals to whom awards are made under the Plan, the amount of

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

any such award and the price and other terms and conditions of any such award. The Plan shall continue in effect until July 25, 2006, subject to earlier termination by our board. The board may suspend or terminate the 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 Plan for more than an aggregate of 7,500,000 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 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 restricted stock purchase agreement. No stock purchase rights have been granted under the Plan.

The Plan further provides that if the number of outstanding shares of our common stock is increased or decreased or changed into or exchanged for a different number or kind of our shares or securities or of another corporation by reason of any recapitalization, stock split or similar transaction, appropriate adjustment will be made by the board in the number and kind of shares available for awards under the Plan.

The following table sets forth certain information concerning options to purchase our common stock that were granted in 2001 to the named executive officers pursuant to the Plan:

Name	Individual Grants			Potential Realizable alue At Assumed Annual Rates Of Stock Price Appreciation For Option Term (\$) (1)		
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees In Fiscal Year	Exercise Price (\$)	Expiration Date	5%	10%
Iehab Hawatmeh	--0--					
Shaher Hawatmeh	500,000	43.5	\$0.07	9/28/2006		

(1) Calculated using the Black Scholes pricing model with the following assumptions: (a) volatility-100%, (b) risk free rate-5%, (c) dividend yield-0% and (d) time of exercise-10 years.

The following table sets forth information concerning options exercised during 2001 and the year-end number and value of unexercised options with respect to each of the named executive officers.

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options At Fiscal Year End (#)		Value of Unexercised In-The-Money Options At Fiscal Year End (\$)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Iehab Hawatmeh	-	-	-	-	-	-
Shaher Hawatmeh	500,000	nil	-	-	-	-

20

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number and percentage of the 209,272,171 outstanding shares of our common stock which, according to the information supplied to us, were beneficially owned, as of March 31, 2002, 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 Shares	Percent of Class
Cogent Capital Corp. P.O. Box 1362 Draper, Utah 84020	5% Shareholder	11,547,660 (1)	5.52
Saliba Private Annuity Trust (2) 115 S. Valley Street Burbank, CA 91505	5% Shareholder	37,173,990	17.76
Roger Kokozyon 4539 Haskell Avenue Encino, CA 91436	5% Shareholder	27,715,620	13.24
Iehab J. Hawatmeh 4125 South 6000 West	Director, Officer	46,415,643	22.18

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

West Valley City, Utah 84128	& 5% Shareholder		
Raed Hawatmeh 10989 Bluffside Drive Studio City, CA 91604	Director & 5% Shareholder	28,729,530	13.73
Shaher Hawatmeh 4125 South 6000 West West Valley City, Utah 84128	Officer	3,775,365	1.8
Trevor Saliba (2) 5 Thomas Mellon Circle, Suite 108 San Francisco, California 94134	Director	- 0 -	*
All Officers and Directors as a Group (4 persons)		78,920,538	37.71%

---

\* Less than 1%.

21

(1) Includes 37,320 shares of stock held by an affiliate of Cogent Capital Corp. The sole shareholder of Cogent Capital Corp. is Gregory L. Kofford.

(2) Includes 4,664,620 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, an officer of CirTran Corporation (Utah), our operating subsidiary.

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 Abacus Ventures, Inc., which entity

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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. 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 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.

22

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.

### 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



## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

- 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 Abacus 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 Abacus 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).

23

- 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. 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).

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

- 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).
  - 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).
  - 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).
- 24
- 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

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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
- 23. Consent of Hansen, Barnett & Maxwell
- 99\* Certification pursuant to 18 U.S.C. Section 1350

\* Filed herewith.

We did not file any reports on Form 8-K during the last quarter of 2001.

