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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 September 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
incorporation or organization)

(I.R.S. Employer Identification No)

4125 South 6000 West
West Valley City, Utah 84128

Address of Principal Executive Offices) (Zip Code)

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

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

The number of shares outstanding of the registrant's common stock as of November 19, 2002: 209,272,191.

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

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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 September 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 November 20, 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.

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CIRTRAN CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

September 30, December

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	2002	2001
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 882	\$
Trade accounts receivable, net of allowance for doubtful accounts of \$32,317 and \$66,316, respectively	158,807	369
Inventories	1,624,543	1,773
Subscription receivable	25,000	
Other	100,561	97
	-----	-----
Total current assets	1,909,793	2,240
Property and equipment, at cost, net	968,371	1,333
Other assets, net	23,102	10
	-----	-----
Total Assets	\$ 2,901,266	\$ 3,585
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Checks written in excess of cash in bank	\$ 123,268	\$ 159
Accounts payable	1,297,281	2,141
Accrued liabilities	3,230,117	3,071
Notes payable to stockholders	2,465	1,390
Notes payable to related parties	1,547,397	2,405
Current maturities of capital lease obligations	-	41
Current maturities of long-term notes payable	1,157,656	863
	-----	-----
Total current liabilities	7,358,184	10,072
	-----	-----
Long-Term Liabilities		
Long-term notes payable, less current maturities	201,206	447
Capital lease obligations, less current maturities	-	7
	-----	-----
Total long-term liabilities	201,206	454
	-----	-----
Commitments and Contingencies		
Stockholders' Deficit		
Common stock, par value \$0.001; authorized 750,000,000 shares; issued and outstanding 211,772,191 at September 30, 2002 before 3,000,000 shares held in treasury at no cost and 160,951,005 at December 31, 2001	211,772	160
Additional paid-in capital	9,510,433	5,977
Accumulated deficit	(14,380,329)	(13,080)
	-----	-----
Total Stockholders' Deficit	(4,658,124)	(6,942)
	-----	-----
Total Liabilities and Stockholders' Deficit	\$ 2,901,266	\$ 3,585
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended, September 30,		F
	2002	2001	
Net Sales	\$ 367,755	\$ 474,055	\$
Cost of Sales	358,869	499,772	
Gross Profit/(Loss)	8,886	(25,717)	
Operating Expenses			
Selling, general and administrative expenses	516,650	393,368	
Non-cash compensation expense	25,000	-	
Total Operating Expenses	541,650	393,368	
Loss From Operations	(532,764)	(419,085)	
Other income (expense)			
Interest	(41,865)	(124,452)	
Other, net	97	25	
	(41,768)	(124,427)	
Net Loss	\$ (574,532)	\$ (543,512)	\$
Basic and diluted loss per common share	\$ (0.00)	\$ (0.00)	\$
Basic and diluted weighted-average common shares outstanding	209,652,626	157,947,744	

See accompanying notes to unaudited condensed consolidated financial statements.

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

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	For the Nine Months September	
	----- 2002 -----	
Cash flows from operating activities		
Net loss	\$	(1,299,837)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		368,376
Provision for loss on trade receivables		(33,999)
Settlement of litigation		(25,000)
Non-cash compensation expense		25,000
Issuance of common stock options for prepaid commission		-
Payments made on behalf of the Company as a settlement of a sublease agreement		(152,500)
Changes in assets and liabilities:		
Trade accounts receivable		244,442
Inventories		149,345
Other assets		(8,739)
Accounts payable		(547,727)
Accrued liabilities		366,602

Total adjustments		385,800

Net cash used in operating activities		(914,037)

Cash flows from investing activities		
Purchase of property and equipment		(2,822)

Net cash used in investing activities		(2,822)

Cash flows from financing activities		
Increase (decrease) in checks written in excess of cash in bank		(36,696)
Payments on notes payable to stockholders		(140,125)
Principal payments on long-term notes payable		(348,402)
Principal payments on capital leases		-
Proceeds from long-term notes payable		655,000
Proceeds from notes payable to stockholders		2,465
Proceeds from exercise of options to purchase common stock		285,000
Proceeds from issuance of common stock		500,000

