

Edgar Filing: CIRTRAN CORP - Form 10KSB

CIRTRAN CORP
Form 10KSB
April 15, 2005

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, 2004, 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 No.)
incorporation or organization)

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

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

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

Securities registered under Section 12(g) of the Act:
Common Stock, Par Value \$0.001

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

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

The issuer's revenues for its most recent fiscal year: \$8,862,715

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity as of April 14, 2005, was \$14,079,818.

As of April 8, 2005, the Registrant had outstanding 564,868,569 shares of Common Stock, par value \$0.001.

Documents incorporated by reference: None

TABLE OF CONTENTS

ITEM NUMBER AND CAPTION	Page
Part I	
1. Description of Business	3
2. Description of Properties	24
3. Legal Proceedings	25
4. Submission of Matters to a Vote of Security Holders	27
Part II	
5. Market for Common Equity and Related Stockholder Matters	27
6. Management's Discussion and Analysis or Plan of Operation	30
7. Financial Statements	40
8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	40
8A. Controls and Procedures	40
Part III	
9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	41
10. Executive Compensation	43
11. Security Ownership of Certain Beneficial Owners and Management	47
12. Certain Relationships and Related Transactions	48
13. Exhibits	50
14. Principal Accountant Fees and Services	55
Signatures	57

Edgar Filing: CIRTRAN CORP - Form 10KSB

PART I

ITEM 1. DESCRIPTION OF BUSINESS

CirTran Corporation ("we" or the "Company") is a full-service contract electronics manufacturer servicing original equipment manufactures ("OEMs") in the following industries: communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semi-conductor. We conduct our operations through three main divisions: electronics; consumer products; and general merchandise manufacturing. In our electronics division, we manufacture in all areas from printed circuit board assemblies, cables, harnesses, plastic injection molding systems and complete box-build assemblies. Low volume manufacturing is performed at our Salt Lake City facility. High volume manufacturing is performed through subcontractors in Asia. In our consumer products division, we manufacture a variety of products from fitness equipment, small home appliances, personal care and beauty products. These products are manufactured for various marketing and distribution companies who market products via television (infomercials), internet and printed advertisements. We also manufacture a variety of hard goods items ranging from furniture to small collectibles. The products are sold directly to national retailers. All products in the consumer products and general merchandise divisions are manufactured through sub-contractors in China.

Overview

We provide a mixture of high- and medium-volume turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole, and custom injection molded cabling for leading electronics original equipment manufactures ("OEMs") in the communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our services include pre-manufacturing, manufacturing, and post-manufacturing services. Through our subsidiary, Racore Technology Corporation, we design and manufacture Ethernet technology products. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management, and increased purchasing power.

In June 2004, we established our CirTran-Asia division ("CirTran-Asia"). We anticipate that CirTran-Asia will target the high-volume, Asian manufacturing market. We plan to pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses, and injection molding systems, and look for complete "box build" or "turn-key" relationships in the electronics, retail, and direct consumer markets.

On June 10, 2004, CirTran-Asia, Inc., a subsidiary of CirTran Corporation (the "Company"), signed an Exclusive Manufacturing Agreement (the "Agreement") with Michael Casey, Michael Casey Enterprises, LTC., Charles Ho, Uking System Industry Co., Ltd., David Hayek, and HIPMG, Inc. (each a "Developer" and collectively, the "Developers").

Under the Agreement, the Developers, individuals and entities with marketing rights for different products, agreed that they would work with CirTran-Asia to identify products for which CirTran-Asia would be named the exclusive manufacturer. The Agreement contemplated products including abdominal fitness machines, and hot dog/sausage machines. Additionally, the Agreement contemplated

Edgar Filing: CIRTRAN CORP - Form 10KSB

that the Developers would identify additional products for which CirTran-Asia would become the exclusive

3

manufacturer.

The Agreement provides that upon determining additional products, the Developers and CirTran-Asia would negotiate terms for manufacturing the product, including price per unit, and a projection on the number of units to be ordered. Following the identification of the product, the Developer would, at its discretion, place purchase orders with CirTran-Asia to order the products. Under the Agreement, CirTran-Asia is entitled to reject any purchase order that does not conform to the Agreement or for which the product is no longer available at the agreed price.

At the time of entering into the Agreement, no purchase orders were placed, and neither the Company nor CirTran-Asia had entered into a contract to do more than be a manufacturer of products to be identified between the parties to the Agreement

We anticipate that CirTran-Asia will handle most of the high-quantity business through factories located in close proximity to our offices in ShenZhen, China. Our staff in Asia currently consists of Mr. Ho, two full-time accounting staff members, two full-time quality engineers who deal with customers and factories regarding quality compliance, and two full-time design engineers who deal with new product designs.

Since its establishment, CirTran-Asia has contributed to a large portion of the increase in revenue for the twelve months ended December 31, 2004. This new division provides a myriad of manufacturing services to the electronics, consumer products (direct response) and general merchandise retail consumer markets. Our experience and expertise in manufacturing enables CirTran-Asia to enter a project at any phase: engineering and design, product development and prototyping, tooling, and high-volume manufacturing.