25

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIRTRAN CORPORATION

Date: December 23, 2002 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: December 23, 2002 By: /s/ Iehab J. Hawatmeh

-----

Iehab J. Hawatemeh  
President, Chief Financial  
Officer and Director

Date: December 23, 2002 By: /s/ Raed Hawatmeh

-----

Raed Hawatmeh, Director

Date: December 23, 2002 By: /s/ Trevor Saliba

-----

Trevor Saliba, Director

26

CERTIFICATION

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

I, Iehab J. Hawatmeh, certify that:

1. I have reviewed this annual report on Form 10-KSB/A of CirTran Corporation;
2. Based on my knowledge, this annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

December 23, 2002

By: /s/ IEHAB J. HAWATMEH

-----  
 Iehab J. Hawatmeh, President,  
 Chief Financial Officer and Director

27

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:

Audited Financial Statements:	Page
Report of Independent Certified Public Accountants	F-2
Consolidated Balance Sheets as of December 31, 2001 and 2000	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2001 and 2000	F-4
Consolidated Statement of Stockholders' Deficit for the Years Ended December 31, 2000 and 2001	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001 and 2000	F-6
Notes to Consolidated Financial Statements	F-8

F-1

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

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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, 2001 and 2000, 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, 2001 and 2000, 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

Salt Lake City, Utah  
April 24, 2002

F-2

CIRTRAN CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
CIRTRAN CORPORATION AND SUBSIDIARY

	December 31,	
	2001	2000
	-----	-----
	2001	2000
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 499	\$ 11,068

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Trade accounts receivable, net of allowance for doubtful accounts of \$66,316 and \$82,502 in 2001 and 2000, respectively	369,250	874,097
Inventories	1,773,888	1,755,786
Other	97,037	94,176
	-----	-----
Total current assets	2,240,674	2,735,127
Property and equipment, at cost, net	1,333,925	1,871,076
Other assets, net	10,887	10,587
	-----	-----
Total Assets	\$ 3,585,486	\$ 4,616,790
	=====	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Checks written in excess of cash in bank	\$ 159,964	\$ 5,491
Accounts payable	2,141,290	1,561,752
Accrued liabilities	3,071,191	2,339,949
Notes payable to stockholders	1,390,125	1,088,966
Notes payable to related parties	2,405,507	2,435,007
Current maturities of capital lease obligations	41,206	39,274
Current maturities of long-term notes payable	863,650	929,083
	-----	-----
Total current liabilities	10,072,933	8,399,522
	-----	-----
Long-Term Liabilities		
Long-term notes payable, less current maturities	447,155	529,964
Capital lease obligations, less current maturities	7,775	14,257
	-----	-----
Total long-term liabilities	454,930	544,221
	-----	-----
Commitments		
Stockholders' Deficit		
Common stock, par value \$0.001; authorized 750,000,000 shares; issued and outstanding 160,951,005 and 156,301,005 in 2001 and 2000, respectively	160,951	156,301
Additional paid-in capital	5,977,164	5,664,154
Accumulated deficit	(13,080,492)	(10,147,408)
	-----	-----
Total Stockholders' Deficit	(6,942,377)	(4,326,953)
	-----	-----
Total Liabilities and Stockholders' Deficit	\$ 3,585,486	\$ 4,616,790
	=====	=====

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

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

	For the Years Ended, December 31,	
	2001	2000
Net sales	\$ 1,870,848	\$ 6,373,096
Cost of sales	(2,340,273)	(6,792,393)
Gross Loss	(469,425)	(419,297)
Selling, general and administrative expenses	(1,690,837)	(2,710,275)
Loss From Operations	(2,160,262)	(3,129,572)
Other income (expense)		
Interest	(773,034)	(1,051,027)
Other, net	212	945
	(772,822)	(1,050,082)
Net Loss	\$ (2,933,084)	\$ (4,179,654)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.03)
Basic and diluted weighted-average common shares outstanding	157,556,073	142,765,555

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, 2000 AND 2001

	Common Stock		Additional Paid-in Capital	Receivable from Stockholders	Accumulated Deficit	Total
	Number Shares	Amount				
Balance - December 31, 1999	129,271,560	\$ 129,272	\$ 4,645,799	\$ (86,000)	\$ (5,967,754)	\$ (1,278,688)
Issuance of common stock for cash	9,408,585	9,408	936,692	-	-	946,100
Redemption of common stock	(680,145)	(680)	(79,320)	-	-	(80,000)
Issuance of						