Net cash provided by financing activities		917,242

Net increase (decrease) in cash and cash equivalents		383
Cash and cash equivalents at beginning of period		499

Cash and cash equivalents at end of period	\$	882
		=====

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See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Nine Months E September 30,	
	----- 2002 -----	
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 186,311	\$
Noncash investing and financing activities		
Prepaid commission by stock option issuance	\$ -	\$
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	
Legal fees to be paid on behalf of lender	120,000	
Accrued interest converted to notes payable	41,301	
Exercise of options for subscription receivable	25,000	

See accompanying notes to unaudited condensed consolidated financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Financial Statements -- The accompanying unaudited condensed consolidated financial statements include the accounts of CirTran Corporation and its subsidiary (the "Company"). These financial statements are condensed and, therefore, do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the Company's annual financial statements included in the Company's December 31, 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

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consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements for the nine months ended September 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 \$1,299,837 and \$2,933,084 for the nine months ended September 30, 2002, and the year ended December 31, 2001, respectively. As of September 30, 2002, and December 31, 2001, the Company had an accumulated deficit of \$14,380,329 and \$13,080,492, respectively and a total stockholders' deficit of \$4,658,124 and \$6,942,377, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of \$914,037 and \$288,724 for the nine months ended September 30, 2002, and the year ended December 31, 2001, respectively.

Since February 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 nine months ended September 30, 2002, the Company entered into an agreement whereby the Company 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

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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 - 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. An additional \$2,465 was advanced to the company during the quarter ended September 30, 2002. The principal balance due to stockholders was \$2,465 and \$1,390,125 at September 30, 2002, and December 31, 2001,

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respectively. Interest associated with amounts due to stockholders was accrued at 10 percent. Unpaid accrued interest was \$210,734 and \$205,402 at September 30, 2002, and December 31, 2001, respectively, and is included in accrued liabilities. These notes are due on demand.

During the nine months ended September 30, 2002, Abacus 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's 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. 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 nine months ended September 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 between the note payable and the bridge loan was \$1,547,397 as of September 30, 2002.

For the nine months ended September 30, 2002, the Company recorded \$1,174,417 of accrued interest and paid \$7,089 of interest on the Abacus loans. Total accrued interest due at September 30, 2002, was \$548,255.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Settlement of Litigation - During the nine months ended September 30, 2002, the Company settled a 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 July 18, 2002. As security for payment of the balance, the Company executed and delivered to the plaintiff a Confession of Judgment and also issued 3,000,000 shares of common stock, which are currently held in escrow and have been treated as treasury stock recorded at no cost. Because seventy-five percent (75%) of the balance had not been paid by May 18, 2002, the Company was required to prepare and file with

the Securities & Exchange Commission, at its own expense, a registration statement with respect to the escrowed shares. Because, by July 18, 2002, the remaining balance had not been paid, the registration statement with respect to the escrowed shares had not been declared effective, and the Company had not replaced the escrowed shares with registered free-trading shares pursuant to the terms of the settlement agreement, the plaintiff filed the Confession of Judgment and proceeded with execution thereon. The Company is currently negotiating with the plaintiff to settle this obligation without the release of the shares held in escrow.

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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. The plaintiff has filed a claim that this payment was to be applied against rents owed rather than the note payable. The Company disputes the claim and intends to vigorously defend the action. Also, \$7,000 was paid to the Company's legal counsel as a retainer for future services. The remaining \$36,375 was paid to the above mentioned plaintiff as a settlement of rent expense.

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 has been a party to a lawsuit with a customer stemming from an alleged breach of contract. In July 2002, the Company reached a settlement with the customer in which the customer was to make payments from August 1, 2002, through October 29, 2002, to the Company totaling \$265,000. As part of the settlement, the Company returned inventory valued at \$158,010, settled receivables from the customer of 287,277, settled payables owed to the customer in the amount of \$180,287 and sold inventory to a Company related to the customer for \$13,949. At September 30, 2002, the Company had received \$185,000. Subsequent to September 30, 2002, the final payment of \$80,000 had been collected.