CirTran has established a dedicated satellite office for CirTran-Asia, and has retained Mr. Charles Ho to lead the new division. Having proven the value and reliability of its core products, CirTran Corporation has chosen to expand into previously untapped product lines. CirTran-Asia pursues manufacturing relationships beyond printed circuit board assemblies, cables, harnesses and injection molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, consumer products general merchandise markets. In addition, the engineering and support staff has increased to approximately 10 to 12 contracted professionals directly overseen by Mr. Ho.

Mr. Charles Ho, who became the President of our CirTran-Asia division on June 15, 2004, served for many years as the chairman of Meicer Semiconductor Co., Ltd., one of the leading semiconductor manufacturers located in China, and was a co-founder of two of the leading design and manufacturing firms of DVD and CD players: Lead Data Co., Ltd., and Media Group. Mr. Ho has a Master of Business Administration Degree from the University of South Australia and Bachelor of Science degree in Industrial Design from National Taipei University of Technology.

Preparation for this strategic move into the Asian market began in 2003. Management continues its opinion that this new division will elevate CirTran to an international contract manufacturer status for multiple products in a wide

Edgar Filing: CIRTRAN CORP - Form 10KSB

variety of industries.

Information relating to recent developments in our increasing line of fitness products is as follows:

On June 7, 2004, we announced that CirTran-Asia had received an initial purchase order on May 26, 2004, relating to the manufacture of 80,000 abdominal fitness machines. This order was the first order placed with CirTran-Asia under the exclusive manufacturing agreement. Subsequently, on June 14, 2004, we received another order for 80,000 units of the abdominal fitness machines, which was announced on June 16, 2004, through a separate press release. Since these announcements, CirTran-Asia has manufactured, shipped, and received payments of approximately \$5,288,000. On August 13, 2004, we

4

also announced that on August 11, 2004 we had received new orders for Wal-Mart. The company shipped to Wal-Mart the complete order of abdominal fitness machines and received payments of approximately \$400,000 to date. The units were distributed to Wal-Mart stores throughout Canada.

On August 11, 2004, we announced that CirTran-Asia received a purchase order on August 10, 2004 relating to the manufacture of a household cooking appliance for hot dogs and sausages. Since these announcements, CirTran-Asia has manufactured, shipped, and received payments of approximately \$362,000.

On September 9, 2004, we announced that on September 6, 2004, CirTran-Asia had been awarded the rights to manufacture a new abdominal fitness machine under the exclusive manufacturing agreement. This new product is another type of abdominal fitness machines. We are still awaiting production orders to begin manufacturing and shipping.

On September 10, 2004, we announced that on September 7, 2004, CirTran-Asia had been awarded the rights to manufacture another type of an abdominal fitness machine under the exclusive manufacturing agreement. Since this announcement, CirTran-Asia has manufactured, shipped, and received payments of approximately \$720,000.

On September 14, 2004, we announced that on September 7, 2004, we had begun manufacturing another type of abdominal fitness machine under the exclusive manufacturing agreement. Since this announcement, CirTran-Asia has manufactured, shipped, and received payments of approximately \$390,000.

On September 30, 2004, we announced that on September 23, 2004, CirTran-Asia had been awarded the rights to manufacture a pilates fitness machine under the exclusive manufacturing agreement. Since this announcement, CirTran-Asia has manufactured, shipped, and received payments of approximately \$85,000.

Information relating to recent developments in new products under development along with procuring new products for development is as follows:

On January 19, 2005, CirTran Corporation signed an Exclusive Manufacturing Agreement with a company relating to the manufacture of a hair product in California. Since these announcements, CirTran-Asia has manufactured, shipped, and received payments of approximately \$366,000.

On October 1, 2004, we entered into an agreement with Transactional Marketing Partners, Inc. ("TMP"), for consulting services. Pursuant to the agreement, we

Edgar Filing: CIRTRAN CORP - Form 10KSB

engaged TMP to provide strategic planning and for introduction of new business to us. Under the agreement, we agreed to pay to TMP a fee of ten percent of the net proceeds received by us from business brought to us by TMP. The fee is to be paid within 15 calendar days following the end of the month in which we receive the net proceeds. Additionally, we agreed to pay \$7,500 during each of the first three months of the term of the agreement, with such payments being viewed as an advance against the fee to be earned. The advance payments are not refundable, but will be deducted from fees earned by TMP. The agreement has an initial term of six months, beginning October 1, 2004, and can be automatically extended for successive six-month periods unless either party gives written notice at least 30 days prior to the expiration of the term of the agreement of its intent not to renew. Additionally, we may terminate the agreement at any time by giving 30 days written notice. In March 2005, we extended our agreement an additional 6 months through early September 2005. The parties will evaluate the relationship at that time and decide if there needs to be

5

another extension. To date, the relationship has proven successful, resulting in multiple new manufacturing relationships.

Due to lack of performance, at management's suggestion, Mr. Michael Casey submitted his written resignation from the board of directors of CirTran-Asia on January 31, 2005. He was provided written acceptance by Mr. Hawatmeh, Chairman of the parent company, CirTran Corp on February 1, 2005.