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

common stock to acquire the monetary assets of CTISI	14,153,505	14,145	(14,154)	-	-	
Common stock issued for conversion of debt	5,281,050	5,281	319,003	-	-	324,28
Redemption of common stock for debt	(1,133,550)	(1,134)	(143,866)	-	-	(145,00
Payment from stockholders	-	-	-	86,000	-	86,00
Net loss	-	-	-	-	(4,179,654)	(4,179,65
Balance - December 31, 2000	156,301,005	156,301	5,664,154	-	(10,147,408)	(4,326,95
Warrants issued as a sales sales commission	-	-	200,000	-	-	200,00
Exercise of warrants	3,000,000	3,000	(990)	-	-	2,01
Exercise of employee options	1,650,000	1,650	114,000	-	-	115,65
Net loss	-	-	-	-	(2,933,084)	(2,933,08
Balance - December 31, 2001	160,951,005	\$ 160,951	\$ 5,977,164	-	\$ (13,080,492)	\$ (6,942,37

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

F-5

CIRTRAN CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended, December 31,	
	2001	2000
Cash flows from operating activities		
Net loss	\$ (2,933,084)	\$ (4,179,654)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	540,090	961,506
Provision for doubtful trade accounts receivables	(16,186)	78,978
Provision for inventory obsolescence	-	55,963



Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Warrants issued as a sales commission	200,000	-
Changes in assets and liabilities:		
Trade accounts receivable	521,033	20,276
Inventories	(18,102)	1,244,634
Prepaid expenses	(3,411)	-
Other assets	250	23,302
Accounts payable	612,038	(87,129)
Accrued liabilities	808,648	1,741,163
	-----	-----
Total adjustments	2,644,360	4,038,693
	-----	-----
Net cash used in operating activities	(288,724)	(140,961)
Cash flows from investing activities		
Purchase of property and equipment	(2,939)	(12,770)
	-----	-----
Net cash used in investing activities	(2,939)	(12,770)
	-----	-----
Cash flows from financing activities		
Increase (decrease) in checks written in excess of cash in bank	154,473	(72,165)
Proceeds from notes payable to stockholders	301,159	86,000
Payments on notes payable to stockholders	-	(15,000)
Principal payments on long-term notes payable	(445,903)	(825,593)
Proceeds from long-term notes payable	158,255	254,663
Payments on capital lease obligations	(4,550)	(129,706)
Purchase and retirement of common stock	-	(80,000)
Proceeds from exercise of options to purchase common stock	117,660	-
Proceeds from issuance of common stock	-	946,100
	-----	-----
Net cash provided by financing activities	281,094	164,299
	-----	-----
Net increase (decrease) in cash and cash equivalents	(10,569)	10,568
Cash and cash equivalents at beginning of year	11,068	500
	-----	-----
Cash and cash equivalents at end of year	\$ 499	\$ 11,068
	=====	=====

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

F-6

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

For the Years Ended,  
December 31,

-----	-----
2001	2000
-----	-----

Supplemental disclosure of cash flow information

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Cash paid during the year for interest	\$	270,065	\$	622,266
Noncash investing and financing activities				
Common stock issued for conversion of debt	\$	-	\$	324,284
Notes issued for accounts payable		32,500		393,022
Redemption of common stock for debt		-		145,000
Accrued interest converted to note payable		77,406		-

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

F-6

### CIRTRAN CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001 AND 2000

#### 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.

Business Activity - Effective July 1, 2000, all of the assets and certain liabilities of Circuit Technology Corporation (Circuit) were acquired by CTI Systems, Inc. (CTISI), a Utah corporation and a wholly owned subsidiary of Vermillion Ventures, Inc. (VVI), an inactive corporation. CTISI had no assets or operations at the date of acquisition. The stockholders of Circuit received 138,000,000 shares of VVI common stock in the transaction. VVI had 2,153,505 common shares outstanding at the time of the acquisition, and an additional 12,000,000 shares were paid by Circuit to Cogent Capital Corp (Cogent) for services performed in facilitating the transaction. CTISI subsequently changed its name to CirTran Corporation (Utah), and VVI subsequently changed its name to CirTran Corporation (Nevada).

The acquisition was accounted for as a reverse acquisition of VVI by Circuit. Although VVI was the surviving legal entity, for accounting purposes Circuit was treated as the surviving accounting entity, and its historical financial statements are presented for the period prior to the acquisition. Circuit had 11,404 common shares outstanding prior to the acquisition. The shares issued to the shareholders of Circuit have been accounted for as a 756-for-1 stock split, and the accompanying financial statements have been restated for the effects of the stock split for all periods presented. Neither VVI or CTISI had any assets or operations at the date of acquisition; accordingly, the acquisition of VVI was accounted for as the issuance of 14,153,505 shares of common stock for the monetary assets of VVI, of which there were none.