During October 1999, a former vendor of the Company brought action against the Company alleging that the Company owed approximately \$199,600 for materials and services and terms of a promissory note. The Company entered a settlement agreement under which the Company is to pay \$6,256.24 each month until the obligation and interest thereon are paid. This did not represent the forgiveness of any obligation, but rather the restructuring of the terms of the previous agreement. The Company has defaulted on its payment obligations under the settlement agreement. The Company is currently negotiating a new settlement agreement.

Judgment was entered in favor of a vendor during March 2002, in the amount of \$181,342 for nonpayment of costs of goods or services provided to the Company. At December 31, 2001 the Company had accrued the entire amount of the claim. The Company is currently in settlement negotiations with the vendor.

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

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

A financial institution brought suit against the Company during February 2000, alleging that the Company owed approximately \$439,000 for a loan provided to the

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Company for the Company's use and benefit. Judgment was entered against the Company and certain guarantors in the amount of \$427,291.69 plus interest at the rate of 8.61% per annum from June 27, 2000. The Company has subsequently made payments to the financial institution, reducing the obligation to \$273,089 at September 30, 2002, plus interest accruing from January 1, 2002. Negotiations for settlement of the remaining claims are underway.

Suit was brought against the Company during April, 2001, by a former shareholder alleging that the Company owed \$121,825 under the terms of a promissory note. A Stipulation for Settlement and for Entry of Judgment was executed by the parties wherein the Company agreed to arrange for payment of a principal amount of \$145,000 in 48 monthly installments. The Company made seven payments and then failed to make subsequent payments, at which time the shareholder obtained a consent judgment against the Company. The Company is currently in settlement negotiations with the former shareholder regarding the judgment.

The Company is the defendant in numerous legal actions primarily resulting from nonpayment of vendor invoices 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.

Additionally, in connection with the Company's entering into an Equity Line of Credit Agreement (described in Note 9), the Company granted to the equity line investor (the "Equity Line Investor") registration rights, in connection with which the Company is required to file a registration statement covering the resale of shares put to the Equity Line Investor under the equity line. The Company is also required to keep the registration statement effective until two years following the date of the last advance under the equity line. The Company has not yet filed such registration statement.

Accrued Payroll Tax Liabilities -- As of September 30, 2002, the Company had accrued liabilities in the amount of \$2,219,709 for delinquent payroll taxes, including interest estimated at \$281,689 and penalties estimated at \$264,249. Of this amount, approximately \$301,980 was due the State of Utah. During the first quarter of 2002, the Company negotiated a monthly payment schedule of \$4,000 to the State of Utah, which did not provide for the forgiveness of any taxes, penalties or interest. These monthly payments were not made during the third quarter. Approximately \$1,906,790 is owed to the Internal Revenue Service.

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During the first quarter of 2002, the Company negotiated a payment schedule with respect to this amount, pursuant to which monthly payments of \$25,000 were required. In addition, the Company committed to keeping current on deposits of federal withholding amounts. The required monthly payments were made during each of the three months during the second quarter. None of the monthly payments were made during the third quarter. The Company is currently renegotiating the terms of the payment schedule with the Internal Revenue Service. In addition, the Company failed to pay several of its current withholding obligations. Approximately \$10,939 is owed to the State of Colorado.

NOTE 5 - STOCKHOLDERS' EQUITY

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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 dates 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.

The Company granted options to purchase 2,500,000 shares of common stock at \$0.03 per share to an employee in July 2002. These options vested immediately and expire in September 2006. The Company's common stock had a fair value of \$0.04 per share at the time these options were granted. Compensation relating to these options of \$25,000 or \$0.01 per share was recognized at the time of grant.

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 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 in the Company's Annual Report on Form 10KSB/A. The Company evaluates performance of each segment based on earnings or loss from operations. Selected segment information is as follows:

	September 30, 2002	Electronics Assembly	
Sales to external customers	\$	1,547,594	\$
Intersegment sales		179,451	
Segment loss		(1,157,244)	
Segment assets		2,577,129	
Depreciation and amortization		352,674	
Sales to external customers	\$	1,161,578	\$
Intersegment sales		262,832	
Segment loss		(2,159,721)	
Segment assets		3,513,381	

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Depreciation and amortization

363,269

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 sales result in no intersegment gain or loss.

