

Edgar Filing: CIRTRAN CORP - Form 10QSB/A

CIRTRAN CORP  
Form 10QSB/A  
December 24, 2002

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

FORM 10-QSB/A  
Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-26059

CIRTRAN CORPORATION  
(Exact name of registrant as specified in its charter)

----- Nevada ----- 68-0121636 -----  
(State or other jurisdiction of (I.R.S. Employer Identification No)  
incorporation or organization)

4125 South 6000 West  
West Valley City, Utah ----- 84128 -----  
(Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No \_\_\_\_\_

The number of shares outstanding of the registrant's common stock as of August 15, 2002: 209,272,191.

Transitional Small Business Disclosure Format (check one): Yes \_\_\_ No X

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

## Table of Contents

The purpose of this amendment to CirTran Corporation's Quarterly Report on Form 10-QSB is to show the effects of a fourth quarter adjustment, discussed in the Company's Annual Report on Form 10KSB for the year ended December 31, 2001, on the period ended June 30, 2001. Also the segment information contained in Note 7 has been corrected.

This amendment does not reflect events occurring after the filing of the Quarterly Report on September 3, 2002, the original filing date of the Quarterly Report, or modify or update those disclosures as presented in the original Form 10-QSB, except to reflect the restatement as described above, and to describe certain subsequent events in Note 8 to the unaudited Condensed Consolidated Financial Statements.

	Page
PART I - FINANCIAL INFORMATION	
Item 1	Condensed Consolidated Financial Statements
Balance Sheets as of June 30, 2002 (unaudited) and December 31, 2001	3
Statements of Operations for the Six Months ended June 30, 2002 (unaudited) and 2001 (unaudited)	4
Statements of Cash Flows for the Six Months ended June 30, 2002 (unaudited) and 2001 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operation
	11
PART II - OTHER INFORMATION	
Item 1	Legal Proceedings
	14
Item 2	Changes in Securities
	14
Item 5	Other Information
	15
Item 6	Exhibits and Reports on Form 8-K
	15
Signatures	16

## PART I. FINANCIAL INFORMATION

### CIRTRAN CORPORATION AND SUBSIDIARY CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

June 30,

-----  
2002

Edgar Filing: CIRTRAN CORP - Form 10QSB/A

ASSETS	
Current assets	
Cash and cash equivalents	\$ 50
Trade accounts receivable, net of allowance for doubtful accounts accounts of \$32,317 at June 30, 2002 and \$66,316 at December 31, 2001	843,73
Inventories	1,749,82
Other	100,56
Total current assets	2,694,61
Property and equipment, at cost, net	1,079,44
Other assets, net	35,36
Total Assets	\$ 3,809,42
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Checks written in excess of cash in bank	\$ 128,34
Accounts payable	1,799,50
Accrued liabilities	3,149,75
Notes payable to stockholders	
Notes payable to related parties	1,547,39
Current maturities of capital lease obligations	
Current maturities of long-term notes payable	1,155,56
Total current liabilities	7,780,56
Long-Term Liabilities	
Long-term notes payable, less current maturities	212,45
Capital lease obligations, less current maturities	
Total long-term liabilities	212,45
Commitments and Contingencies	
Stockholders' Deficit	
Common stock, par value \$0.001; authorized 750,000,000 shares; issued and outstanding 209,272,191 at June 30, 2002 before 3,000,000 shares held in treasury at no cost, and 160,951,005 at December 31, 2001	209,27
Additional paid-in capital	9,412,93
Accumulated deficit	(13,805,797)
Total Stockholders' Deficit	(4,183,592)
Total Liabilities and Stockholders' Deficit	\$ 3,809,42

See accompanying notes to unaudited  
condensed consolidated financial statements.

CIRTRAN CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended, June 30,		Fo
	2002	2001	
Net Sales	\$ 972,018	\$ 420,480	\$
Cost of Sales	957,395	492,499	
Gross Profit	14,623	(72,019)	
Selling, general and administrative expenses	362,982	441,369	
Loss From Operations	(348,359)	(513,388)	
Other income (expense)			
Interest	(103,864)	(298,286)	
Other, net	152,675	4,100	
	48,811	(294,186)	
Net Loss	\$ (299,548)	\$ (807,574)	\$
Basic and diluted loss per common share	\$ (0.00)	\$ (0.01)	\$
Basic and diluted weighted-average common shares outstanding	209,272,191	156,301,005	

See accompanying notes to unaudited  
condensed consolidated financial statements.