Industry Background

The contract manufacturing industry specializes in providing the program management, technical and administrative support and manufacturing expertise required to take products from the early design and prototype stages through volume production and distribution. The goal is to provide a quality product, delivered on time and at the lowest cost, to the client. This full range of services gives the client an opportunity to avoid large capital investments in plant, inventory, equipment and staffing and to concentrate instead on innovation, design and marketing. By using our contract manufacturing services, our customers have the ability to improve the return on their investment with greater flexibility in responding to market demands and exploiting new market opportunities.

We believe two important trends have developed in the contract manufacturing industry. First, we believe customers increasingly require contract manufacturers to provide complete turnkey manufacturing and material handling services, rather than working on a consignment basis where the customer supplies all materials and the contract manufacturer supplies only labor. Turnkey contracts involve design, manufacturing and engineering support, the procurement of all materials, and sophisticated in-circuit and functional testing and distribution. The manufacturing partnership between customers and contract manufacturers involves an increased use of "just-in-time" inventory management techniques that minimize the customer's investment in component inventories, personnel and related facilities, thereby reducing costs.

We believe a second trend in the industry, that relates to our electronics division, has been the increasing shift from pin-through-hole, or PTH, to surface mount technology, or SMT, interconnection technologies. Surface mount and pin-through-hole printed circuit board assemblies are printed circuit boards on which various electronic components, such as integrated circuits, capacitors,

Edgar Filing: CIRTRAN CORP - Form 10KSB

microprocessors and resistors are mounted. These assemblies are key functional elements of many types of electronic products. PTH technology involves the attachment of electronic components to printed circuit boards with leads or pins that are inserted into pre-drilled holes in the boards. The pins are then soldered to the electronic circuits. The drive for increasingly greater functional density has resulted in the emergence of SMT, which eliminates the need for holes and allows components to be placed on both sides of a printed circuit. SMT requires expensive, highly automated assembly equipment and significantly more operational expertise than PTH technology. We believe the shift to SMT from PTH technology has increased the use of contract manufacturers by OEMs seeking to avoid the significant capital investment required for development and maintenance of SMT expertise.

Electronics Assembly and Manufacture

Approximately 38% of our revenues are generated by our low-volume electronics assembly activities, which consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables. We also assemble higher-level sub-systems and systems incorporating printed circuit boards and complex electromechanical components that convert electrical energy to mechanical energy, in some cases manufacturing and packaging products for shipment directly to our customers' distributors. In addition, we provide other manufacturing services,

6

including refurbishment and remanufacturing. We manufacture on a turnkey basis, directly procuring any of the components necessary for production where the OEM customer does not supply all of the components that are required for assembly. We also provide design and new product introduction services, just-in-time delivery on low to medium volume turnkey and consignment projects and projects that require more value-added services, and price-sensitive, high-volume production. Our goal is to offer customers significant competitive advantages that can be obtained from manufacturing outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management and increased purchasing power.

As part of our electronics assembly and manufacture focus, in April 2004, we entered into a Preferred Manufacturing Agreement with Broadata Communications, Inc. ("Broadata"). Under this agreement, we will perform exclusive "turn-key" manufacturing services handling most of Broadata's manufacturing operations from material procurement to complete finished box-build. Beginning in May 2005, we will be handling all of Broadata's manufacturing operations from material procurement to complete finished box-build. The initial term of the agreement is three years, continuing month to month thereafter unless terminated by either party.

Ethernet Technology

Through our subsidiary, Racore Technology Corporation ("Racore"), we design, manufacture, and distribute Ethernet cards. These components are used to connect computers through fiber optic networks. In addition, we produce private label, custom designed networking products and technologies on an OEM basis. Our products serve major industrial, financial, and telecommunications companies worldwide. We market our products through an international network of distributors, value added resellers, and systems integrators who sell, install, and support our entire product catalogue.

Edgar Filing: CIRTRAN CORP - Form 10KSB

Additionally, we have established, and continue to seek to establish, key business alliances with major multinational companies in the computing and data communications industries for which we produce private label, custom designed networking products and technologies on an OEM basis. These alliances generally require that Racore either develop custom products or adapt existing Racore products to become part of the OEM customer's product line. Under a typical contract, Racore provides a product with the customer's logo, packaging, documentation, and custom software and drivers to allow the product to appear unique and proprietary to the OEM customer. Contract terms generally provide for a non-recurring engineering charge for the development and customization charges, together with a contractual commitment for a specific quantity of product over a given term.

Contract Manufacturing

Through our subsidiary, CirTran-Asia, we design, engineer, manufacture and supply (DEMS) a myriad of products in the electronics, consumer products and general merchandise industries for various marketers, distributors and national retailers.