Total Assets

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

NOTE 8 - SUBSEQUENT EVENTS

On November 5, 2002, the Company entered into an Equity Line of Credit Agreement (the "Equity Line Agreement") with a private investor (the "Equity Line Investor"). Under the Equity Line Agreement, the Company has the right to draw up to \$5,000,000 from the Equity Line Investor against an equity line of credit (the "Equity Line"), and to put to the Equity Line Investor shares of the Company's common stock in lieu of repayment of the draw. The number of shares to be issued is determined by dividing the amount of the draw by the lowest closing bid price of the Company's common stock over the five trading days after the advance notice is tendered. The maximum amount of any single draw is \$85,000.

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

In connection with the Equity Line Agreement, the Company granted registration rights to the Equity Line Investor, in connection with which the Company is

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required to use its best efforts to file a registration statement and have it declared effective by the Securities and Exchange Commission. The Company has not yet filed such registration statement. The Company is unable to draw on the Equity Line until the registration statement has been declared effective.

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

Forward-looking statements

All statements made herein, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that the Company expects or anticipates 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 the Company's 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 the Company are based on knowledge of the Company's business and the environment in which the Company currently operates. Because of the factors listed above, as well as other factors beyond the Company's control, actual results may differ from those in the forward-looking statements.

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 materially changed 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 September 30, 2002, decreased 22.4% to \$367,755, as compared to net sales of \$474,055 during the same three-month period in 2001. Net sales for the nine-month period ended September 30, 2002 increased 28.2% to \$1,981,103, from \$1,545,020 during the same period in 2001. This increase resulted from increased sales to existing customers including Tempo Research, General Cable, Merit Optical, and Silicon Graphics, as well as

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an increase in sales to new customers including Sarcom, Digicon, and GTSI.

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Cost of sales during the three-month period ended September 30, 2002, was \$358,869, as compared to \$499,772 during the same period in 2001. Cost of sales during the nine-month period ended September 30, 2002 was \$1,735,380, as compared to \$1,794,854 during the same nine-month period in 2001. Our gross profit percentage for the three-month period ended September 30, 2002 was 2.4%, as compared to (5.4)% during the same three-month period in 2001. Our gross profit percentage for the nine-month period ended September 30, 2002 was 12.4%, as compared to (16.2)% during the same nine-month period in 2001.

Selling, General and Administrative Expenses

During the three-month period ended September 30, 2002, selling, general and administrative expenses were \$516,650, as compared to \$393,368 for the same period in 2001, representing a 23.9% decrease. During the nine-month period ended September 30, 2002, selling, general and administrative expenses were \$1,400,240, as compared to \$1,238,036, a 13.1% increase. 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 80.1% for the nine months ended September 30, 2001 to 70.7% for the nine months ended September 30, 2002.

Interest Expense

Interest expense for the three-month period ended September 30, 2002 was \$41,865, compared to \$124,452 for the same period in 2001, a reduction of \$82,587, or 66.4%. Interest expense for the nine-month period ended September 30, 2002 was \$282,609, compared to \$667,959 during the same period in 2001, a reduction of \$385,350, or 57.7%. 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 September 30, 2002, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was \$2,219,709. See "Part II - Item 1 - Legal Proceedings."

As a result of the above factors, our overall net loss decreased 39.6% to \$1,299,837 for the nine-month period ended September 30, 2002, from \$2,151,704 for the same period in 2001. Our net loss for the three-month period ended September 30, 2002 increased by 5.7% to \$574,532, as compared to a net loss of \$543,512 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 nine-month period ending September 30, 2002 was \$1,299,837, and our net loss from operations for the year ending December 31, 2001 was \$2,933,084. Our accumulated deficit was \$14,380,329 at September 30, 2002 and was \$13,080,492 at December 31, 2001. Our current liabilities exceeded our current assets by \$5,448,391 at September 30, 2002 and by \$7,832,259 as of December 31, 2001. We recorded negative cash flows from operations for the nine-month period ending September 30, 2002 and the year ended December 31, 2001 of \$914,037 and \$288,724, respectively.