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

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

		For the Six Months Ending June 30,
		2002
Cash flows from operating activities		
Net loss	\$	(725,305)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		256,133
Provision for loss on trade receivables		(138)
Settlement of litigation		(25,000)
Payments made on behalf of the Company as a settlement of a sublease agreement		(152,500)
Changes in assets and liabilities:		
Trade accounts receivable		(474,345)
Inventories		24,065
Other assets		(21,001)
Accounts payable		(45,501)
Accrued liabilities		244,940
Total adjustments		(170,691)
Net cash used in operating activities		(918,652)
Cash flows from investing activities		
Purchase of property and equipment		(1,652)
Net cash used in investing activities		(1,652)
Cash flows from financing activities		
Increase (decrease) in checks written in excess of cash in bank		(31,624)
Payments on notes payable to stockholders		(140,125)
Principal payments on long-term notes payable		(297,946)
Principal payments on capital leases		
Proceeds from long-term notes payable		655,000
Proceeds from exercise of options to purchase common stock		235,000
Proceeds from issuance of common stock		500,000
Net cash provided by financing activities		920,305
Net increase (decrease) in cash and cash equivalents		1
Cash and cash equivalents at beginning of period		499
Cash and cash equivalents at end of period	\$	500

Edgar Filing: CIRTRAN CORP - Form 10QSB/A

See accompanying notes to unaudited condensed consolidated financial statements.

5

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

	For the Six Months Ending June 30,	
	2002	
Supplemental disclosure of cash flow information		
Cash paid for interest	\$	112,905
Noncash investing and financing activities		
Notes payable issued for accounts payable	\$	345,263
Common stock issued for notes payable to stockholders		1,250,000
Common stock issued for notes payable		1,499,090
Common stock issued to escrow		225,000
Legal fees to be paid on behalf of lender		120,000

See accompanying notes to unaudited condensed consolidated financial statements.

6

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Financial Statements -- The accompanying unaudited condensed

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

consolidated financial statements include the accounts of CirTran Corporation and its subsidiary (the "Company"). These financial statements are condensed and, therefore, do not include all disclosures normally required by generally accepted accounting principles. These statements should be read in conjunction with the Company's annual financial statements included in the Company's December 31, 2001 Annual Report on Form 10-KSB. In particular, the Company's significant accounting principles were presented as Note 1 to the consolidated financial statements in that report. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2002.

### NOTE 2 - REALIZATION OF ASSETS

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company sustained net losses of \$725,305 and \$2,933,084 for the six months ended June 30, 2002 and the year ended December 31, 2001, respectively. As of June 30, 2002 and December 31, 2001, the Company had an accumulated deficit of \$13,805,797 and \$13,080,492, respectively and a total stockholders' deficit of \$4,183,592 and \$6,942,377, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of \$918,652 and \$288,724 for the six months ended June 30, 2002 and the year ended December 31, 2001, respectively.

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

In 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. During the six months ended June 30, 2002, the Company has entered into an agreement whereby the Company has exchanged common stock, issued to certain principles of Abacus, for a portion of the debt. The Company's plans include working with vendors to convert trade payables into long-term notes payable and common stock and cure defaults with lenders through forbearance agreements that the Company will be able to service. The Company intends to continue to pursue this type of debt conversion going forward

with other creditors. The Company has initiated new credit arrangements for smaller dollar amounts with certain vendors and will pursue a new line of credit

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

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 - RELATED PARTY TRANSACTIONS

Stockholder Notes Payable --The Company paid cash and issued stock as a settlement of the principal amounts due on two separate notes payable to stockholders. The balance due to stockholders at June 30, 2002 and December 31, 2001 was \$0 and \$1,390,125, respectively. Interest associated with amounts due to stockholders is accrued at 10 percent, was \$210,734 and \$205,402 at June 30, 2002 and December 31, 2001, respectively, and is included in accrued liabilities. These notes are due on demand.

