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CIRTRAN CORP  
Form 10KSB  
May 08, 2001

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

FORM 10-KSB

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, or

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

Commission File No. 33-13674-LA

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

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

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

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

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

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

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

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

The issuer's revenues for its most recent fiscal year: \$6,373,096.

Due to the absence of a trading market for the common stock of the Registrant, the aggregate market value of voting stock held by non-affiliates as of March 31, 2001, was \$0.

As of March 31, 2000, the Registrant had outstanding 10,495,637 shares of Common Stock, par value \$0.001.

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Documents incorporated by reference: None

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### General

CirTran Corporation provides a mixture of high and medium size volume turnkey manufacturing services using surface mount technology (SMT), ball-grid array (BGA) assembly, pin-through-hole (PTH) and custom injection molded cabling for electronics OEMs in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. CirTran provides a wide variety of pre-manufacturing, manufacturing and post-manufacturing services. Through its subsidiary, Racore Technology Corporation, CirTran

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designs, manufactures, and markets high performance Local Area Network products with emphasis on Fiber Optics and 10/100 Ethernet technologies. 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.

### The Market and Strategy

CirTran is benefiting from increased market acceptance of, and reliance upon, the use of manufacturing specialists by many electronics OEMs. It is estimated by IPC--Association Connecting Electronics Industries that the U.S. electronics manufacturing services industry market increased from \$22.5 billion in 1998 to \$34 billion in 2000. The Company believes the trend towards outsourcing manufacturing will continue. OEMs utilize manufacturing specialists for many reasons including the following:

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

**Reduce Investment.** As electronic products have become more technologically advanced and are shipped in greater unit volumes, the necessary investment required for internal manufacturing has increased significantly for working capital, capital equipment, labor, systems and infrastructure. Use of manufacturing specialists enables OEMs to gain access to advanced manufacturing capabilities while substantially reducing overall resource requirements.

**Focus Resources.** Because the electronics industry is experiencing greater levels of competition and more rapid technological change, many OEMs are seeking to focus their resources on activities and technologies in which they add the greatest value. By offering comprehensive electronics assembly and related manufacturing services, manufacturing specialists allow OEMs to focus on their own core competencies such as product development and marketing.

**Access to Leading Manufacturing Technology.** Electronic products and electronics manufacturing technology have become increasingly sophisticated and complex, making it difficult for OEMs to maintain the necessary technological expertise to manufacture products internally. OEMs are motivated to work with a manufacturing specialist in order to gain access to the specialist's expertise in interconnect, test and process technologies.

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**Improve Inventory Management and Purchasing Power.** Electronics industry OEMs are faced with increasing difficulties in planning, procuring and managing their inventories efficiently due to frequent design changes, short product life-cycles, large

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investments in electronic components, component price fluctuations and the need to achieve economies of scale in materials procurement. OEMs can reduce production costs by using a manufacturing specialist's volume procurement capabilities. In addition, a manufacturing specialist's expertise in inventory management can provide better control over inventory levels and increase the OEM's return on assets.

Our goal is to offer our customers the significant competitive advantages that can be obtained from manufacturing outsourcing such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management and increased purchasing power. To achieve this goal, CirTran's strategy emphasizes the following key elements:

**Quality.** CirTran believes that product quality is a critical success factor in the electronics manufacturing market. We strive for continuous improvement of our processes and have adopted a number of quality improvement and measurable quality standards for design, manufacturing and distribution management systems.

**Manufacturing Partnerships.** An important element of CirTran's strategy is to establish partnerships with major and emerging OEM leaders in diverse segments across the electronics industry. Our customer base consists of leaders in industry segments such as the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. Due to the costs inherent in supporting customer relationships, CirTran focuses its efforts on customers with which the opportunity exists to develop long-term business partnerships. Our goal is to provide its customers with total manufacturing solutions for both new and more mature products, as well as across product generations. CirTran's manufacturing services include: providing design and new product introduction services; just-in-time delivery on low to medium volume turnkey and consignment projects and projects that require more value-added services; and, servicing OEMs that require price-sensitive, high-volume production.

**Turnkey Capabilities.** Another element of our strategy is to provide a complete range of manufacturing management and value-added services, including materials management, board design, concurrent engineering, assembly of complex printed circuit boards and other electronic assemblies, test engineering, software manufacturing, accessory packaging and post-manufacturing services. CirTran believes that as manufacturing technologies become more complex and as product life cycles shorten, OEMs will increasingly contract for manufacturing on a turnkey basis as they seek to reduce their time to market and capital asset and inventory costs. A substantial portion of our revenue is from turnkey business. CirTran believes that the ability to manage and support large turnkey projects is a critical success factor and a significant barrier to entry for the market it serves. In addition, CirTran believes that due to the difficulty and long lead-time required to change manufacturers, turnkey projects generally increase an OEM's dependence on its manufacturing specialist, resulting in greater stability of our customer base and in closer working relationships. CirTran has been successful in establishing sole source positions with many of its customers for certain of their products.

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Advanced Manufacturing Process Technology. CirTran intends to continue to offer its customers the most advanced manufacturing process technologies, including surface mount technology (SMT), ball-grid array (BGA) assembly, pin-through-hole (PTH) technology, manufacturing and test engineering

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support and design for manufacturability, and in-circuit and functional test and full-system mechanical assembly. CirTran has developed substantial SMT expertise including advanced, vision-based component placement equipment. CirTran believes that the cost of SMT assembly facilities and the technical capability required to operate a high-yield SMT operation are significant competitive factors in the market for electronic assembly. CirTran also has the capability to manufacture cables, harnesses and plastic injection molding systems.

### Manufacturing and Services

To achieve excellence in manufacturing, CirTran combines advanced manufacturing technology, such as computer-aided manufacturing and testing, with manufacturing techniques including just-in-time manufacturing, total quality management, statistical process control and continuous flow manufacturing. Just-in-time manufacturing is a production technique, which minimizes work-in-process inventory and manufacturing cycle time while enabling the Company to deliver products to customers in the quantities and time frame required. Total quality management is a management philosophy that seeks to impart high levels of quality in every operation of CirTran and is accomplished by the setting of quality objectives for every operation, tracking performance against those objectives, identifying work flow and policy changes required to achieve higher quality levels and a commitment by executive management to support changes required to deliver higher quality. CirTran also provides turnkey manufacturing to meet its customers' requirements, including procurement and materials management and consultation on board design and manufacturability.

Statistical process control is a set of analytical and problem-solving techniques based on statistics and process capability measurements through which CirTran can track process inputs and resulting quality and determine whether a process is operating within specified limits. The goal is to reduce variability in the process, as well as eliminate aberrations that contribute to quality below the acceptable range of each process performance standard.

CirTran's electronics assembly activities consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible cables. We also assemble higher-level sub-systems and systems incorporating printed circuit boards and complex electromechanical components, in some cases manufacturing and packaging products for shipment directly to its customers' distributors. In addition, CirTran provides other manufacturing services including refurbishment and remanufacturing. CirTran manufactures on a turnkey basis, directly procuring some or all of the components necessary for production and on a consignment basis, where the OEM customer

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supplies all or some components for assembly.