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 OEMs in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical and semiconductor industries. The Company provides a wide variety of pre-manufacturing, manufacturing and post-manufacturing services. The Company also designs, develops, manufactures and markets a full line of local area network products, with emphasis on token ring and Ethernet connectivity.

In 1997, Circuit acquired the assets and assumed certain liabilities of Racore Technology Corporation. The purchase price was \$1,870,911, consisting of 938 shares of Circuit's common stock (10,632,824 post-acquisition, post-merger

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

shares) valued at \$977,725; a non-interest bearing note payable of \$103,191; accrued acquisition costs of \$27,434; and the assumption of \$762,561 in liabilities and obligations of Racore. The assets of Racore consisted of accounts receivable, inventories, equipment and intellectual property. The acquisition was accounted for as a purchase.

**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.

F-8

**Cash and Cash Equivalents**-The Company considers all highly liquid investments with an original maturity of three months or less when purchased 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. Overhead costs are subject to management's discretion regarding which inventory and cost of sale accounts are subject to overhead allocation. Determining overhead costs also requires estimation based on management's allocation of indirect costs. When there is evidence that the inventory's value is less than original cost, the inventory will be lowered to market value. The Company evaluates market value on current resale amounts and whether there is technological obsolescence. Currently, some of the Company's inventory is over one year old but still considered the industry standard and will continue to be used in the Company's production process.

**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 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 which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable. As of December 31, 2001, the Company does not consider any of its long-lived assets to be impaired.

**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 Abacus purchase our line of credit obligation, the Company no longer had lines of

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

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.

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

F-9

The Company operated, for tax purposes, as a corporation under provisions of Subchapter S of the Internal Revenue Code through May 10, 2000.

**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.

**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, 2001 and 2000, this allowance was \$66,316 and \$82,502, respectively.

At December 31, 2000, accounts receivable from a customer located in Baltimore, Maryland and a customer located in Nampa, Idaho, represented approximately 29 percent and 16 percent, respectively, of total trade accounts receivable. The Company had accounts payable to the Baltimore, Maryland company of approximately 78 percent of the balance of the accounts receivable owed by the customer at December 31, 2000. Sales to these same customers accounted for 30 percent and 4 percent of 2000 net sales, respectively. The Baltimore, Maryland customer no longer does business with the Company.

At December 31, 2001, accounts receivable from the former customer located in Baltimore, Maryland and a customer in Mountain View, California represented approximately 63 percent and 12 percent, respectively, of total trade accounts receivable. Sales to these same customers accounted for 0% and 3% of 2001 net sales, respectively. Subsequent to year-end, the Baltimore, Maryland customer ("customer") and the Company reach a tentative settlement which would provide for the payment of all amounts owed to the Company by the 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 fair value of certain of the notes payable in default is not determinable.

**Loss Per Share** -Basic Earnings per Share (EPS) are calculated by dividing earnings (loss) available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted EPS are similarly calculated, except that the weighted-average number of common shares outstanding

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

would include common shares that may be issued subject to existing rights with dilutive potential when applicable.

Reclassifications Not Material -Certain reclassifications have been made to the 2000 financial statements to conform with the 2001 presentation.

### 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 from operations of \$2,933,084 and \$4,179,654 for the years ended December 31, 2001 and 2000, respectively. As of December 31, 2001 and 2000, the Company had an accumulated deficit of \$13,080,492 and \$10,147,408, respectively and a total stockholders' deficit of

F-10

\$6,942,377 and \$4,326,953, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of \$288,724 and \$140,961 for the years ended December 31, 2001 and 2000, 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 a substantial doubt about the Company's ability to continue as a going concern.

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.

Abacus Ventures, Inc. (Abacus) purchased the Company's line of credit from the lender. Subsequent to year-end, the Company has entered into an agreement whereby the Company has issued common stock to certain principals of Abacus 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. During 2001 and 2000, the Company successfully converted approximately \$32,500 and \$800,000, respectively in trade payables into notes and common stock. The Company intends to continue to pursue this type of debt conversion going forward with other creditors. The Company has initiated new credit arrangements for smaller dollar amounts with certain vendors and will pursue a new line of credit after negotiations with certain vendors are complete. If successful, these plans may add significant equity to the Company. There is no assurance that these transactions will occur.