During the six months ended June 30, 2002, Abacus Ventures completed negotiations with several vendors of the Company, whereby Abacus purchased various past due amounts for goods and services provided by vendors, as well as capital leases. The total of these obligations was \$345,263. In addition, Abacus agreed to deduct as an offset of the amount owed to Abacus \$120,000, constituting the amounts paid by the Company as legal fees incurred by the Company as part of its negotiations with the Company vendors. The Company has recorded this transaction as a \$345,263 non-cash increase and a \$120,000 non-cash payment to the note payable owed to Abacus, pursuant to the terms of the Abacus agreement.

Additionally, the Company entered into a bridge loan agreement with Abacus Ventures. This agreement allows the Company to request funds from Abacus to finance the build-up of inventory relating to specific sales. The loan bears interest at 24% and is payable on demand. The principal balance cannot exceed \$600,000 at any point in time. During the six months ended June 30, 2002, the Company was advanced \$655,000 and made cash payments of \$156,258 for an outstanding balance on the bridge loan of \$498,742. The total principal amount owed to Abacus Ventures between the note payable and the bridge loan was \$1,547,397 as of June 30, 2002.

For the six months ended June 30, 2002, the Company recorded \$116,278 of accrued interest and paid \$7,089 of interest on the Abacus loans. Total accrued interest due to Abacus at June 30, 2002 was \$490,116.

### NOTE 4 - COMMITMENTS AND CONTINGENCIES

Settlement of Litigation - 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. Of this amount, \$25,000 was paid upon execution of the settlement, and the balance, together with interest at 8% per annum, was payable by August 18, 2002. As security for payment of the balance, the Company executed and delivered to the plaintiff a Confession of Judgment and also issued 3,000,000 shares of common stock, which are currently held in escrow and have been treated as treasury stock recorded at no cost. Because seventy-five percent (75%) of the balance had not been paid by May 18, 2002, the Company is required to prepare and file with the Securities & Exchange Commission, at its own expense, a registration statement with respect to the escrowed shares. Because the remaining balance had



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

not been paid by August 18, 2002 and a registration statement with respect to the escrowed shares had not been declared effective, the plaintiff is entitled to file the Confession of Judgment and proceed with execution thereon. The Company is currently negotiating with the plaintiff to settle this obligation without the release of the shares held in escrow.

In connection with a sublease agreement of these facilities, the Company received a settlement in the amount of \$152,500, which has been recorded as other income. The Company did not receive cash from this settlement, but certain obligations of the Company were paid directly. \$109,125 of the principal balance of the note related to the settlement mentioned above was paid. Also, \$43,375 was paid to the Company's legal counsel, of which \$36,375 was for services rendered and \$7,000 was as a retainer for future services.

Litigation - In December 1999, a vendor of the Company filed a lawsuit that alleges breach of contract and seeks payment in the amount of approximately \$213,000 of punitive damages from the Company related to the Company's non-payment for materials provided by the vendor. The Company denies all substantive allegations made by the vendor and intends to vigorously contest the case. The Company is 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 5 - STOCKHOLDER'S EQUITY

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

### NOTE 6 - STOCK OPTIONS AND WARRANTS

Employee Grants - During March 2002, the Company granted options to purchase 5,000,000 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 the options was \$0.045 to \$0.05 per share, the fair value of the Company's common stock on the date of grant. The options are exercisable through September 2006.

The employees exercised all 5,000,000 options for \$235,000 cash during the first quarter. There were no employee options outstanding at June 30, 2002.

### NOTE 7 -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

Edgar Filing: CIRTRAN CORP - Form 10QSB/A

9

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:

June 30, 2002 -----	Assembly -----	Elec T -----
Sales to external customers	\$ 1,225,225	\$
Intersegment sales	161,553	
Segment loss	(647,307)	
Segment assets	3,478,432	
Depreciation and amortization	245,663	
June 30, 2001		
Sales to external customers	\$ 687,523	\$
Intersegment sales	262,832	
Segment loss	(1,616,209)	
Segment assets	3,559,900	
Depreciation and amortization	222,543	
Sales -----		-----
Total sales for reportable segments		\$
Elimination of intersegment sales		-----
Consolidated net sales		\$ =====
Net Loss		
Net loss for reportable segments		\$
Elimination of intersegment losses		-----
		\$ =====

All intersegment sales are recorded at the carrying value of the goods. The carrying value includes materials, labor and overhead. Therefore, the

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

intersegment sales result in no gain or loss.