Cash

On September 30, 2002, we had \$882 cash on hand, as compared to \$499 at December 31, 2001. The amount of checks written in excess of cash in bank decreased from

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\$159,964 at December 31, 2001 to \$123,268 at September 30, 2002.

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Net cash used in operating activities was \$914,037 for the period ended September 30, 2002, compared to \$133,478 for the nine months ended September 30, 2001. During the nine months ended September 30, 2002, net cash used by operations was primarily attributable to our net loss of \$1,299,837, decreases in accounts payable of \$547,727, and payments of \$152,500 made in settlement of litigation, offset by a decrease in trade accounts receivable of \$244,442 and non-cash charges of \$368,376 for depreciation and amortization.

Net cash used in investing activities during the nine months ended September 30, 2002 and 2001, consisted of equipment purchases of \$2,822 and \$1,844, respectively. Net cash provided by financing activities during the nine-month period ended September 30, 2002, was \$917,242. Cash proceeds of \$500,000 from the issuance of restricted common stock, \$285,000 from the issuance of stock upon exercise of stock options, and \$655,000 from long-term notes payable were offset by principal payments of \$348,402 on long-term notes payable, \$140,125 on notes payable to stockholders and a \$36,696 decrease in the dollar amount of checks written in excess of cash in bank.

Noncash investing and financing activities during the period ended September 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 which Abacus Ventures, Inc. ("Abacus"), agreed to deduct as an offset of the amount the Company owes Abacus. See "Liquidity and Financing Arrangements," below.

Accounts Receivable

By September 30, 2002, accounts receivable had decreased to \$158,807 (net of an allowance for doubtful accounts of \$32,317), as compared to accounts receivable of \$369,250 at December 31, 2002 (net of an allowance for doubtful accounts of \$66,316). This significant decrease in accounts receivable is reflective of our increased collection efforts.

Accounts Payable

Accounts payable were \$1,297,281 at September 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 Ventures, Inc., offset by increases in trade payables incurred in conjunction with our increased sales.

Liquidity and Financing Arrangements

We sustained losses from operations of \$1,179,517 and \$1,682,870 for the nine months ended September 30, 2002 and 2001, respectively and losses from operations of \$532,764 and \$614,085 for the quarters ended September 30, 2002 and 2001, respectively. We had accumulated deficits of \$14,380,329 and \$13,080,492 at September 30, 2002 and December 31, 2001, respectively, and total stockholders' deficits of \$4,658,124 and \$6,942,377, respectively, as of such dates. As of December 31, 2001, our monthly operating costs and interest expenses averaged approximately \$205,000 per month. As of September 30, 2002,

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this amount had decreased to approximately \$145,000 per month.

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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, 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. In January 2002, we entered into agreements with the Saliba Private Annuity Trust and the Saliba Living Trust to exchange 19,987,853 shares of our common stock for \$1,499,090 in principal amount of this debt and to issue an additional 6,666,665 shares to these trusts for \$500,000 cash.

In January 2002, in addition to the above-described transactions with the Saliba trusts, 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 two other stockholders.

During the nine-months ended September 30, 2002, Abacus completed negotiations with several of our vendors, 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's vendors. We recorded this transaction as a \$345,263 non-cash increase to the note payable owed to Abacus, pursuant to the terms of the Abacus agreement. In addition, as partial payment of the amount owed to Abacus, we agreed to pay \$120,000 in legal fees of Abacus that were incurred as part of its negotiations with our vendors, which amount was recorded as a non-cash payment to the note payable owed to Abacus.

Additionally, we entered into a bridge loan agreement with Abacus. This agreement allows us to request funds 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 cannot exceed \$600,000 at any point in time. During the nine months ended September 30, 2002, we were 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 between the note payable and the bridge loan was \$1,547,397 as of September 30, 2002.

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, exceeded \$666,000. In addition, the principal amount of notes that either mature in 2002 or are payable on demand exceed \$1,157,656. 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 \$42,000, all of which is against accrued liabilities and notes payable. None of these settlements, however, have resulted in the forgiveness of any amounts owed, but have simply resulted in a restructuring in the terms of the various debts.