In conjunction with its assembly activities, CirTran also provides computer-aided testing of printed circuit boards, sub-systems and systems, which contributes significantly to our ability to deliver high quality products on a consistent basis. CirTran has developed specific strategies and routines to test board and system level assemblies. In-circuit tests verify that all components have been properly inserted and that the electrical circuits are complete. Functional tests determine if the board or system assembly is performing to customer specifications. CirTran either designs and procures test fixtures and develops its own test software or utilizes its customers' existing test fixtures and test software. In addition, CirTran provides environmental stress tests of the board or system assembly.

Through Racore Technology, CirTran designs, manufactures, and distributes Ethernet cards based on fiber optic technology that are used to connect computers through fiber optic networks. CirTran markets its products through an international network of distributors, value added resellers, and

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systems integrators. In addition, CirTran produces private label, custom designed networking products and technologies on an OEM basis.

### Sales and Marketing

Sales and marketing at CirTran is an integrated process involving direct salespersons and project managers, as well as CirTran's senior executives. Our sales resources are directed at multiple management and staff levels within targeted accounts. CirTran also uses independent sales representatives in certain geographic areas. CirTran receives unsolicited inquiries resulting from advertising and public relations activities, as well as referrals from current customers. These opportunities are evaluated against CirTran's customer selection criteria and are assigned to direct salespersons or independent sales representatives, as appropriate. Historically, CirTran has had substantial recurring sales from existing customers.

In the sale process, a customer provides to CirTran specifications for the product and CirTran develops a bid price for manufacturing a minimum quantity that includes manufacture engineering, parts, labor, testing, and shipping. If the bid is accepted, the customer is required to purchase the minimum quantity and additional product is sold through purchase orders issued under the original contract. Special engineering services are provided at either an hourly rate or at a fixed contract price for a specified task.

Over 78% of our net sales during the year ended December 31, 2000, were derived from customers that were also customers during 1999. Although CirTran seeks to diversify its customer base, a small number of customers currently are responsible for a significant portion of our net sales. During the year ended December 31, 2000, CirTran's two largest customers accounted for

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59% of consolidated net sales. Osicom Technology accounted for 46% of net sales during the year, and General Cable accounted for the other 13%. Andrew Corporation represented 30% and 48.8% of net sales in 1999 and 1998, respectively. No other individual customer accounted for more than 10% of CirTran's net sales in any of these years.

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. At December 31, 2000, CirTran's backlog was approximately \$4 million. The backlog was approximately \$4.5 million at December 31, 1999.

### Competition

The electronic manufacturing services industry is comprised of a large number of companies, several of which have achieved substantial market share. CirTran also faces competition from current and prospective customers that evaluate CirTran's capabilities against the merits of manufacturing products internally. CirTran competes with different companies depending on the type of service or geographic area. Certain of CirTran's competitors may have greater manufacturing, financial, research and development and marketing resources than CirTran. We believe that the primary basis of competition in its targeted markets is manufacturing technology, quality, responsiveness, the provision of value-added services and price. To remain competitive, CirTran must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price. CirTran currently may be at a competitive disadvantage as to price when compared to manufacturers with lower cost structures, particularly with respect to manufacturers with established facilities where labor costs are lower.

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### Regulation

CirTran's operations are not subject to any significant federal, state or local regulation.

### Employees

CirTran currently employs 101 persons, five in executive positions, 14 in engineering and design, 76 in clerical and manufacturing, and six in sales.

### History

CirTran was incorporated in Nevada on March 23, 1987 under the name Vermillion Ventures, Inc., for the purpose of acquiring other operating corporate entities. On March 15, 1998, the Company acquired all of the outstanding stock of BMC Incorporated by issuing 129,000,000 shares of common stock. BMC was unsuccessful in its proposed bingo satellite operations and was dissolved. In May 2000, we effected a 3,000-to-1 reverse split in the common stock, reducing the issued and outstanding shares to 116,004. On July 1, 2000, we issued 10,000,000 shares of common stock to acquire substantially all of the assets of

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Circuit Technology, Inc., a Utah corporation. The shares issued to Circuit Technology represented approximately 98.6% of the issued and outstanding common stock of the Company immediately following the acquisition. In connection with the transaction, the former directors of CirTran appointed Iehab J. Hawatmeh a director and resigned all of their positions with CirTran as officers and directors.

### ITEM 2. DESCRIPTION OF PROPERTIES

CirTran leases approximately 40,000 square feet of office and manufacturing space in West Valley City, Utah, at a monthly lease rate of \$16,000, which serves as the principal offices and manufacturing facility for the Company. This facility is leased from I&R Properties, LLC, a company owned and controlled by Iehab J. Hawatmeh, an officer, director, and principal stockholder of the Company, Raed Hawatmeh, a principal stockholder of the Company, and Shaher Hawatmeh, an executive officer of the Company's subsidiary. CirTran leases 4,000 square feet of space in West Valley City, Utah, for Racore, where it conducts design and engineering work, for \$2,700 per month. CirTran leases a sales office in Newark, California, which is near Santa Clara, at a monthly lease rate of \$850. The facilities in Utah and California are adequate for the current needs of the Company.

### ITEM 3. LEGAL PROCEEDINGS

CirTran's subsidiary has accrued liabilities in the amount of \$1,044,936 for delinquent payroll taxes. CirTran has negotiated a payment schedule with the state of Utah, which requires monthly payments over 12 months of \$10,863, and is currently negotiating a similar payment plan with the federal government.

Circuit Technology, Inc., is a defendant in an alleged breach of a facilities sublease agreement in Colorado. The management and their attorneys estimate liability between \$0 and \$2,500,000. The wide range is due to two rent calculation methods written in the master lease. CirTran filed a suit in an amount exceeding \$500,000 for missing equipment. All parties are currently negotiating a settlement, however, no settlement has been reached.

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Circuit Technology, Inc., is also a defendant in numerous other legal actions resulting, primarily, from the nonpayment of vendors for goods and services received, all of which were assumed by CirTran. CirTran has negotiated settlements, as detailed below, and is currently negotiating settlements with these vendors.

1. Arrow Electronics, Inc. obtained a judgment against Circuit Technology, Inc., in the amount of \$215,251, plus 8% interest as of March 17, 2000. In September 2000, CirTran settled this judgment in the amount of \$199,678, plus 8% interest as of September 23, 2000. The terms of the settlement require CirTran to make monthly payments of \$6,256 to Arrow Electronics until the settlement amount is paid in full.



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

3. In January 2000, Future Electronics Corporation filed an action against Circuit Technology, Inc., in the amount of \$646,284, and an affiliate, Iehab Hawatmeh. The claim was based on nonpayment of goods and services rendered by Future Electronics, and in November 2000, CirTran settled the claim in exchange for:

- i. The immediate payment of \$83,000;
- ii. A promissory note consisting of the payment of \$83,000 in February 2001 (which was made) and \$83,000 in May 2001;
- iii. A second promissory note in the amount of \$73,000, plus 6% interest as of November 3, 2000, requiring eighteen monthly installments in the amount of \$1,460;
- iv. The issuance of 352,070 shares of CirTran restricted common stock;
- v. A lock up agreement whereby Iehab Hawatmeh, Raed Hawatmeh and Roger Kokozyan agree to not sell their shares of CirTran common stock until June 27, 2002.
- vi. A participation right whereby Future Electronics is entitled to purchase its pro rata share of any subsequent offering of CirTran's equity securities, subject to certain limitations

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

No matter was submitted to a vote of security holders in the fourth quarter of the year ended December 31, 2000.