Market and Business Strategy

Our goal is to benefit from the increased market acceptance of, and reliance upon, the use of manufacturing specialists by many OEMs, marketing firms, distributors and national retailers. We believe the trend towards outsourcing manufacturing will continue. OEMs utilize manufacturing specialists for many reasons, including the following:

7

- To Reduce Time to Market. Due to intense competitive pressures in the electronics and general manufacturing industry, OEMs are faced with increasingly shorter product life-cycles and, therefore, have a growing need to reduce the time required to bring a product to market. We believe OEMs can reduce their time to market by using a manufacturing specialist's manufacturing expertise and infrastructure.
- To Reduce Investment. The investment required for internal manufacturing has increased significantly as products have become more technologically advanced and are shipped in greater unit volumes. We believe use of manufacturing specialists allows OEMs to gain access to advanced manufacturing capabilities while substantially reducing their overall resource requirements.
- To Focus Resources. Because the electronics industry is experiencing greater levels of competition and more rapid technological change, many OEMs are focusing their resources on activities and technologies which add the greatest value to their operations. By offering comprehensive electronics assembly and related manufacturing services, we believe manufacturing specialists allow OEMs to focus on their own core competencies such as product development and marketing.
- To Access Leading Manufacturing Technology. Electronic products and electronics manufacturing technology have become increasingly sophisticated and complex, making it difficult for OEMs to maintain the necessary technological expertise to manufacture products

Edgar Filing: CIRTRAN CORP - Form 10KSB

internally. We believe OEMs are motivated to work with a manufacturing specialist to gain access to the specialist's expertise in interconnect, test and process technologies.

- To Improve Inventory Management and Purchasing Power. Electronics industry OEMs are faced with increasing difficulties in planning, procuring and managing their inventories efficiently due to frequent design changes, short product life-cycles, large required investments in electronic components, component price fluctuations and the need to achieve economies of scale in materials procurement. OEMs can reduce production costs by using a manufacturing specialist's volume procurement capabilities. In addition, a manufacturing specialist's expertise in inventory management can provide better control over inventory levels and increase the OEM's return on assets.

An important element of our strategy is to establish partnerships with major and emerging OEM leaders in diverse segments across the electronics industry. Due to the costs inherent in supporting customer relationships, we focus our efforts on customers with which the opportunity exists to develop long-term business partnerships. Our goal is to provide our customers with total manufacturing solutions for both new and more mature products, as well as across product generations.

Another element of our strategy is to provide a complete range of manufacturing management and value-added services, including materials management, board design, concurrent engineering, assembly of complex printed circuit boards and other electronic assemblies, test engineering, software manufacturing, accessory packaging and post-manufacturing services. We believe that as manufacturing technologies become more complex and as product life cycles shorten, OEMs will increasingly contract for manufacturing on a turnkey basis as they seek to reduce their time to market and capital asset and inventory costs. We believe that the ability to manage and support large turnkey projects is a critical success factor and a significant barrier to entry for the market it serves. In addition, we believe that due to the difficulty and long lead-time required to change manufacturers, turnkey projects generally increase an OEM's dependence on its manufacturing specialist, which can result in a more stable customer base.

In our high volume electronics, consumer products, and general merchandise manufacturing divisions, we believe we add value by providing turn-key solutions in design, engineering, manufacturing and supply of products to our clients.

8

Suppliers; Raw Materials

Our sources of components for our electronics assembly business are either manufacturers or distributors of electronic components. These components include passive components, such as resistors, capacitors and diodes, and active components, such as integrated circuits and semi-conductors. Our suppliers include Siemens, Muriata-Erie, Texas Instruments, Fairchild, Harris and Motorola. Distributors from whom we obtain materials include Avnet, Future Electronics, Arrow Electronics, Digi-key and Force Electronics. Although we have experienced shortages of various components used in our assembly and manufacturing processes, we typically hedge against such shortages by using a variety of sources and, to the extent possible, by projecting our customer's needs.

Edgar Filing: CIRTRAN CORP - Form 10KSB

Research and Development

During 2004 and 2003, CirTran Corporation spent approximately \$75,000 and \$52,200, respectively, on research and development of new products and services. The costs of that research and development were paid for by our customers. In addition, during the same periods, our subsidiary, Racore, spent approximately \$42,536 and \$45,244, respectively. None of Racore's expenses were paid for by its customers. We remain committed, particularly in the case of Racore, to continuing to develop and enhance our product line as part of our overall business strategy.

Beginning 2004, Racore started working more aggressively on marketing existing products by simplifying ordering and sales processing to existing customers. We are also working towards some cost reduced versions of existing product line and adding new sales channels. We are also in the process of expanding the current product line, adding new product categories to existing sales channels, along with products with reduced development costs, quicker time to market, higher profit margins, greatly reduced support costs, less pressure from competitors and shorter sales cycles. We are currently developing one new product that is unique in the market and one new product that will provide us with a more complete product line.

In the coming months Racore will introduce several new products that will include not only cost reduced versions of existing products, but also similar yet unique products that will satisfy market needs which currently have no deliverable or affordable solutions. These products will realize reduced development costs, quicker time to market, higher profit margins, greatly reduced support costs, less pressure from competitors, and shorter sales and delivery cycles. These products will leverage our expertise in the areas of fiber optics, security, and portability.