In conjunction with our efforts to improve our results of operations, discussed above, on November 5, 2002, we entered into an Equity Line of Credit Agreement (the "Equity Line Agreement") with Cornell Capital Partners, LP, a private investor ("Cornell"). Under the Equity Line Agreement, we have the right to draw

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up to \$5,000,000 from Cornell against an equity line of credit (the "Equity Line"), and to put to Cornell shares of our common stock in lieu of repayment of the draw. The number of shares to be issued is determined by dividing the amount

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of the draw by the lowest closing bid price of our common stock over the five trading days after the advance notice is tendered. Cornell is required under the Equity Line Agreement to tender the funds requested by us within two trading days after the five-trading-day period used to determine the market price.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As of September 30, 2002, we had accrued liabilities in the amount of \$2,219,709 for delinquent payroll taxes, including interest estimated at \$281,689 and penalties estimated at \$264,249. Of this amount, approximately \$301,980 was due the State of Utah. During the first quarter of 2002, we negotiated a monthly payment schedule of \$4,000 to the State of Utah, which did not provide for the forgiveness of any taxes, penalties or interest. These monthly payments were not made during the third quarter. Approximately \$1,906,790 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 monthly payments of \$25,000 were required. In addition, we committed to keeping current on deposits of federal withholding amounts. The required monthly payments were made during each of the three months during the second quarter. None of the monthly payments were made during the third quarter, and the Company is renegotiating the payment schedule with the IRS. In addition, we failed to pay several of our current withholding obligations. Approximately \$10,939 is owed to the State of Colorado.

The amounts in controversy in the matters described in the following paragraphs have all been included in the Company's financial statements and notes, and do not represent obligations or contingencies in addition to those set forth in the financial statements and notes.

Sunborne XII, LLC - The Company (as successor to Circuit Technology, Inc.) was a defendant in an action in El Paso County, Colorado District Court, brought by Sunborne XII, LLC, a Colorado limited liability company, for alleged breach of a sublease agreement involving facilities located in Colorado. Our liability in this action was originally estimated to range up to \$2.5 million, and we subsequently filed a counter suit in the same court against Sunborne in an amount exceeding \$500,000 for missing equipment. Effective January 18, 2002, the Company entered into a settlement agreement with Sunborne with respect to the above-described litigation. The settlement agreement required the Company to pay Sunborne the sum of \$250,000. Of this amount, \$25,000 was paid upon execution of the agreement, and the balance, together with interest at 8% per annum, was payable by July 18, 2002. As security for payment of the balance, the Company executed and delivered to Sunborne a Confession of Judgment and also issued to Sunborne 3,000,000 shares of the Company's common stock, which are currently 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 the Company's expense, a registration statement with respect to the shares that were escrowed. The settlement

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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.

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

As of November 12, 2002, the Company was in default of its obligations under the settlement agreement with Sunborne, i.e., the total payment due thereunder had not been made, a registration statement with respect to the escrowed shares was not filed, and the Company did not replace the escrowed shares with registered, free-trading shares as per the terms of the agreement. Accordingly, Sunborne has filed the Confession of Judgment and proceeded with execution thereon. The Company is currently negotiating with Sunborne in an attempt to settle the remaining obligation under the settlement agreement.

Osicom Settlement - On July 31, 2002, the Company entered into a Mutual Release and Settlement Agreement (the "Osicom Agreement") with Osicom Technologies, Inc and Entrada Networks, Inc. In January 2001, the Company had filed a breach of contract action against Osicom, one the Company's 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, The Company has agreed to dismiss its claims against Osicom and Entrada in consideration for a series of six payments by Entrada to the Company in August-October 2002 that total \$265,000. As part of the settlement, the Company returned inventory valued at \$158,010, settled receivables from the customer of 287,277, settled payables owed to the customer in the amount of \$180,287 and sold inventory to a company related to the customer for \$13,949. At September 30, 2002 the Company had received \$185,000. Subsequent to September 30, 2002, the final payment of \$80,000 had been collected.