### NOTE 3 - INVENTORIES

Inventories consist of the following:

	2001	2000
--	------	------

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Raw materials	\$ 1,223,160	\$ 1,088,312
Work-in process	142,048	169,676
Finished goods	408,680	497,798
	-----	-----
	\$ 1,773,888	\$ 1,755,786
	=====	=====

F-11

NOTE 4 - PROPERTY AND EQUIPMENT

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

	2001	2000	Estimated Service Lives in Years
	-----	-----	-----
Production equipment	\$ 3,141,992	\$ 3,140,450	5-10
Leasehold improvements	958,940	957,845	7-10
Office equipment	628,824	628,522	5-10
Other	118,029	118,029	3-7
	-----	-----	
	4,847,785	4,844,846	
Less accumulated depreciation and amortization	3,513,860	2,973,770	
	-----	-----	
	\$ 1,333,925	\$ 1,871,076	
	=====	=====	

NOTE 5 - LINE OF CREDIT

During 2000, the Company's line of credit of \$2,792,609 was assumed by Abacas Ventures, Inc. Abacas Ventures, Inc. converted the amount owing into a note payable. Interest has been accrued at an interest rate of 10 percent. The entire amount of the note is included in current maturities of long-term notes payable.

NOTE 6 - NOTES PAYABLE

Notes Payable consist of the following:

	2001	2000
	-----	-----
Note payable to a financial institution, due in monthly installments of \$9,462, interest at 8.61%, with a maturity date of April 2004, collateralized by equipment	305,090	377,235
Note payable to a company, due in monthly installments of \$6,256, interest at 8%, until paid, collateralized by equipment, in default	183,429	181,431
Note payable to a financial institution, due in monthly installments of \$20,000, interest at 4% over prime (8.25% at December 31, 2001), with a maturity date of July 2001, collateralized by equipment, in default	179,951	197,285
Note payable to a company, due in two installments of \$83,000 plus accrued interest at 10%, paid in full	-	166,000

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Note payable to a shareholder, due in monthly installments of \$12,748 until paid, interest at 10% unsecured, in default	130,000	130,000
Note payable to a company, due in monthly installments of \$1,972 until paid, interest at 8%, unsecured, in default	87,632	93,307
F-12		
Note payable to an individual, due in monthly installments of \$5,000, interest at a rate of 9.5%, matured May 2000, collateralized by all assets of the Company, in default	85,377	85,377
Note payable to a finance corporation, due in monthly installments of \$50 to \$5,000, interest at prime plus 3% (7.75% at December 31, 2001) with a maturity date of April 2004, collateralized by equipment	86,522	78,105
Note payable to a company, due in 18 monthly installments of \$1,460 followed by six monthly installments of \$2,920, interest at 6%, with a maturity date of April 2003, unsecured	65,973	73,000
Note payable to a finance corporation, due in monthly installments of \$50 to \$3,843, interest at 9%, with a maturity date of December 2002, collateralized by equipment and trade accounts receivable	55,499	50,619
Note payable to a finance corporation, due in monthly installments of \$50 to \$4,800, interest at 12%, matures July 2002, collateralized by equipment and trade accounts receivable	18,883	15,083
Note payable to a finance corporation, due in monthly installments of \$50 to \$8,000, interest at 9%, matures July 2002, collateralized by equipment and trade accounts receivable	12,866	11,605
Note payable to a company, due in monthly installments of \$2,827, interest at 8%, unsecured	21,732	-
Note payable to a bank, payable on demand, interest at 10%, unsecured	39,367	-
Note payable to a finance corporation, due in monthly installments of \$50 to \$5,443, interest at 12%, matures August 2002, collateralized by equipment and trade accounts receivable	38,484	-
	-----	-----
Total Notes Payable	1,310,805	1,459,047
Less current maturities	863,650	929,083
	-----	-----
Long-Term Notes Payable	\$ 447,155	\$ 529,964
	=====	=====

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

F-13

The Company's notes payable at December 31, 2001 mature as follows:

Year Ending December 31, -----	
2002	\$ 863,650
2003	333,263
2004	96,956
2005	16,936
Thereafter	-
	-----
	\$ 1,310,805
	=====

Certain of the Company's notes payable contain various covenants and restrictions. The agreements provide 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.