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## PART II

#### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of CirTran has traded sporadically on the Pink Sheets under the symbol "CIRT" since July 2000. The following table sets forth for the respective periods indicated the prices of the common stock as reported and summarized on the Pink Sheets. Such prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

| Calendar Quarter Ended | High Bid | Low Bid |
|------------------------|----------|---------|
| September 30, 2000     | \$0.001  | \$0.001 |
| December 31, 2000      | \$4.000  | \$0.001 |

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As of March 31, 2001, the Company had 528 shareholders holding 10,495,637 shares of common stock. The Company has never declared a dividend on its Common Stock. The Company has not paid, nor declared, any dividends since its inception and does not intend to declare any such dividends in the foreseeable future. The Company's ability to pay dividends is subject to limitations imposed by Nevada law. Under Nevada law, dividends may be paid to the extent that the corporation's assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business.

### Recent Sales of Unregistered Securities

In July 2000, CirTran issued 10,027,333 shares of restricted common stock in exchange for assets and services as follows:

| Name                     | Amount     | Nature   |
|--------------------------|------------|--|
| Circuit Technology, Inc. | 10,000,000 | Acquired substantially all of the assets of Circuit Technology |
| Milagro Holdings, Inc.   | 25,333     | Services rendered on behalf of CirTran                         |
| Kurt Hughes              | 1,000      | Services rendered on behalf of CirTran                         |
| John Lambert             | 1,000      | Services rendered on behalf of CirTran                         |

In January 2000, CirTran issued 352,070 shares of restricted common stock to Future Electronics Corporation in exchange for \$324,284 in debt relief.

The securities were sold in a private transaction, without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. Each investor had access to all material information pertaining to the Company and its financial condition. No broker was involved and no commissions were paid in the transaction.

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

### Overview

CirTran Corporation provides a mixture of high and medium size volume turnkey manufacturing services using surface mount technology (SMT), ball-grid array (BGA) assembly, pin-through-hole (PTH) and custom injection molded cabling for leading electronics OEMs in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. CirTran provides a wide variety of pre-manufacturing, manufacturing and post-manufacturing services. Through its subsidiary, Racore Technology Corporation, CirTran designs, manufactures, and markets high performance Local Area Network products with emphasis on Fiber Optics and 10/100 Ethernet technologies. Our

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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.

### Results of Operations

Net Sales decreased 35.4% to \$6,373,096 for the year ended December 31, 2000 as compared to \$9,860,489 for 1999. The decrease is substantially due to loss of a major customer, Andrew Corporation, which accounted for approximately 30% of CirTran's net sales in 1999. Cost of sales for the year ended December 31, 2000 was \$6,191,724, a 40.6% decrease as compared to \$10,427,294 incurred during the prior year. Such costs as a percentage of revenue were 97.2% during 2000 as compared to 105.7% during 1999. Sales to Andrew Corporation in 1999 accounted for a large volume of sales through large orders averaging 35,000 pieces, but these orders resulted in very low or negative margins, which was substantially responsible for CirTran's negative gross profit for the year ended December 31, 1999. Since the first quarter of 2000, CirTran has shifted its marketing effort to small and mid-sized customers that place orders of 100 to 5,000 pieces, which produce a higher gross profit.

This redirection of CirTran's marketing effort began to see success in the last six months of 2000. In the last two quarters of 2000, CirTran had net sales of \$3,693,058 as compared to \$2,702,286 in the last two quarters of 1999, a 37% improvement over net sales during the 1999 period. Cost of sales was \$3,680,445 for the last six months of 2000 as compared to \$3,440,048 for the comparable period in 1999. Gross profit (loss) increased from a negative \$737,762 for the six months ended December 31, 1999, to a positive gross profit of \$12,613 for the comparable period in 2000.

CirTran uses just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time while enabling the Company to deliver products to customers in the quantities and time frame required. This manufacturing technique requires CirTran to maintain an inventory of component parts to meet customer orders. Inventory at December 31, 2000, was \$2,056,686 as compared to \$3,056,893 at December 31, 1999. The decrease of approximately 32.7% in inventory is attributable to the decreased sales in 2000 that reduced CirTran's need to replace inventory at the same level as in 1999. Management believes the amount of its inventory that may be considered obsolete or slow moving is properly reserved and that CirTran will be able to maintain a gross profit of at least 15% through the first 9 months of 2001 based on current prices for assembled circuit boards and the cost of inventory.

During the year ended December 31, 2000, selling, general and administrative expenses were \$1,909,790, versus \$2,594,430 for 1999, a 26.4% decrease. The change in marketing strategy to small and medium sized clients enabled CirTran to reduce staff, especially in the areas of mid-level management and assembly

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staff, and to implement other cost savings measures. Management believes that a significant portion of the losses in 1999 are attributable to expenses related to opening and subsequently closing of Circuit Technology, Inc.'s Colorado Springs facility. The Colorado Springs facility was opened in November of 1998 and a decision to close the facility was made in June of 1999. The closing process was completed in February of 2000. As a result, CirTran recognized a one-time plant closure expense of \$292,000 in 2000, that diminished the benefits of CirTran's cost saving measures in 2000, but management expects CirTran will realize the full benefit of these cost saving measures in 2001. Interest expense for 2000 was \$843,069 as compared to \$764,486 for 1999, which was not a significant change in view of the fact that our total interest bearing liabilities remained approximately the same from the end of 1999 to the end of 2000.

As a result of the above factors, the overall net loss decreased 25.9% to \$2,791,888 for the year ended December 31, 2000 as compared to \$3,768,905 for the year ended December 31, 1999.

### Liquidity and Capital Resources

CirTran's current ratio during the year ended December 31, 2000, deteriorated to 0.41:1 from 0.55:1 at December 31, 1999. The primary reason for the negative change was the reduction of inventory from \$3,056,383 at December 31, 1999, to \$2,056,686 at December 31, 2000, which was not offset by any meaningful reduction in total current liabilities. CirTran has a working capital deficit of \$4,312,114 at December 31, 2000, and has recognized a substantial net loss from operations through 2000. These factors raise substantial doubt about the ability of CirTran to continue as a going concern.

To address this issue, CirTran plans on working with vendors to convert approximately 72 percent of trade payables into long-term notes and common stock and cure defaults with lenders through forbearance agreements that the Company will be able to service. Also, Abacus Ventures, Inc., purchased the Company's line of credit from the lending institution and, based on certain criteria, has indicated its willingness to exchange the debt for common stock. If successful, these plans will add significant equity to the Company. During the last six months of 2000, CirTran successfully extended payment terms on \$940,000 of trade payables to monthly installment obligations with interest accruing at the rate of 8% per annum. It settled \$646,283 of trade payables with another creditor by paying \$83,000 in cash, issuing a non-interest bearing note in the principal amount of \$166,000 due in two installments in December 2000 and March 2001, issuing a promissory note in the principal amount of \$73,000 bearing interest at 6% per annum payable in 18 monthly installments, and converting the remaining \$324,283 to 352,070 shares of common stock. CirTran will continue to pursue these restructuring efforts to improve its financial condition, but there is no assurance that management will be successful in these efforts.