Arrow Electronics v. Circuit Technology Corporation, Civil No. 990409504, Third Judicial District Court, Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about October 19, 1999, under allegations that the Company owes \$199,647.92 for materials and services and terms of a promissory note. The Company has answered, admitting that it owed certain sums and denying all other claims. The Company and Arrow have entered a settlement agreement under which the Company will pay \$6,256.24 each month until the obligation and interest thereon are paid. The Company has defaulted on its payment obligations under the settlement agreement. The Company is currently negotiating a new settlement agreement.

Avnet Electronics has notified the Company that it believes it has a claim against the Company in the amount of \$180,331.02 for the cost of goods or services provided to the Company for the Company's use and benefit. No lawsuit has been filed. Negotiations for settlement of this claim have resulted in an agreement in principal whereby the Company will make a cash payment to this creditor and issue a promissory note and its restricted common stock in satisfaction of the creditor's claims. The parties are presently negotiating the terms of the settlement documents. However, until the settlement documents are

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executed and delivered, there can be no assurance that the creditor's claims will be settled or that the terms will be favorable to the Company.

CirTran Corp. v. Entrada Networks, Inc. et al., Case No. 2:01-CV-142B, United States District Court, District of Utah. On January 19, 2001, the Company filed

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suit in state court seeking to recover \$874,653 in actual damages plus unspecified consequential damages and attorneys' fees. The Company claims that Entrada, and Entrada's predecessor-in-interest, breached its contracts to purchase goods from the Company. Entrada removed the case to federal court in Salt Lake City, Utah, and filed a motion to dismiss the complaint on the basis of lack of personal jurisdiction. The court denied Entrada's motion to dismiss. Entrada asserted a claim against the Company for unspecified amount based on alleged defects that Entrada claims to have found in the goods that the Company assembled. Subsequently, the Company and Entrada entered into a settlement agreement whereby Entrada paid the Company approximately \$250,000, and agreed to order and pay for certain parts from Orbit Systems, Inc. (see below) over the next three months.

Future Electronics Corp adv. Circuit Technology Corporation, Civil No. 000900296, Third Judicial District Court, Salt Lake County, State of Utah. Suit was brought against the Company on or about January 12, 2000, under allegations that the Company owed \$646,283.96 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims were asserted for breach of contract, fraud, negligent misrepresentation, unjust enrichment, account stated and dishonored instruments. The Company answered the complaint, admitting that it owed certain sums for conforming goods and services and denying all other claims. Partial Summary Judgment was entered in the amount of \$646,783.96 as to certain claims against the Company. Negotiations for settlement resulted in an agreement for settlement of all claims of Future against the Company subject to performance by the Company under the agreement. The Company also issued to Future 352,070 shares of its restricted common stock.

Infineon Technologies North America Corp. v. Circuit Technology, Inc. et al., Case No. CV 792634, Superior Court of the State of California, County of Santa Clara. Judgment was entered against Circuit Technology, Inc., on March 12, 2002, in the amount of \$181,342.15. The Company is currently in settlement negotiations with Infineon.

John J. La Porta v. Circuit Technology, Inc. et al., Case No. 010900785, Third Judicial District Court, Salt Lake Department, Salt Lake County, State of Utah. La Porta filed suit on or about January 23, 2001, seeking to recover the principal sum of \$135,941 plus interest on a promissory note given by Racore Technology Corp. La Porta claims that the Company is a guarantor of the promissory note and the Company should be held liable because of Racore's default on the note. The parties are presently negotiating settlement. However, until the settlement is reached, there can be no assurance that the creditor's claim will be settled nor that the terms will be favorable to the Company.

Orbit Systems, Inc. v. Circuit Technology, Inc. et al, Case No. 010100050DC, Third Judicial District Court, West ValleyCity Department, Salt Lake County, State of Utah. Orbit filed suit on January 4, 2001, seeking to recover \$173,310 for the costs of goods that Orbit claims the Company is under contract to purchase. The Company filed an answer denying the substantive allegations and filed a Third-party Complaint against Osicom Technologies, Inc., and Entrada Networks, Inc., for contribution, indemnity and reimbursement in the event the Company is held liable to Orbit. The Company subsequently entered into a settlement agreement with Entrada whereby Entrada paid certain funds to the

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Company and agreed to order and pay for certain parts from Orbit. The Company also entered into an agreement with Orbit to the effect that if Entrada fulfills its obligations to purchase and pay for the parts from Orbit, Orbit will release its claims against the Company.