NOTE 7 - LEASES

The Company conducts a substantial portion of its operations utilizing leased facilities and equipment consisting of sales office, warehouses, manufacturing plant, and transportation and computer equipment. Generally, the leases provide for renewal for various periods at stipulated rates.

The following is a schedule by year of future minimum lease payments under operating and capital leases, together with the present value of the net lease payments as of December 31, 2001:

Year Ending December 31, -----	Capital Leases	Operating Leases
2002	\$ 51,054	\$ 223,050
2003	8,522	196,941
2004	2,475	191,688
2005	-	191,688
2006	-	175,714
Thereafter	-	-
	-----	-----
Future minimum lease payments	62,051	\$ 979,081
Amounts representing interest	13,070	=====
	-----	
Present value of net minimum lease payments	48,981	
Less current maturities	41,206	
	-----	
	\$ 7,775	
	=====	

The building leases provide for payment of property taxes, insurance and maintenance costs by the Company. One of the buildings is leased from related parties. Rental expense for operating leases totaled \$233,875 and \$325,552 for 2001 and 2000, respectively.

The Company has an option to renew one building lease with related parties, for two additional ten-year periods upon expiration of the term in 2006.



F-14

Property and equipment includes \$126,195 of equipment under capital leases at both December 31, 2001 and 2000. Accumulated amortization amounted to \$89,503 and \$66,842 at December 2001 and 2000, respectively, for equipment under capital leases.

NOTE 8 - RELATED PARTY TRANSACTIONS

Lease -The Company entered into a lease for manufacturing and office space with another company owned by certain stockholders of the Company. The terms of the lease include monthly payments to the lessor of \$15,974 through November 2006, after which the lease is renewable for two additional ten-year periods.

Notes Payable -The Company had amounts due to stockholders from two separate notes. The balance due to stockholders at December 31, 2001 and 2000 was \$1,390,125 and \$1,088,966, respectively. Interest associated with amounts due to stockholders is accrued at 10 percent, was \$205,402 and \$103,305 at December 31, 2001 and 2000, respectively, and is included in accrued liabilities. These notes are due on demand.

The Company had amounts due to Abacus Ventures, Inc., a related party. The balance due to Abacus at December 31, 2001 and 2000 was \$2,405,507 and \$2,435,007, respectively. Interest associated with amounts due to Abacus is accrued at 10 percent, was \$380,927 and \$142,042 at December 31, 2001 and 2000, respectively, and is included in accrued liabilities. This note is collateralized by all assets of the Company and is due on demand.

Common Stock -In 1999, Circuit entered into an agreement with 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, the Company issued 12,000,000 restricted shares of common stock to Cogent in July 2000 in connection with the acquisition of the assets and certain liabilities of Circuit. The principal of Cogent was a director of Circuit from 1999 through July 1, 2000.

NOTE 9 - ACCRUED LIABILITIES

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. Concerning the amount owed the State of Utah, during the first quarter of 2002, the Company negotiated a monthly payment schedule of \$4,000, which did not provide for the forgiveness of any taxes, penalties or interest. Approximately \$1,713,996 is owed to the Internal Revenue Service (IRS). During the first quarter of 2002, the Company negotiated a payment schedule with respect to this amount, pursuant to which the Company is currently making monthly payments of \$25,000. Approximately \$10,939 is owed the State of Colorado.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Litigation - Circuit (the surviving accounting entity, Note 1) was a defendant in an alleged breach of a facilities sublease agreement in Colorado. A lawsuit was filed in which the plaintiff sought to recover past due rent, future rent, and other lease charges. The Company filed a suit against the landlord for an amount in excess of \$500,000 for missing equipment. Rent has been accrued through December 31, 2000 and was included in accrued liabilities. Subsequent to

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

year-end, the Company settled the lawsuit as discussed in Note 17.

F-15

In March 2002, 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. The Company denies all substantive allegations made by the vendor and intends to contest the action.

Circuit is also the defendant in numerous 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, 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.

### NOTE 11 - LOSS PER COMMON SHARE

The following data show the shares used in computing loss per common share:

	2001	2000
	-----	-----
Common shares outstanding during entire period	156,301,005	129,271,560
Net weighted-average common shares issued during period	1,255,068	13,493,995
	-----	-----
Weighted-average number of common shares used in basic and diluted loss per share	157,556,073	142,765,555
	=====	=====

The Company has no potentially issuable common shares, therefore basic and diluted loss per share are the same.