We possess advanced design and engineering capabilities with experienced professional staffs at both our Salt Lake City and ShenZhen offices for electrical, software, mechanical and industrial design. This provides the end client a total solution for original design, re-design and final design of products.

Sales and Marketing

During 2004, we increased our internal sales staff as well as continued to pursue sales representative relationships with firms that work as independent contractors in generating new business. This is advantageous to the company, as it provides the company with a broad sales network with no direct cost. It is our intention to continue pursuing sales representative relationships as well as internal salaried sales executives. The company is considering establishing a dedicated satellite sales/engineering office in Los Angeles to headquarter all business development activities companywide.

We are working aggressively to market existing products through current sales channels. We will also add major new conduits to deliver products and services directly to end users, as well as motivate our

distributors, partners, and other third party sales mechanisms. We continue to simplify and improve the sales, order, and delivery process.

Historically, we have had substantial recurring sales from existing customers, though we continue to seek out new customers to generate increased sales. We treat sales and marketing as an integrated process involving direct salespersons and project managers, as well as senior executives. We also use independent

Edgar Filing: CIRTRAN CORP - Form 10KSB

sales representatives in certain geographic areas. We have also engaged strategic consulting groups to make strategic introductions to generate new business. This strategy has proven successful, and has already generated multiple manufacturing contracts.

During the typical sales process, a customer provides us with specifications for the product it wants, and we develop a bid price for manufacturing a minimum quantity that includes manufacture engineering, parts, labor, testing, and shipping. If the bid is accepted, the customer is required to purchase the minimum quantity and additional product is sold through purchase orders issued under the original contract. Special engineering services are provided at either an hourly rate or at a fixed contract price for a specified task.

In 2004, due to our new contract manufacturing division, only 20% of our net sales were derived from pre-existing customers, whereas during the year ended December 31, 2003, over 96% of our net sales were derived from customers that were also customers during 2002. In 2004 80% of our sales were derived from new business, with the majority of those sales being secured by exclusive manufacturing contracts. This trend should continue into 2006 and 2007. Historically, a small number of customers accounted for a significant portion of our electronics assembly and manufacture division net sales. In 2004, our three largest customers accounted for approximately 55% of our total sales in the electronics assembly and manufacture division, compared to 2003 where our three largest customers accounted for approximately 60% of our total sales.

Our expansion into China manufacturing has allowed us to increase our sales, manufacturing capacity and output with minimal capital investment required. By using subcontractors we make strategic investments in Asian manufacturing facilities capitalizing tooling, molds, equipment etc. in exchange for dedicated manufacturing responsiveness hence eliminating the costly expense associated with capitalizing complete proprietary facilities.

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. As of April 8, 2005, our backlog was approximately \$4,700,000 with confirmed deliveries and a total of \$30,000,000 of signed contracts for blanket quantities.

In February 2003, we issued a press release relating to our receiving Certification Approval under the Joint Certification Program ("JCP") from the United States/Canada Joint Certification Office, Defense Logistics Information Service. This is an important recognition for CirTran and is consistent with our efforts to expand our revenue opportunities. Our approved access to technologies in the U.S. Department of Defense and the Canadian Department of National Defense will allow us to support the commercial activities of the broad range of manufacturers working with the U.S. and Canadian governments. We continue to receive proposals on products to manufacture and were able to build products for Hill Air Force Base.

In January and March 2004, we issued two press releases relating to our entering into a Letter of Intent to purchase all the assets of a leading Contract Electronics Manufacturer (CEM) of printed circuit board assemblies based in Orange County, California. In March 2004, the Letter of Intent expired by its terms and we did not pursue the transaction.

In March 2004, we issued two press releases relating to our signing a Letter of

Edgar Filing: CIRTRAN CORP - Form 10KSB

Intent (LOI) to acquire a minority ownership interest in a leading manufacturer in the Digital Fiber Optic Cable Communications firm based in Southern California." That Letter of Intent expired and was not renewed.

In December of 2004, we issued a press release relating to our hiring of Mr. Patrick L. Gerrard Sr. as a director of our corporate Quality Control Systems. We also announced that we had received an order for the United States Air Force. The products were built and shipped to them.

Management has continued its internal plan for increasing sales, reducing costs and restructuring the overall financial condition. As part of this strategy, sales for the company in 2004 were greater than sales in 2003, and the company reached an offer in compromise with the Internal Revenue Service and State of Utah settling most outstanding tax liabilities.

The year 2004 was a critical year for CirTran Corporation. The most significant event for CirTran in 2004 was the acceptance of the offer in compromise by the Internal Revenue Service settlement of the Company's prior tax obligation. This has been a top priority for management and the board of directors as the Company's viability was in question. With this new milestone, management feels the Company is financially stable and in position to continue its plan to grow. In addition, our effort to enter high-volume manufacturing in the electronics, consumer products and general merchandise industries has had a dramatic impact to the Company's sales and backlog. Also, management's constant pursuit of establishing the Company as a world-class manufacturer was recognized with the Company receiving ISO9001:2000 certification on March 31, 2005. This is an international monitoring agency that requires all companies who are certified to comply with a set standard of policies on quality and manufacturing.