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

10

### ITEM 2. 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, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our services include pre-manufacturing, manufacturing and post-manufacturing services. Through our subsidiary, Racore Technology Corporation, we design and manufacture Ethernet technology products. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management, and increased purchasing power.

#### Critical Accounting Policies

We considered the disclosure requirements of Financial Reporting Release No. 60 regarding critical accounting policies and Financial Reporting Release No. 61 regarding liquidity and capital resources, certain trading activities and related party/certain other disclosures, and concluded that nothing changed materially during the quarter that would warrant further disclosure beyond those matters previously disclosed in our Annual Report on Form 10-KSB/A for the year ended December 31, 2001.

#### Results of Operations

##### Sales and Cost of Sales

Net sales for the three-month period ended June 30, 2002 increased 131% to \$972,018, as compared to net sales of \$420,480 during the same three-month period in 2001. Net sales for the six-month period ended June 30, 2002 increased 50.7% to \$1,613,348, from \$1,070,965 during the same period in 2001.

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

Cost of sales during the three-month period ended June 30, 2002 was \$957,395, as compared to \$492,499 during the same period in 2001. Cost of sales during the six-month period ended June 30, 2002 was \$1,376,511, as compared to \$1,295,082 during the same six-month period in 2001. Our gross profit margin for the three-month period ended June 30, 2002 was 1.5%, as compared to (17.1)% during the same three-month period in 2001. Our gross profit margin for the six-month period ended June 30, 2002 was 14.7%, as compared to (20.9)% during the same six-month period in 2001. During the three-month period ended June 30, 2002, work-in-progress inventory with a high overhead allocation was completed and sold, causing a decrease in the gross profit margin for the quarter.

### Selling, General and Administrative Expenses

During the three-month period ended June 30, 2002, selling, general and administrative expenses were \$362,982, as compared to \$441,369 for the same period in 2001, representing an 18% decrease. During the six-month period ended June 30, 2002, selling, general and administrative expenses were \$883,590, as compared to \$844,668, a 4.4% decrease. Due to an increase in sales and a decrease in selling, general and administrative expenses, the amount of such expenses as a percentage of sales decreased from 78% for the six months ended June 30, 2001 to 55% for the six months ended June 30, 2002.

11

### Interest Expense

Interest expense for the three-month period ended June 30, 2002 was \$103,864, compared to \$298,286 for the same period in 2001, a reduction of \$194,422, or 65%. Interest expense for the six-month period ended June 30, 2002 was \$240,744, compared to \$543,507 during the same period in 2001, a reduction of \$302,763, or 55.7%. These decreases are primarily attributable to conversion of a significant amount of debt to equity in January 2002 and to a decrease in delinquent payroll tax penalties, which were previously recorded as part of interest expense. As of June 30, 2002, the amount of our liability for delinquent state and federal payroll taxes was \$2,073,686. See "Part II - Item 1 - Legal Proceedings."

As a result of the above factors, our overall net loss decreased 54.9% to \$725,305 for the six-month period ended June 30, 2002, from \$1,608,192 for the same period in 2001. Our net loss for the three-month period ended June 30, 2002 decreased by 62.9% to 299,548, as compared to a net loss of \$807,574 for the same period in 2001.

### Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses. Our net loss from operations for the six-month period ending June 30, 2002 was \$725,305, and our net loss from operations for the year ending December 31, 2001 was \$2,933,084. Our accumulated deficit was \$13,805,797 at June 30, 2002 and was \$13,080,492 at December 31, 2001. Our current liabilities exceeded our current assets by \$5,085,944 at June 30, 2002 and by \$7,832,259 as of December 31, 2001. We recorded negative cash flows from operations for the six-month period ending June 30, 2002 and the year ended December 31, 2001 of \$918,652 and \$288,724, respectively.