### Year 2000 Compliance

CirTran experienced no significant disruptions in mission critical information technology and manufacturing systems and believes those systems successfully responded to the Year 2000

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date change. The costs associated with Year 2000 compliance were nominal. CirTran is not aware of any material problems resulting from Year 2000 issues with its internal systems or the services of third parties. CirTran will continue to monitor its mission critical computer applications and those of its supplier and

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vendors throughout the year to ensure that any latent Year 2000 matters that may arise are addressed properly.

Forward-looking statements

The Private Securities Litigation Reform Act of 1985 provides a safe harbor for forward-looking statements made by CirTran. All statements, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that CirTran expects or anticipates will or may occur in the future, including such things as expansion and growth of its operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect CirTran'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 CirTran are based on knowledge of its business and the environment in which it operates as of the date of this report. Because of the factors listed above, as well as other factors beyond its control, actual results may differ from those in the forward-looking statements.

### ITEM 7. FINANCIAL STATEMENTS

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

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

Following the acquisition of the assets of Circuit Technology by Cirtran in July 2000, the independent accountants of Circuit Technology for the year ended December 31, 1999, Grant Thornton LLP, continued as the independent accountants of CirTran for the year ended December 31, 2000. The decision to continue with Grant Thornton, LLP was made by CirTran's board of directors.

The former accountant for CirTran, Pritchett, Siler & Hardy, P.C., reported on the financial statements of CirTran for the fiscal year ended December 31, 1999. The report of the former accountant included a statement that CirTran was a development stage company, with no revenues, that has sustained losses from operations since inception. The former accountant stated that there was a substantial doubt about the ability of CirTran to continue as a going concern. CirTran did not disagree with such statements. Except for the going concern uncertainty, the report of the former accountant did not contain any adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principle.

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During CirTran's two most recent fiscal years and subsequent interim periods through the date of this report, there were no disagreements with the former accountant on any matter of accounting principles or practice, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of the former accountant would have caused it to make reference thereto in its report on the financial statements for such years.

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### PART III

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

##### Directors and Officers

The following table sets forth the names, ages, and positions with CirTran for each of the directors and officers.

| Name              | Age | Positions (1)   | Since     |
|-------------------|-----|---|-----------|
| Iehab J. Hawatmeh | 34  | President, Secretary, Director of CirTran, and President of CirTran's Operating Subsidiary, CirTran Corporation, a Utah Corporation | July 2000 |
| Shaher Hawatmeh   | 35  | Vice President and Treasurer of CirTran's Operating Subsidiary, CirTran Corporation, a Utah Corporation                             | July 2000 |

All directors hold office until the next annual meeting of stockholders and until their successors are elected and qualify. Officers serve at the discretion of the Board of Directors.

The following is information on the business experience of each director and officer.

Iehab J. Hawatmeh. Mr. Hawatmeh is now the president, secretary, and sole director of the Company. Mr. Hawatmeh served as the President and Chief Executive Officer of Circuit Technology since 1993. In this position he was responsible for all operational, financial, marketing, and sales activities of Circuit Technology. He will continue to perform similar functions for CirTran.

Shaher Hawatmeh. Mr. Hawatmeh served as the Vice President and Treasurer of Circuit Technology since 1993, and now serves as executive vice president and treasurer of CirTran's operating subsidiary. In these positions he is responsible for budget development, strategic planning, asset management, and marketing. Shaher Hawatmeh is the brother of Iehab J. Hawatmeh.

##### Section 16(a) Filing Compliance

Not applicable.

#### ITEM 10. EXECUTIVE COMPENSATION

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### Annual Compensation

The table on the following page sets forth certain information regarding the annual and long-term compensation for services in all capacities to CirTran for the prior fiscal years ended December 31, 2000, 1999, and 1998, of those persons who were either (i) the chief executive officer during the last completed fiscal year or (ii) one of the other four most highly compensated executive officers as of the end of the last completed fiscal year (collectively, the "Named Executive Officers").

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|                             | Annual Compensation |             |
|-----------------------------|---------------------|-------------|
| Name and Principal Position | Year                | Salary (\$) |
| Iehab J. Hawatmeh           | 2000                | 175,000     |
| President, Secretary,       | 1999                | 187,230     |
| Treasurer and Director      | 1998                | 128,923     |
| Shaher Hawatmeh             | 2000                | 109,000     |
| Executive Vice President    | 1999                | 86,154      |
|                             | 1998                | 74,157      |

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of March 31, 2001, the number and percentage of the 10,495,637 outstanding shares of common stock which, according to the information supplied to CirTran, were beneficially owned by (i) each person who is currently a director, (ii) each executive officer, (iii) all current directors and executive officers as a group and (iv) each person who, to the knowledge of CirTran, is the beneficial owner of more than 5% of the outstanding common stock. Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

| Name  | Common Shares | Percent of Class |
|---|---------------|------------------|
| Cogent Capital Corp.<br>11444 South 1780 East<br>Sandy, Utah 84092            | 769,844       | 7.33             |
| Iehab J. Hawatmeh (1)<br>4125 South 6000 West<br>West Valley City, Utah 84128 | 2,072,154     | 19.74            |
| Raed Hawatmeh<br>10989 Bluffside Drive<br>Studio City, CA 91604               | 1,926,302     | 18.35            |
| Shaher Hawatmeh (1)<br>4125 South 6000 West<br>West Valley City, Utah 84128   | 223,691       | 2.13             |

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|   |           |       |
|---|-----------|-------|
| Roger Kokozyon<br>4539 Haskell Avenue<br>Encion, CA 91436                 | 1,847,708 | 17.60 |
| Saliba Private Annuity Trust<br>115 S. Valley Street<br>Burbank, CA 91505 | 695,453   | 6.8   |
| All Officers and Directors as<br>a Group (2 persons)                      | 2,295,845 | 22.0  |

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(1) These persons are all of the named executive officers and directors of the Company.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following discussion includes certain relationships and related transactions that occurred during the Company's fiscal year ended December 31, 2000.

The Company leases its principal offices and manufacturing facility from I & R Properties LLC, a Utah limited liability company, at a monthly lease rate of \$16,000 under a lease that expires November 2006. The Company has the option of renewing the lease for two additional 10-year terms. I & R Properties, LLC is owned and controlled by Iehab J. Hawatmeh, an officer, director and principal stockholder of the Company, Raed Hawatmeh, a principal stockholder of the Company, and Shaher Hawatmeh, an officer of Circuit Technology.

During 2000, Iehab J. Hawatmeh loaned an additional \$50,000 to the Company in exchange for a promissory demand note with an interest rate of 10%.

### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

#### Exhibits

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

| SEC<br>Ref. No. | Title of Document  | Location* |
|-----------------|--|-----------|
| (2.1)           | Asset Purchase Agreement with Circuit Technology dated June 12, 2000, with exhibits. | (1)       |
| (3.1)           | Articles of Incorporation  | (2)       |
| (3.2)           | Articles of Incorporation, as amended  | (1)       |
| (3.3)           | By-Laws  | (1)       |
| (10.1)          | Lease Agreement for West Valley City, Utah facility                                  | (1)       |
| (10.2)          | Financial Advisory Agreement with Cogent Capital                                     | Page E-1  |



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Corp. dated May 12, 1999.

|        |  |           |
|--------|--|-----------|
| (10.3) | Form of Product Representative Agreement   | Page E-6  |
| (10.4) | Imperial Bank Security Line of Credit Agreement dated April 6, 1998                        | Page E-14 |
| (10.5) | Abacas Ventures Purchase Agreement of Line of Credit from Imperial Bank, dated May 1, 2000 | Page E-18 |

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|         |   |           |
|---------|---|-----------|
| (10.6)  | Imperial Bank's Assignment of Loan and Loan Documents to Abacas Ventures, dated May 1, 2000                 | Page E-30 |
| (10.7)  | Promissory Note of \$73,000 with Future Electronics Corporation, dated November 3, 2000                     | Page E-33 |
| (10.8)  | Promissory Note of \$166,000 with Future Electronics Corporation, dated November 3, 2000                    | Page E-36 |
| (10.9)  | Lock Up Agreement between Iehab Hawatmeh and Future Electronics Corporation, dated November 3, 2000         | Page E-38 |
| (10.10) | Lock Up Agreement between Raed Hawatmeh and Future Electronics Corporation, dated November 3, 2000          | Page E-39 |
| (10.11) | Lock Up Agreement between Roger Kokozyan and Future Electronics Corporation, dated November 3, 2000         | Page E-40 |
| (10.12) | Registration Rights Agreement with Future Electronics Corporation, dated November 3, 2000                   | Page E-41 |
| (10.13) | Promissory Note and Confession of Judgment with Arrow Electronics, Inc., dated September 26, 2000           | Page E-51 |
| (10.14) | Promissory Note and Confession of Judgment with Sager Electronics, Inc. dated November 16, 2000             | Page E-55 |
| (10.15) | Confession of Judgment, with Future Electronics Corporation, dated November 3, 2000                         | Page E-59 |
| (10.16) | Settlement Agreement and Release of all Claims with Future Electronics Corporation, dated November 3, 2000. | Page E-62 |
| (16.1)  | Letter on Change of Certifying Accountants  | Page E-70 |

(1) Filed on Form 8-K with the SEC on July 17, 2000, and incorporated herein by this reference.

(2) Filed on Form 10-KSB for the fiscal year ended December 31, 2000 with the SEC on May 30, 2000, and incorporated herein by this reference.

Form 8-K Filings

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None

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## SIGNATURES

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

CIRTRAN CORPORATION

Date: April 30, 2001 By: /s/Iehab J. Hawatmeh, President

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

Date: April 30, 2001 /s/Iehab J. Hawatmeh,  
President

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## Index to Financial Statements

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors  
CirTran Corporation and Subsidiary

## Edgar Filing: CIRTRAN CORP - Form 10KSB

We have audited the accompanying consolidated balance sheets of CirTran Corporation and Subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CirTran Corporation and Subsidiary, as of December 31, 2000 and 1999, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ GRANT THORNTON LLP

Salt Lake City, Utah  
March 9, 2001

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CirTran Corporation and Subsidiary

CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS

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|   | 2000         | 1999         |
|---|--------------|--------------|
| CURRENT ASSETS (Note G)   |              |              |
| Cash and cash equivalents   | \$ 11,068    | \$ 500       |
| Trade accounts receivable, net of allowance for doubtful accounts of \$72,774 in 2000 and \$360,493 in 1999                     | 883,825      | 973,351      |
| Inventories, net (Note C)   | 2,056,686    | 3,056,383    |
| Other   | 94,176       | 93,621       |
| Total current assets  | 3,045,755    | 4,123,855    |
| PROPERTY AND EQUIPMENT, AT COST, NET<br>(Notes D, G and H)  |              |              |
|   | 1,871,076    | 2,603,022    |
| OTHER ASSETS, NET (Notes E and G)   |              |              |
|   | 46,072       | 251,234      |
|   | \$ 4,962,903 | \$ 6,978,111 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT   |              |              |
| CURRENT LIABILITIES   |              |              |
| Checks written in excess of cash in bank  | \$ 5,491     | \$ 77,656    |
| Accounts payable  | 1,166,057    | 2,366,187    |
| Accrued liabilities (Note J)  | 1,711,991    | 598,786      |
| Line of credit (Note F)   | -            | 2,792,609    |
| Current maturities of long-term obligations (Note G)  | 3,414,090    | 475,385      |
| Current maturities of capital lease obligations (Note H)  | 39,274       | 100,920      |
| Notes payable to stockholders (Note I)  | 1,020,966    | 1,035,966    |
| Total current liabilities   | 7,357,869    | 7,447,509    |
| LONG-TERM OBLIGATIONS, less current maturities (Note G)   |              |              |
|   | 529,964      | 726,968      |
| CAPITAL LEASE OBLIGATIONS, less current maturities (Note H)   |              |              |
|   | 14,257       | 82,317       |
| COMMITMENTS (Notes F, H and K)  |              |              |
|   | -            | -            |
| STOCKHOLDERS' DEFICIT (Notes B, I and L)  |              |              |
| Common stock, par value \$0.001; Authorized 50,000,000 shares; issued and outstanding; 10,420,067 in 2000 and 8,618,104 in 1999 | 10,420       | 8,618        |
| Additional paid-in capital  | 5,810,035    | 4,766,453    |
| Receivable from stockholders (Note I)   | -            | (86,000)     |
| Accumulated deficit   | (8,759,642)  | (5,967,754)  |
| Total stockholders' deficit   | (2,939,187)  | (1,278,683)  |
|   | \$ 4,962,903 | \$ 6,978,111 |

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31,

|           | 2000         | 1999         |
|-----------|--------------|--------------|
| Net sales | \$ 6,373,096 | \$ 9,860,489 |

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|  |                |                |
|--|----------------|----------------|
| Cost of sales                                | 6,191,724      | 10,427,294     |
| Gross profit (loss)                          | 181,372        | (566,805)      |
| Selling, general and administrative expenses | 1,909,790      | 2,594,430      |
| Plant closure expenses                       | 292,000        | -              |
| Loss from operations                         | (2,020,418)    | (3,161,235)    |
| Other income (expense)                       |                |                |
| Interest                                     | (843,069)      | (764,486)      |
| Other, net                                   | 71,599         | 156,816        |
|  | (771,470)      | (607,670)      |
| Loss before income taxes                     | (2,791,888)    | (3,768,905)    |
| Income taxes (Note M)                        | -              | -              |
| NET LOSS                                     | \$ (2,791,888) | \$ (3,768,905) |
| Loss per common share                        |                |                |
| Basic  | \$ (0.29)      | \$ (0.47)      |
| Diluted                                      | (0.29)         | (0.47)         |
| Weighted-average common shares outstanding   |                |                |
| Basic  | 9,584,735      | 7,953,080      |
| Diluted                                      | 9,584,735      | 7,953,080      |