Material Contracts and Relationships

We generally use form agreements with standard industry terms as the basis for our contracts with our customers. The form agreements typically specify the general terms of our economic arrangement with the customer (number of units to be manufactured, price per unit and delivery schedule) and contain additional provisions that are generally accepted in the industry regarding payment terms, risk of loss and other matters. We also use a form agreement with our independent marketing representatives that features standard terms typically found in such agreements.

Cogent Agreement

On September 14, 2003, we entered into an agreement with Cogent Capital Corp. ("Cogent"), under which we engaged Cogent to provide strategic planning and advisory services relating to acquisitions and with a view to obtaining a listing on either the American Stock Exchange or the NASDAQ. In a September 2003 press release, we mentioned that Cogent was assisting us in connection with a proposed direct investment in CirTran, but that transaction was not closed. We continue to work with Cogent, and they continue to provide strategic planning and advice.

MET Advisors Agreement

In August 2003, we entered into an agreement with MET Advisors ("MET") under which we retained MET to identify and provide detailed information on potential acquisition targets. Pursuant to the MET agreement, we agreed to pay MET a transaction fee equal to 5% of the total value of the transaction (but not less than \$100,000), together with expenses incurred by MET in connection with the potential acquisition.

In January and March 2004, we issued press releases relating to a new agreement with a contract

electronics manufacturer. The January 21, 2004, press release stated that we had entered into a Letter of Intent to purchase all the assets of a leading contract electronics manufacturer of printed circuit board assemblies based in Orange County, California. The March 2, 2004 press release was issued to give an update on the due diligence process. However, the letter of intent expired on March 5, 2004, and no agreement was reached regarding an extension. We have decided not to pursue further negotiations relating to this matter.

In March 2004, we issued two additional press releases relating to a our potential acquisition of an interest in a manufacturer of digital fiber optic cable equipment. On March 18, 2004, we announced that we had signed a letter of intent to acquire a minority interest in a manufacturer based in southern California, and that in connection with the acquisition, we anticipated that we would enter into an exclusive manufacturing agreement. On March 26, 2004, we announced that we anticipated that we expected to finalize the acquisition of the interest and the exclusive agreement. On April 13, 2004, we entered into a stock purchase agreement with Broadata Communications, Inc., a California corporation ("Broadata") under which we purchased 400,000 shares of Broadata Series B Preferred Stock (the "Broadata Preferred Shares") for an aggregate purchase price of \$300,000. The Broadata Preferred Shares are convertible, at our option, into an equivalent number of shares of Broadata common stock, subject to adjustment. The Broadata Preferred Shares are not redeemable by Broadata. As a holder of the Broadata Preferred Shares, we have the right to vote the number of shares of Broadata common stock into which the Broadata Preferred Shares are convertible at the time of the vote. Separate from the acquisition of the Broadata Preferred Shares, we also entered into a Preferred Manufacturing Agreement with Broadata. Under this agreement, we will perform exclusive "turn-key" manufacturing services handling most of Broadata's manufacturing operations from material procurement to complete finished box-build of all of Broadata's products. The initial term of the agreement is three years, continuing month to month thereafter unless terminated by either party.

As of April 8, 2005 we had no other acquisitions planned or anticipated. We continue to work with MET and Cogent with respect to potential acquisitions.

Competition

The electronic manufacturing services industry is large and diverse and is serviced by many companies, including several that have achieved significant market share. Because of our market's size and diversity, we do not typically compete for contracts with a discreet group of competitors. We compete with different companies depending on the type of service or geographic area. Certain of our competitors may have greater manufacturing, financial, research and development and marketing resources. We also face competition from current and prospective customers that evaluate our capabilities against the merits of manufacturing products internally.

We believe that the primary basis of competition in our targeted markets is manufacturing technology, quality, responsiveness, the provision of value-added services and price. To remain competitive, we must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

Edgar Filing: CIRTRAN CORP - Form 10KSB

Furthermore, the Asian manufacturing market is growing at a rapid pace. Particularly in China, therefore, management feels that the Company is strategically positioned to hedge against unforeseen obstacles and continues its efforts to increase establishing additional relationships with manufacturing partners, facilities and personnel.

Regulation

12

We are subject to typical federal, state and local regulations and laws governing the operations of manufacturing concerns, including environmental disposal, storage and discharge regulations and laws, employee safety laws and regulations and labor practices laws and regulations. We are not required under current laws and regulations to obtain or maintain any specialized or agency-specific licenses, permits, or authorizations to conduct our manufacturing services. Other than as discussed in "Item 3 - Legal Proceedings" concerning delinquent payroll taxes, we believe we are in substantial compliance with all relevant regulations applicable to our business and operations.

Employees

In our Salt Lake headquarters, we employ 70 persons: 5 in administrative positions, 3 in engineering and design, 60 in clerical and manufacturing, and 2 in sales. In our CirTran-Asia division, we employ 7 people; 1 administrative, 2 accounting staff, 2 quality engineers, and 2 design engineers. We believe that our relationship with our employees is good.