### Cash

On June 3, 2002, we had \$500 cash on hand, as compared to \$499 at December 31, 2001. The amount of checks written in excess of cash in bank decreased from \$159,964 at December 31, 2001 to \$128,340 at June 30, 2002.

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

Net cash used in operating activities was \$918,652 for the period ended June 30, 2002, compared to \$29,161 provided by operations for the six months ended June 30, 2001. During the six months ended June 30, 2002, net cash used by operations was primarily attributable to our net loss of \$747,961, increases in trade accounts receivable of 474,345, and payments of \$177,500 made in settlement of litigation, offset by a decrease in accrued liabilities of \$267,596 and non-cash charges of \$256,133 for depreciation and amortization.

Net cash used in investing activities during the six months ended June 31, 2002 and 2001, consisted of equipment purchases of \$1,652 and \$1,844, respectively.

Net cash provided by financing activities during the six-month period ended June 30, 2002 was \$920,305. Cash proceeds of \$500,000 from the issuance of restricted common stock, \$235,000 from the issuance of stock upon exercise of stock options, and \$655,000 from long-term notes payable were offset by principal payments of \$297,946 on long-term notes payable, \$140,125 on notes payable to stockholders and a \$31,624 decrease in the dollar amount of checks written in excess of cash in bank.

Noncash investing and financing activities during the period ended June 30, 2002 consisted of reclassifying \$345,263 from notes payable to accounts payable (see below under "Accounts Payable"), the cancellation of \$1,250,000 in notes payable to stockholders in exchange for issuance of restricted common stock, the cancellation of \$1,499,090 in notes payable in exchange for the issuance of restricted common stock (see below under "Liquidity and Financing Arrangements"), and the allocation of \$120,000 to be paid for legal fees on behalf of Abacus Ventures, Inc. ("Abacus"). See "Liquidity and Financing Arrangements," below.

### Accounts Receivable

By June 30, 2002, accounts receivable had increased to \$843,733 (net of an allowance for doubtful accounts of \$32,317), as compared to accounts receivable

12

of \$663,681 at March 31, 2002 (net of an allowance for doubtful accounts of \$66,178) and of \$369,250 at December 31, 2002 (net of an allowance for doubtful accounts of \$66,316). This significant increase in accounts receivable is reflective of our increase in sales during the first six months of 2002 and the timing of periods of increased sales within the two quarters.

### Accounts Payable

Accounts payable were \$1,799,507 at June 30, 2002, as compared to \$2,141,290 at December 31, 2001. This decrease is primarily attributable to payments to vendors from \$500,000 in cash provided by the issuance of restricted common stock in January 2002 and the conversion of \$345,263 of accounts payable to notes payable to Abacus, offset by increases in trade payables incurred in conjunction with our increased sales.

### Liquidity and Financing Arrangements

We sustained losses from operations of \$646,753 and \$1,068,785 for the six-month periods ended June 30, 2002 and 2001, respectively and losses from operations of \$348,359 and \$513,388 for the three-month periods ending June 30, 2002 and 2001, respectively. We had accumulated deficits of \$13,828,453 and \$13,080,492 at June 30, 2002 and December 31, 2001, respectively, and total stockholders' deficits of \$4,206,248 and \$6,942,377, respectively, as of such dates. As of December 31,

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

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.

Since February 2000, we have operated without a line of credit. Abacus, an entity whose shareholders include the Saliba Private Annuity Trust, one of our major shareholders, 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. In January 2002, we entered into agreements to exchange 19,987,853 shares of our common stock for \$1,499,090 in principal amount of this debt.

In January 2002, we also 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. In addition, in connection with these shares-for-debt transactions, we issued a further 6,666,667 shares of restricted common stock to the Saliba Private Annuity Trust and the Saliba Living Trust, principals of Abacus, in exchange for \$500,000 cash.

During the six months of ended June 30, 2002, Abacus completed negotiations with several of our vendors, whereby Abacus purchased various past due amounts for goods and services provided by the vendors, as well as capital leases. The total of these obligations was \$345,263. We recorded this transaction as a \$345,263 increase to the note payable owed to Abacus, pursuant to the terms of our agreement with them. In addition, Abacus agreed to deduct as an offset of the amount owed to Abacus \$120,000, constituting the amounts paid by the Company as legal fees incurred by the Company as part of its negotiations with the Company's vendors.