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

Years ended December 31, 2000 and 1999

|  | Common Stock<br>Number<br>of shares | Common Stock<br>Amount | Additional<br>paid-in<br>capital | Receivable<br>from<br>stockholders | Accumulated<br>deficit |
|--|-------------------------------------|------------------------|----------------------------------|------------------------------------|------------------------|
| Balances at January 1, 1999                  | 7,325,842                           | \$ 7,326               | \$ 2,831,510                     | \$ (225,000)                       | \$ (2,198,849)         |
| Issuance of common stock                     | 1,421,488                           | 1,421                  | 2,169,814                        | -                                  | -                      |
| Repurchase and retirement of<br>common stock | (129,226)                           | (129)                  | (234,871)                        | 225,000                            | -                      |
| Net loss                                     | -                                   | -                      | -                                | -                                  | (3,768,905)            |
| Receivable from stockholders<br>stockholders | -                                   | -                      | -                                | (86,000)                           | -                      |

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|   |            |           |           |          |                |
|---|------------|-----------|-----------|----------|----------------|
| Balances at December 31, 1999                       | 8,618,104  | 8,618     | 4,766,453 | (86,000) | (5,967,754)    |
| Issuance of common stock                            | 627,238    | 627       | 945,473   | -        | -              |
| Repurchase and retirement of<br>common stock        | (45,343)   | (45)      | (79,955)  | -        | -              |
| Recapitalization of<br>company (Note A1)            | 943,568    | 944       | (944)     | -        | -              |
| Stock issued for debt                               | 352,070    | 352       | 323,932   | -        | -              |
| Purchase and retirement of<br>common stock for debt | (75,570)   | (76)      | (144,924) | -        | -              |
| Net loss  | -          | -         | -         | -        | (2,791,888)    |
| Payment from stockholders                           | -          | -         | -         | 86,000   | -              |
| Balances at December 31, 2000                       | 10,420,067 | \$ 10,420 | 5,810,035 | \$ -     | \$ (8,759,642) |

The accompanying notes are an integral part of this statement.

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CirTran Corporation and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

|   | 2000           | 1999           |
|---|----------------|----------------|
| Increase (decrease) in cash and cash equivalents                              |                |                |
| Cash flows from operating activities  |                |                |
| Net loss  | \$ (2,791,888) | \$ (3,768,905) |
| Adjustments to reconcile net loss to net<br>cash used in operating activities |                |                |
| Depreciation and amortization   | 961,506        | 1,080,193      |
| Loss on disposal of property and equipment                                    | -              | 85,209         |
| Provision for doubtful trade receivables                                      | 69,250         | 285,743        |
| Provision for inventory obsolescence  | (87,595)       | 329,561        |
| Changes in assets and liabilities   |                |                |
| Trade accounts receivable   | 20,276         | 514,333        |
| Inventories   | 1,087,292      | (93,889)       |
| Other assets  | (12,183)       | 129,492        |
| Accounts payable  | (636,846)      | (289,282)      |
| Accrued liabilities   | 1,113,205      | 346,686        |
| Total adjustments   | 2,514,905      | 2,388,046      |
| Net cash used in<br>operating activities                                      | (276,983)      | (1,380,859)    |
| Cash flows from investing activities  |                |                |
| Purchase of property and equipment  | (12,770)       | (453,351)      |
| Acquisition costs   | -              | (47,857)       |
| Net cash used in  |                |                |

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investing activities (12,770) (501,208)

(Continued)

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CirTran Corporation and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

|  | 2000       | 1999        |
|--|------------|-------------|
| Cash flows from financing activities                             |            |             |
| Decrease in checks written in excess of cash in bank             | (72,165)   | (124,759)   |
| Payments from stockholders                                       | 86,000     | -           |
| Borrowings from stockholders                                     | (15,000)   | 1,035,966   |
| Net change in line of credit                                     | -          | (1,194,580) |
| Principal payments on long-term obligations                      | (825,593)  | (291,266)   |
| Proceeds from long-term obligations                              | 390,685    | 606,719     |
| Payments on capital lease obligations                            | (129,706)  | (226,987)   |
| Purchase and retirement of common stock                          | (80,000)   | (10,000)    |
| Issuance of common stock   | 946,100    | 2,085,235   |
| Net cash provided by financing activities                        | 300,321    | 1,880,328   |
| Net increase (decrease) in cash and cash equivalents             | 10,568     | (1,739)     |
| Cash and cash equivalents at beginning of year                   | 500        | 2,239       |
| Cash and cash equivalents at end of year                         | \$ 11,068  | \$ 500      |
| Supplemental disclosure of cash flow information                 |            |             |
| Cash paid during the year for interest                           | \$ 622,266 | \$ 764,486  |
| Noncash investing and financing activities                       |            |             |
| Capital lease obligation incurred for equipment (Note H)         | -          | 26,954      |
| Common stock retired as payment of receivables from stockholders | -          | 225,000     |
| Receivable from stockholders for purchase of stock               | -          | 86,000      |
| Stock issued for debt  | 324,284    | -           |
| Notes issued for accounts payable                                | 239,000    | -           |
| Stock converted to debt  | 145,000    | -           |
| Conversion of line of credit to convertible note payable         | 2,792,609  | -           |

The accompanying notes are an integral part of these statements.

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CirTran Corporation and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 1. Business activity

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

Effective July 1, 2000, all of the assets and certain liabilities of Circuit Technology Corporation (Circuit) were acquired by CTI Systems, Inc. (CTISI), a wholly owned subsidiary of Vermillion Ventures, Inc. (VVI), an inactive corporation. The stockholders of Circuit received 10,000,000 shares of VVI common stock in the transaction of which 800,000 shares were paid by Circuit to Cogent Capital Corp. for services performed in facilitating the transaction. CTISI subsequently changed its name to CirTran Corporation.

The merger was accounted for as a reverse acquisition of CirTran Corporation by Circuit. Although CirTran Corporation will be the surviving legal entity, for accounting purposes Circuit was treated as the surviving accounting entity.

#### 2. Principles of consolidation

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

#### 3. Revenue recognition

Revenue is recognized when products are shipped to customers.

#### 4. Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### 5. Inventories



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Raw material inventories consist primarily of circuit boards, components and cables and are valued at the lower of average cost or market. Work in process and finished goods include materials, labor and overhead.

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CirTran Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### 6. Property and equipment

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

#### 7. Other assets

Other assets consist of intellectual property, financing costs and acquisition costs. Intellectual property is recorded at cost and amortized over the period proceeds are received or on a straight-line basis over three years, whichever is shorter. Financing and acquisition costs are amortized on a straight-line basis over one to five years.

Intangible assets are evaluated periodically as events or circumstances indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses, including undiscounted cash flows and profitability projections. Impairment would be recognized in operating results if expected future operating undiscounted cash flows are less than the carrying value of intangible assets.

Amortization expense totaled \$216,790 and \$269,930 for 2000 and 1999, respectively.