Corporate Background

Our core business was commenced by Circuit Technology, Inc. ("Circuit"), in 1993 by our president, Iehab Hawatmeh. Circuit enjoyed increasing sales and growth in the subsequent five years, going from \$2.0 million in sales in 1994 to \$15.4 million in 1998, leading to the purchase of two additional SMT assembly lines in 1998 and the acquisition of Racore Computer Products, Inc., in 1997. During that period, Circuit hired additional management personnel to assist in managing its growth, and Circuit executed plans to expand its operations by acquiring a second manufacturing facility in Colorado. Circuit subsequently determined in early 1999, however, that certain large contracts that accounted for significant portions of our total revenues provided insufficient profit margins to sustain the growth and resulting increased overhead. Furthermore, internal accounting controls then in place failed to apprise management on a timely basis of our deteriorating financial position. During the previous several years, we have experienced significant losses, including \$2,149,810 in 2002, \$2,910,978 in 2003 and \$658,322 in 2004.

We were incorporated in Nevada in 1987, under the name Vermillion Ventures, Inc., for the purpose of acquiring other operating corporate entities. We were largely inactive until July 1, 2000, when we issued a total of 10,000,000 shares of our common stock (150,000,000 of our shares as presently constituted) to acquire, through our wholly-owned subsidiary, CirTran Corporation (Utah), substantially all of the assets and certain liabilities of Circuit.

In 1987, Vermillion Ventures, Inc. filed an S-18 registration statement with the United States Securities and Exchange Commission ("SEC") but did not at that time become a registrant under the Securities Exchange Act of 1934 ("1934 Act"). From 1989 until 2000, Vermillion did not make any filings with the SEC under the

Edgar Filing: CIRTRAN CORP - Form 10KSB

1934 Act. In July 2000, we commenced filing regular annual, quarterly, and current reports with the SEC on Forms 10-KSB, 10-QSB, and 8-K, respectively, and have made all filings required of a public company since that time. In February 2001, we filed a Form 8-A with the SEC and became a registrant under the 1934 Act. We may be subject to certain liabilities arising from the failure of Vermillion to file reports with the SEC from 1989 to 1990, but we believe these liabilities are minimal because there was no public market for the common shares of Vermillion from 1989 until the third quarter of 1990 (when our shares began to be traded on the Pink Sheets) and it is likely that the statute of limitations has run on whatever public trades in the shares of our common stock may have taken place during the period during which Vermillion failed to file reports.

On August 6, 2001, we effected a 1:15 forward split and stock distribution which increased the number of

13

our issued and outstanding shares of common stock from 10,420,067 to 156,301,005. We also increased our authorized capital from 500,000,000 to 750,000,000 shares.

The short- and long-term success of CirTran is subject to certain risks, many of which are substantial in nature and outside the control of CirTran. You should consider carefully the following risk factors, in addition to other information contained herein. All forward-looking statements contained herein are deemed by CirTran to be covered by and to qualify for the safe harbor protection provided by Section 21E of the Private Securities Litigation Reform Act of 1995. When used in this Report, words such as "believes," "expects," "intends," "plans," "anticipates," "estimates," and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. You should understand that several factors govern whether any forward-looking statement contained herein will or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include plans and objectives of management for future operations, including the strategies, plans and objectives relating to the products and the future economic performance of CirTran and its subsidiaries discussed above. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of any such statement should not be regarded as a representation by CirTran or any other person that the objectives or plans of CirTran will be achieved.

Risks Related to Our Operations

We have a history of operating losses and we expect to continue to generate losses, which could have a material adverse impact on our ability to operate profitably.

Our expenses are currently greater than our revenues. Our accumulated deficit was \$18,799,602 and \$18,141,280 at December 31, 2004, and December 31, 2003, respectively. Our net loss from operations for the year ended December 31, 2004 and 2003, were \$658,322 and \$2,910,978, respectively. Our level of sales has increase dramatically during the last year, this is due to two factors, our electronics assembly and manufacture division has a large increase in sales and our level of sales has increase dramatically with the addition of the Asia division, which has small margins with a high volume in sales. Our ability to operate profitably depends on our ability to increase our sales further and

Edgar Filing: CIRTRAN CORP - Form 10KSB

achieve sufficient gross profit margins for sustained growth. We can give no assurance that we will be able to increase our sales sufficiently to enable us to operate profitably, which could have a material adverse impact on our business. Until our revenues are sufficient to cover our expenses, we will need to seek additional sources of capital to continue our operations, including equity or debt financing. There can be no guarantee that such financing will be available to us or on terms that will allow us to achieve profitability. Our inability to obtain sufficient financing would have a material adverse effect on our operations.

Our current liabilities exceed our current assets by a significant amount, and we may not continue as a going concern.