### NOTE 12 - INCOME TAXES

The Company operated, for tax purposes, as a corporation under provisions of Subchapter S of the internal Revenue Code through May 10, 2000. During this period, taxes on income of the Company flowed through to the stockholders. Accordingly, the Company was not subject to federal income taxes on Company operating results for the period in which the S election was in existence, and no provision or current liability or asset for federal or state income taxes for those periods has been reflected.

On May 10, 2000, the Company revoked their S election and became a taxable entity. Effective with the change, in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The Company is not entitled to any benefit from the operating loss carry forwards incurred prior to the termination of the S election.

Income tax expense at December 31, 2001 and 2000, consists of the following:

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

	2001	2000
Current	\$ -	\$ -
Deferred	-	-
	-----	-----
	\$ -	\$ -
	=====	=====

F-16

The tax effects of temporary differences which gave rise to deferred tax assets and liabilities at December 31, 2001 and 2000, are as follows:

	2001	2000
Deferred Income Tax Assets:		
Inventory reserve	\$ 188,880	\$ 262,297
Bad debt reserve	24,736	30,773
Vacation reserve	12,569	13,591
Inventory Section 263A calculation	147,131	148,617
Research and development	55,579	55,579
Net operating loss carryforward	2,566,156	1,446,233
Intellectual property	188,050	200,053
	-----	-----
Total Deferred Income Tax Assets	3,183,101	2,157,143
Valuation allowance	(3,119,594)	(2,082,429)
	-----	-----
	63,507	74,714
Deferred Income Tax Liability - depreciation	(63,507)	(74,714)
	-----	-----
Net Deferred Income Tax Asset	\$ -	\$ -
	=====	=====

The Company has sustained net operating losses in both of the 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, 2001 and 2000.

As of December 31, 2001, the Company had net operating loss carryforwards for tax reporting purposes of approximately \$6,879,774 expiring in various years through 2021. Utilization of approximately \$1,791,000 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 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, 2001 and 2000:

	2001	2000
Benefit at statutory rate (34%)	\$ (997,249)	\$ (1,421,082)
Non-deductible expenses	56,876	49,171
Change in valuation allowance	1,037,165	1,509,840
State tax benefit, net of federal tax benefit	(96,792)	(137,929)

## Edgar Filing: CIRTRAN CORP - Form 10KSB/A

Net Benefit From Income Taxes	----- \$ - =====	----- \$ - =====	
-------------------------------	------------------------	------------------------	--

F-17

### NOTE 13 - 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.

Redemption of Common Stock - In February 2000, the Company redeemed 680,145 shares of common stock held by a director 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.

Also during 2000, the Company redeemed 1,133,550 shares of common stock held by an unrelated party for a note payable in the amount of \$145,000, which was the amount of the original investment by the unrelated party. No other stated or unstated rights, privileges, or agreements existed in conjunction with this redemption.

Common Stock Issued for Conversion of Debt - The Company entered into a settlement related to a lawsuit involving amounts owed to a vendor. The total amount owed to the vendor was \$646,284. This amount was satisfied through the payment of \$83,000 cash, the issuance of notes payable totaling \$239,000 and the issuance of 5,281,050 shares of common stock at \$0.06 per share for the remaining \$324,284. The \$0.06 per share was the fair value of the stock based on the closing stock price on the date of the settlement.

### NOTE 14 - 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.

F-18

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 year ended December 31, 2001, the Company granted options to purchase 1,650,000 shares of common stock 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 \$0.07 per share, the fair value of the Company's common stock on the date of grant. The options are exercisable through September 2006. During 2001, all employee options granted were exercised. There were no employee options outstanding at December 31, 2001.

Compensation Expense - During the year ended December 31, 2001, the Company recognized no compensation expense relating to stock options and warrants. 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 to determine the fair value of the employee options of \$0.03 per option to purchase a share of common stock: risk-free interest rate of 3.94 percent, dividend yield of 0 percent, volatility of 411.44 percent, and expected lives of .01 years.