#### 8. Checks written in excess of cash in bank

Under the Company's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes. Additionally, at times banks may temporarily lend funds to the Company by paying out more funds than are in the Company's account. These overdrafts are included as a current liability in the balance sheets.

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### 9. Income taxes

As of December 31, 2000, the Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. An allowance against deferred tax assets is recorded when it is more likely than not that such tax benefits will not be realized. Research tax credits are recognized as utilized.

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

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### CirTran Corporation and Subsidiary

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### 10. Use of estimates

In preparing the Company's financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates (Note B).

### 11. Concentrations of risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. The Company sells substantially to recurring customers wherein the customer's ability to pay has previously been evaluated. The Company generally does not require collateral. Allowances are maintained for potential credit losses, and such losses have been within management's expectations. At December 31, 2000 and 1999, this allowance was \$72,774 and \$360,493, respectively.

At December 31, 2000, accounts receivable from customers located in Baltimore, Maryland and Eagle Pass, Texas, represented approximately 49 percent and nine percent, respectively, of total trade accounts receivable. The Company has accounts payable to the Baltimore, Maryland company of approximately 78 percent of the accounts

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receivable balance (with a right of offset). Sales to these customers accounted for 46 percent and 13 percent of 2000 revenues, respectively.

### 12. Fair value of financial instruments

The carrying value of the Company's cash and cash equivalents and trade accounts receivable, approximates their fair values due to their short-term nature. The fair value of certain of the trade and notes payable in default is not determinable.

### 13. Net loss per share

Basic Earnings Per Share (EPS) are calculated by dividing earnings (loss) available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted EPS are similarly calculated, except that the weighted-average number of common shares outstanding includes common shares that may be issued subject to existing rights with dilutive potential. Diluted EPS is not calculated for periods of net loss because to do so would be anti-dilutive.

### 14. Reclassifications not material

Certain reclassifications have been made to the 1999 financial statements to conform with the 2000 presentation.

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## CirTran Corporation and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

#### NOTE B - REALIZATION OF ASSETS

The accompanying 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 has sustained substantial losses from operations in 2000 and 1999. The Company also has an accumulated deficit of \$8,759,642 and total stockholders' deficit of \$2,939,187 at December 31, 2000. In addition, the Company has used, rather than provided, cash in its operations.

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.

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

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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. purchased the Company's line of credit (Note F) from the lender. Management has indicated that the lender, based on certain criteria, is willing to exchange the debt for common stock. The Company's plans include working with vendors to convert approximately 72 percent of trade payables into long-term notes and common stock and cure defaults with lenders through forbearance agreements that the Company will be able to service. Approximately \$940,000 of trade payables have been converted. The Company has initiated new credit arrangements for smaller dollar amounts with many vendors and will pursue a new line of credit after negotiations with vendors are complete. If successful, these plans will add significant equity to the Company.

In the future, significant amounts of additional cash will be needed to reduce debt and to fund losses until the Company becomes profitable. During 2000, the Company has raised approximately \$946,000 of additional capital from investors. During 2000, the Company's president also loaned the Company an additional \$50,000 (Note G). The Company is continuing to seek infusions of capital from investors and is also attempting to replace its line of credit. Management has made changes in operations to reduce labor and other costs and believes that if adequate cash and capital as described above are obtained, the Company can become profitable.

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### CirTran Corporation and Subsidiary

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

#### NOTE C - INVENTORIES

Inventories consist of the following:

|                               | 2000         | 1999         |
|-------------------------------|--------------|--------------|
| Raw materials                 | \$ 1,791,520 | \$ 1,677,554 |
| Work-in process               | 169,676      | 1,015,925    |
| Finished goods                | 497,798      | 852,807      |
|                               | 2,458,994    | 3,546,286    |
| Less reserve for obsolescence | 402,308      | 489,903      |
|                               | \$ 2,056,686 | \$ 3,056,383 |

#### NOTE D - PROPERTY AND EQUIPMENT

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

|   | 2000         | 1999         | Estimated<br>service lives |
|---|--------------|--------------|----------------------------|
| Production equipment                              | \$ 3,140,450 | \$ 3,138,908 | 5-10                       |
| Leasehold improvements                            | 957,845      | 954,170      | 7-10                       |
| Office equipment                                  | 628,522      | 620,969      | 5-10                       |
| Other   | 118,029      | 118,029      | 3-7                        |
|   | 4,844,846    | 4,832,076    |                            |
| Less accumulated depreciation<br>and amortization | 2,973,770    | 2,229,054    |                            |
|   | \$ 1,871,076 | \$ 2,603,022 |                            |

### NOTE E - OTHER ASSETS

Other assets consist of the following:

|                                 | 2000       | 1999       |
|---------------------------------|------------|------------|
| Intellectual property           | \$ 586,843 | \$ 582,540 |
| Financing and acquisition costs | 156,874    | 150,939    |
| Other                           | 10,587     | 9,197      |
|                                 | 754,304    | 742,676    |
| Less accumulated amortization   | 708,232    | 491,442    |
|                                 | \$ 46,072  | \$ 251,234 |

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CirTran Corporation and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

### NOTE F - LINE OF CREDIT

During 2000, the Company's line of credit was assumed by Abacas Ventures, Inc. Abacas Ventures, Inc. converted the amount owing into a note payable, which will be convertible into shares of common stock. The entire amount of the note is included in current maturities. The conversion date and price have not been determined.

### NOTE G - LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

|  | 2000      | 1999    |
|--|-----------|---------|
| Note payable to a company, payable in full, due on demand, interest at 10%, collateralized by all assets of the Company. Interest associated with this note of \$142,042 was accrued and included in accrued liabilities at December 31, 2000. | 2,435,007 | -       |
| Note payable to a financial institution, due in monthly  | 377,235   | 446,352 |

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|  |         |         |
|--|---------|---------|
| installments of \$9,462, including interest at 8.61%, with a maturity date of April 2004, collateralized by equipment  |         |         |
| Note payable to a company, due in monthly installments of \$6,256, including interest at 8%, until paid, collateralized by equipment   | 181,431 | 143,437 |
| Note payable to a financial institution, due in monthly installments of \$20,000, including interest at 4% over prime (12.5% at December 31, 2000), with a maturity date of July 2001, collateralized by equipment | 197,285 | 301,504 |
| Note payable to a company, due in two installments of \$83,000 plus accrued interest at 10% with a maturity of June 2001, unsecured  | 166,000 | -       |
| Note payable to a shareholder, due in monthly installments of \$12,748 until paid, including interest at 10%, unsecured  | 130,000 | -       |
| Note payable to a company, due in monthly installments of \$1,972 until paid, including interest at 8%, unsecured  | 93,307  | -       |

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CirTran Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

NOTE G - LONG-TERM OBLIGATIONS - CONTINUED

|  | 2000   | 1999    |
|--|--------|---------|
| Note payable to an individual, due in monthly installments of \$5,000, including interest at a rate of 9.5%, with a maturity date of May 2000, collateralized by all assets of the Company, past due               | 85,377 | 104,212 |
| Note payable to a finance corporation, due in monthly installments of \$3,280, including interest at prime (11.5% at December 31, 2000) plus 3%, with a maturity date of January 2002, collateralized by equipment | 78,105 | 82,083  |