Sager Electronics v. Circuit Technology Corporation, Civil No. 000403535, Third Judicial District Court, Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about March 23, 2000, under allegations

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that the Company owed \$97,259.23 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for nonpayment of amount owing. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Negotiations for settlement have resulted in an agreement for settlement of all claims of Sager against the Company. The Company has arranged certain payments and is required to pay Sager \$1,972.07 each month until paid. The Company has defaulted on its payment obligations under the settlement agreement. The Company is currently negotiating a new settlement agreement.

SuhTech Electronics adv. Circuit Technology Corporation, Civil No. 00L14505, Circuit Court of Cook County Department, Law Division, State of Illinois. Suit was brought against the Company on or about December 23, 1999, under allegations that the Company owed \$213,717.70 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for breach of contract, unjust enrichment and account stated. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. The parties are presently negotiating the terms of settlement. However, until the settlement documents are executed and delivered, there can be no assurance that the creditors claims will be settled or that the terms will be favorable to the Company.

Wells Fargo Equipment Finance v. Circuit Technology Corporation, Civil No. 901207, Third Judicial District Court, Salt Lake County, State of Utah. Suit was brought against the Company on or about February 10, 2000, under allegations that the Company owed \$439,493.56 for a loan provided to the Company for the Company's use and benefit. Claims are asserted for breach of contract, breach of guarantee, and replevin. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Judgment has been entered against the Company and certain guarantors in the amount of \$427,291.69 plus interest at the rate of 8.61% per annum from June 27, 2000. The Company has subsequently made payments to Wells Fargo, reducing the obligation to \$273,089, plus interest accruing from January 1, 2002. Negotiations for settlement of the remaining claims are underway.

Zion's First National Bank has notified the Company that it believes it has a claim against the Company in the amount of \$240,000.00 for loans made to the Company for the Company's use and benefit. The Company has entered into a Fifth Forbearance and Loan Modification Agreement, requiring monthly payments of \$20,000.00. The Company is currently negotiating with this creditor to settle any remaining claims.

George M. Madanat, Civil No. KC 035616, Superior Court of the State of California for the County of Los Angeles, East District. Suit was brought against the Company on or about April 2, 2001, under allegations that the Company owed \$121,824.90 under the terms of a promissory note. A Stipulation for Settlement and for Entry of Judgment was executed by the parties wherein the Company agreed to arrange for payment of a principal amount of \$145,000 in 48 monthly installments. The Company made seven payments and then failed to make

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subsequent payments, at which time Mr. Madanat obtained a consent judgment against the Company. The Company is currently in settlement negotiations with Mr. Madanat regarding the judgment.

Abacus Ventures, Inc., ("Abacus") is a Delaware corporation which is owned by private individuals, some of whom are also affiliates and shareholders of the Company. The Company does not know the identity of all of the Abacus shareholders. It is the Company's understanding that Abacus has acquired the claims and rights of certain creditors of the Company. There may be other claims acquired by Abacus of which the Company is not aware. The Company is unaware of the full amount of Abacus' claims against the Company. The Company is negotiating with Abacus to settle and resolve the claims.

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In addition to the above specified claims, the Company is currently involved in at least four lawsuits which individually are not deemed to be material, the aggregate claims in which are approximately \$127,250. The Company is attempting to settle these suits and claims, but there is no guarantee that the Company will be able to settle such claims.

Item 2. Changes in Securities

Recent Sales of Unregistered Securities

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

Item 6. Exhibits and Reports on Form 8-K

Reports on Form 8-K: The following reports on Form 8-K were filed by us during the three-month period ended September 30, 2002:

- (i) Form 8-K filed November 12, 2002 with respect to our entering into the Equity Line of Credit Agreement.

Exhibits:

- 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

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SIGNATURES

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

CIRTRAN CORPORATION

Date: December 23, 2002

By: Iehab Hawatmeh
President