Following are the pro forma disclosures and the related impact on the net losses:

	Years Ended December 31,	
	2001	2000
Net loss as reported	\$ (2,933,084)	\$ (4,179,654)
Net loss pro forma	(2,989,179)	(4,179,654)
Basic and diluted loss per common share as reported	(0.02)	(0.03)
Basic and diluted loss per common share pro forma	(0.02)	(0.03)

Due to the nature and timing of option grants, the resulting pro forma compensation cost may not be indicative of future years.

NOTE 15 -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:

Edgar Filing: CIRTRAN CORP - Form 10KSB/A

F-19

2001 -----	Electronics Assembly -----	Ethernet Technology -----	Total -----
Sales to external customers	\$ 1,352,085	\$ 518,763	\$ 1,870,848
Intersegment sales	309,374	-	309,374
Segment loss	(2,336,084)	(597,000)	(2,933,084)
Segment assets	3,152,815	434,471	3,587,286
Depreciation and amortization	519,217	20,873	540,090
2000 -----			
Sales to external customers	\$ 4,686,045	\$ 1,687,051	\$ 6,373,096
Intersegment sales	1,015,349	40,423	1,055,772
Segment loss	(2,950,406)	(1,229,248)	(4,179,654)
Segment assets	3,916,774	854,806	4,771,580
Depreciation and amortization	687,802	273,704	961,506

Sales -----	2001 -----	2000 -----
Total sales for reportable segments	\$ 2,180,222	\$ 7,428,868
Elimination of intersegment sales	(309,374)	(1,055,772)
Consolidated net sales	\$ 1,870,848 =====	\$ 6,373,096 =====
Net Loss -----		
Net loss for reportable segments	\$ (2,933,084)	\$ (4,179,654)
Elimination of intersegment losses	-	-
	\$ (2,933,084) =====	\$ (4,179,654) =====
Total Assets -----		
Total assets for reportable segments	\$ 3,587,286	\$ 4,771,580
Adjustment for intersegment amounts	(1,800)	(154,790)
Consolidated total assets	\$ 3,585,486 =====	\$ 4,616,790 =====

F-20

NOTE 16 - 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:

	2001 -----	2000 -----
United States of America	\$ 1,820,700	\$ 5,921,890
Mexico	-	45,216
Canada	338	-
Europe/Africa/Middle East	49,810	390,808
Asia/Australia	-	15,182
	-----	-----
	\$ 1,870,848	\$ 6,373,096

=====

NOTE 17 - SIGNIFICANT FOURTH QUARTER ADJUSTMENT

During the fourth quarter of 2001, the Company determined that an insufficient amount of overhead had been applied to the cost of sales for the year. The Company reclassified \$777,421 from selling, general and administrative expenses to cost of sales. This adjustment results in \$257,105, \$186,726, \$191,510 and \$136,080 of general and administrative expenses being reclassified to cost of sales for the quarters ended March 31, 2001, June 30, 2001, September 30, 2001 and December 31, 2001.

NOTE 18 - SUBSEQUENT EVENTS

Settlement of Litigation - As discussed in Note 10, the Company settled the lawsuit that 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 subsequently 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. This amount did not exceed the amount of rent accrued and payable at December 31, 2000, therefore this was treated as a conversion of accrued liabilities to notes payable. The remainder, \$170,000, was treated as a reduction of rent during the year ended December 31, 2001, due to a change in estimate of rent expense. Of this amount, \$25,000 was paid upon execution of the settlement, and the balance, together with interest at 8% per annum, is 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. If seventy-five percent (75%) of the balance has not been paid by May 18, 2002, the Company has agreed to prepare and file with the Securities & Exchange Commission, at its own expense, a registration statement with respect to the escrowed shares. If, by July 18, 2002, the registration of the escrowed shares of the Company's common stock is not completed and such shares are not replaced with registered, free-trading common stock in an amount sufficient to cover the liability to Sunborne, Sunborne may file the Confession of Judgment and proceed with execution thereon.

F-21

Common Stock issued for 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 on the date of the agreements as determined by market prices, for \$500,000 in cash and the cancellation of \$2,749,090 of notes payable. 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.

Employee Stock Options - Subsequent to year-end, the Company issued employees options to purchase 5,000,000 shares of common stock at prices ranging from \$0.045 to \$0.05. These options vest immediately and expire five years from the grant date. The employees have exercised all 5,000,000 options to purchase shares of common stock.

F-22