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|  |            |            |
|--|------------|------------|
| Note payable to a company, due in 18 monthly installments of \$1,460 followed by six monthly installments of \$2,920, including interest at 6%, with a maturity date of April 2003, unsecured                    | 73,000     | -          |
| Note payable to a stockholder/officer, payable in full on demand, interest rate 10%, unsecured   | 50,000     | -          |
| Note payable to a finance corporation, due in monthly installments of \$4,152, including interest at 9%, with a maturity date of July 2000, collateralized by equipment and trade accounts receivable, past due  | 50,619     | 63,176     |
| Note payable to a finance corporation, due in monthly installments of \$3,114, including interest at 9%, with a maturity date of March 2000, collateralized by equipment and trade accounts receivable, past due | 15,083     | 35,761     |
| Note payable to a finance corporation, due in monthly installments of \$3,114, including interest at 9%, with a maturity date of May 2001, collateralized by equipment and trade accounts receivable             | 11,605     | 25,828     |
|  | 3,944,054  | 1,202,353  |
| Less current maturities  | 3,414,090  | 475,385    |
|  | \$ 529,964 | \$ 726,968 |

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CirTran Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

NOTE G - LONG-TERM OBLIGATIONS - CONTINUED

The Company's long-term obligations mature as follows:

|                          |              |
|--------------------------|--------------|
| Year ending December 31, |              |
| 2001                     | \$ 3,414,090 |
| 2002                     | 296,558      |
| 2003                     | 174,454      |
| 2004                     | 39,935       |
| 2005                     | 19,017       |
| Thereafter               | -            |
|                          | \$ 3,944,054 |

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Certain of the Company's long-term obligations contain various covenants and restrictions. The agreements provide for the acceleration of principal payments in the event of a covenant violation or a material adverse change in the operations of the Company. As of December 31, 2000, the Company was not in compliance with certain of these covenants.

### NOTE H - LEASES

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

The following is a schedule by year of future minimum lease payments under operating and capital leases, together with the present value of the net lease payments as of December 31, 2000:

| Year ending December 31,                    | Capital leases | Operating leases |
|---|----------------|------------------|
| 2001  | \$ 46,718      | \$ 320,526       |
| 2002  | 8,523          | 324,713          |
| 2003  | 4,389          | 329,037          |
| 2004  | 3,657          | 226,298          |
| 2005  | -              | 191,688          |
| Thereafter                                  | -              | 175,714          |
| Future minimum lease payments               | 63,287         | \$ 1,567,976     |
| Amounts representing interest               | (9,756)        |                  |
| Present value of net minimum lease payments | 53,531         |                  |
| Less current maturities                     | 39,274         |                  |
|   | \$ 14,257      |                  |

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### CirTran Corporation and Subsidiary

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

### NOTE H - LEASES - CONTINUED

The building leases provide for payment of property taxes, insurance and maintenance costs by the Company. One of the buildings is leased from related parties (Note I). Rental expense for operating leases totaled \$325,722 and \$743,552 for 2000 and 1999, respectively.

The Company has an option to renew one building lease for two additional ten-year periods upon expiration of the term in 2006 (Note I).

Property and equipment includes \$1,034,551 of equipment under capital leases at both December 31, 2000 and 1999. Accumulated amortization amounted to \$364,525 and \$266,472 at



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December 31, 2000 and 1999, respectively, for equipment under capital leases.

### NOTE I - RELATED PARTY TRANSACTIONS

#### Lease

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

#### Note payable

At various times during 2000 the Company had amounts due to stockholders. The balance due to stockholders at December 31, 2000 and 1999 was \$1,020,966 and \$1,035,966, respectively. Interest associated with amounts due to stockholders was \$103,305 at December 31, 2000 and is included in accrued liabilities. The Company also has an additional balance due to its president of \$50,000 at December 31, 2000 (Note G).

### NOTE J - ACCRUED LIABILITIES

Accrued liabilities include approximately \$1,044,936 of delinquent payroll taxes. The Company has negotiated a payment schedule with the state of Utah requiring 12 monthly payments of \$10,863. Negotiations are underway with the federal government to set up a similar payment schedule for the balance.

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CirTran Corporation and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

### NOTE K - LITIGATION

Circuit (the surviving accounting entity, Note A1) is a defendant in an alleged breach of a facilities sublease agreement in Colorado. A lawsuit was filed in which the plaintiff seeks to recover past due rent, future rent, and other lease charges. The management and their attorneys have estimated the range of potential loss to be between \$0 and \$2,500,000. The wide range is due to two rent calculation methods written in the master lease. Under one calculation, the amount would be minimal. Under the other calculation, the amount would represent all future rent (reduced by rent received from future tenants). Currently, a new tenant on a short-term lease occupies the premises. The Company filed a

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suit against the landlord for an amount in excess of \$500,000 for missing equipment.

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

### NOTE L - LOSS PER COMMON SHARE

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

|  | 2000      | 1999      |
|--|-----------|-----------|
| Common shares outstanding during entire period             | 8,618,104 | 7,325,842 |
| Net weighted average common shares issued during period    | 966,631   | 627,238   |
| Weighted average number of common shares used in basic EPS | 9,584,735 | 7,953,080 |

### NOTE M - INCOME TAXES

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

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CirTran Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

### NOTE M - INCOME TAXES - CONTINUED

On May 10, 2000, the Company revoked their S election and became a taxable entity. Effective with the change, in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting.

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

|          |      |
|----------|------|
| Current  | \$ - |
| Deferred | -    |
|          | \$ - |

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

|   |             |
|---|-------------|
| Current deferred tax assets                 |             |
| Inventory reserve                           | \$ 482,149  |
| Bad debt reserve                            | 85,498      |
| Vacation reserve                            | 13,591      |
| LIFO Inv. 263A calculation                  | 95,550      |
|   | 676,788     |
|   |             |
| Long-term deferred tax assets (liabilities) |             |
| R & D credit                                | 53,974      |
| R & D capitalized                           | 1,605       |
| Net operating loss carryforward             | 475,435     |
| Intangible                                  | 200,053     |
| Depreciation                                | (74,714)    |
|   | 656,353     |
|   | 1,333,141   |
| Valuation allowance                         | (1,333,141) |
|   | \$ -        |

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### CirTran Corporation and Subsidiary

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

#### NOTE M - INCOME TAXES - CONTINUED

The Company has sustained net operating losses in each of the periods presented. There were no deferred tax assets or income tax benefits recorded in the financial statements for net deductible temporary differences or net operating loss carryforwards because the likelihood of realization of the related tax benefits cannot be established. Accordingly, a valuation allowance has been recorded to reduce the net deferred tax asset to zero and consequently, there is no income tax provision or benefit presented for the year ended December 31, 2000. The increase in the valuation allowance was \$995,766 for the year ended December 31, 1999.

As of December 31, 2000, the Company had net operating loss carryforwards for tax reporting purposes of approximately \$2,937,679 expiring in various years through 2017. Utilization of approximately \$1,194,000 of the total net operating loss is dependent on the future profitable

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operation of Racore Technology Corporation under the separate return limitation rules and limitations on the carryforward of net operating losses after a change in ownership.

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