13

Additionally, we have entered into a bridge loan arrangement with Abacus during the six-month period ending June 30, 2002. This arrangement allows us to request advances from Abacus to finance the build-up of inventory relating to specific sales. The advances bear interest at 24% and are payable on demand. The principal balance of such advances cannot exceed \$600,000 at any point in time. During the six months ended June 30, 2002, we were advanced \$655,000 by Abacus pursuant to this arrangement and made cash repayments of \$156,258, leaving an outstanding principal balance owing in respect of the advances of \$498,742 as of June 30, 2002. The total principal amount owed to Abacus as of June 30, 2002 in respect of the note payable and the bridge loan arrangement was \$1,547,397.

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 exceeded \$165,000.

In conjunction with our efforts to improve our results of operations, discussed above, we are also actively seeking infusions of capital from investors and are seeking to replace our line of credit. It is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to pay the debt and secure the debt with assets. We may therefore have to rely on equity financing to meet our anticipated capital needs. There can be no assurances that

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

we will be successful in obtaining such capital. If we issue additional shares for debt and/or equity, this will serve to dilute the value of our common stock and existing shareholders' positions.

Subsequent to our acquisition of Circuit in July 2000, we took steps to increase the marketability of our shares of common stock and to make an investment in our company by potential investors more attractive. There can be no assurance, however, that we will ultimately be successful in obtaining more debt and/or equity financing 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 herein, 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.

14

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

#### Delinquent Payroll Tax Liability

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 the State of Utah. Concerning the amount owed the State of Utah, during the first quarter of 2002, we negotiated a payment schedule of \$4,000 per month, which did not provide for any forgiveness of any taxes, penalties or interest. Approximately \$1,713,996 is owed to the Internal Revenue Service. 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. Monthly payments were made during each of the three months in the second quarter according to the agreed-upon payment 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 Internal Revenue Service.

#### Sunborne Litigation

We (as successor to Circuit Technology, Inc.) were a defendant in an action in El Paso County, Colorado District Court, brought by Sunborne XII, LLC, a Colorado limited liability company, for alleged breach of a sublease agreement involving facilities located in Colorado. Our liability in this action was originally estimated to range up to \$2.5 million, and we subsequently filed a counter suit in the same court against Sunborne in an amount exceeding \$500,000

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

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 settlement agreement also stipulated that if such registration was not completed by July 18, 2002 and the escrowed shares were not replaced with registered free-trading shares pursuant to the terms of the agreement, Sunborne could file the Confession of Judgment and proceed with execution thereon.

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 August 18, 2002, we were in default of our obligations under our settlement agreement with Sunborne, i.e., the total payment due thereunder had not been made, a registration statement with respect to the escrowed shares was not filed, and we did not replace the escrowed shares with registered, free-trading shares as per the terms of the agreement. Accordingly, Sunborne is

15

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.

### Osicom Settlement

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 is allocated to amounts owed to us by Osicom and/or Entrada.

Item 2. Changes in Securities

None.

Item 5. Other Information

Effective July 15, 2002, the Company's common shares were approved for trading on the National Association of Securities Dealers' Over-the-Counter Bulletin Board.

Item 6. Exhibits and Reports on Form 8-K



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

(a) Reports on Form 8-K: The following reports on Form 8-K/A were filed by us during the three-month period ended June 30, 2002:

- (i) Form 8-K/A filed April 9, 2002 with respect to a change in our certifying accountant;
- (ii) Form 8-K/A filed April 26, 2002 with respect to a change in our certifying accountant; and
- (iii) Form 8-K/A filed May 15, 2002 with respect to a change in our certifying accountant.

(b) Exhibits:

10.1 Termination of Sublease Agreement dated as of May 22, 2002 among Sunborne XII, LLC, CirTran Corporation et al.

10.2 Mutual Release and Settlement Agreement dated July 31, 2002 among CirTran Corporation, Osicom Technologies, Inc., Entrada Networks, Inc. and Entrada Networks, A.J., Inc.

99.1 Certifications

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

16

### SIGNATURES

In accordance with 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  
Iehab J. Hawatmeh, President