Our financial statements indicated a trend of an increasingly larger excess of current liabilities over current assets. Our current liabilities exceeded our current assets by the following amounts as of the dates indicated: \$4,490,623 at December 31 2002; and by \$5,529,244 at December 31, 2003 and by \$3,558,826 at December 31, 2004. This trend raised substantial doubt about our ability to continue as a going concern. Unless we obtain additional financing through operations, investment capital or otherwise, there is significant doubt we will be able to meet our obligations as they come due and will be unable to execute our long-term business plans. During 2004 the company was able to settle many of the outstanding notes payable and other debt to reduce the liabilities.

14

The "going concern" paragraph in the reports of our independent registered public accounting firm for the years ended December 31, 2004 and 2003, raises doubts about our ability to continue as a going concern.

The independent registered public accounting firm's reports for our financial statements for the years ended December 31, 2004 and 2003 include an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. This may have an adverse effect on our ability to obtain financing for our operations and to further develop and market our products.

Our volume of sales has fluctuated significantly over the last four years, and there is no guarantee that we will be able to increase sales. These fluctuations in sales volume could have a material adverse impact on our ability to operate our business profitably.

Our sales volume increased in the year of 2004 as compared to 2003. Our sales volumes for the previous four years have changed as indicated by the following levels of net sales for the periods indicated: \$1,870,848 for the year ended December 31, 2001; \$2,299,668 for the year ended December 31, 2002 and \$1,215,245 for the year ended December 31, 2003. On an annualized basis, this trend indicates a 27% decrease in sales from 2000 through the year ended December 31, 2003. Even though our gross profit has improved substantially during the same period, unless we are successful in increasing both sales and net profit margins, there is significant doubt that we will be able to continue as a going concern. For the year ended December 31, 2004 our sales increased to \$8,862,715 which is a 629.3% increase from year ended December 31, 2003. There is no guarantee that the fluctuations in the volume of our sales will stabilize or that we will be able to continue to increase our sales volume.

We need to raise additional capital but, due to our current financial situation, we may not be able to do so. If we are unable to raise sufficient capital to

Edgar Filing: CIRTRAN CORP - Form 10KSB

finance our operations, we may not be able to continue as a going concern.

As of December 31, 2004, our monthly operating costs and interest expenses averaged approximately \$320,000 per month. As income from operations is not sufficient to meet these expenses, we must depend on other sources of capital to fund our operations. We have operated without a line of credit since February 2000, and it is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to pay the debt and secure the debt with assets. Therefore, we likely will have to rely on equity financing to meet our anticipated capital needs. We recently entered into a standby equity distribution agreement to provide financing, but the funds available may not be sufficient to sustain our operations beyond December 2007, assuming our current level of activity. Additionally, the standby equity distribution agreement has a stated term of twenty-four months from the date of effectiveness of a registration statement covering the resale of shares by the SEDA investor. We may need additional capital beyond the term of the standby equity distribution agreement. There can be no assurances that we will be successful in obtaining additional capital. If we issue additional shares in connection with debt or equity financing, this will serve to dilute the value of our common stock and existing shareholders' positions. If we are unsuccessful in obtaining additional funding to finance our operations, there is serious doubt that we will be able to continue as a going concern, and we may be forced to seek the protection of the bankruptcy laws.

We have significant short-term debt which we are not currently able to fully service, which could impair our ability to continue as a going concern.

15

As of December 31, 2004, we have significant short-term debt, including approximately \$1,104,392 in accounts payable, \$1,549,173 in demand notes due certain of our shareholders and related parties, and \$2,066,022 in accrued liabilities, which partially consists of delinquent federal and state payroll taxes (see "Legal Proceedings"). As of April 8, 2005, we have been successful in negotiating forbearance agreements with many of our creditors and restructuring much of our short-term debt.

We have negotiated settlements with the Internal Revenue Service and the Utah State Tax Commission. However if we are unable to pay the amounts required under the agreements, the IRS and the Utah State Tax Commission could bring statutory foreclosure proceedings against us.

We have entered into agreements with the Internal Revenue Service and the Utah State Tax Commission with respect to certain tax liabilities. However, there can be no assurance that we will be able to service our payment obligations. If we are unable to meet our payment obligations, the Internal Revenue Service and the Utah State Tax Commission could instigate proceedings against us, including foreclosure proceedings, pursuant to the applicable rules and regulations of those two entities.

We are involved in numerous legal proceedings that may give rise to significant liabilities, which could impair our ability to continue as a going concern.

We are involved in legal proceedings, several of which involve lawsuits filed against us. There is substantial risk that the existence and extent of these liabilities could adversely affect our business, operations and financial

Edgar Filing: CIRTRAN CORP - Form 10KSB

condition, and we may be forced to curtail our operations, sell part or all of our assets, or seek protection under bankruptcy laws. If we are unable to negotiate settlements or satisfy our obligations, we could be forced into bankruptcy.

We are dependent on the continued services of our President and other officers, and the untimely death or disability of Iehab Hawatmeh could have a serious adverse effect upon our company.

We view the continued services of our president, Iehab Hawatmeh, and our other officers as critical to the success of our company. Though we have employment agreements with Mr. Iehab Hawatmeh, Mr. Trevor Saliba, and Mr. Shaher Hawatmeh (see "Executive Compensation"), and a key-man life insurance policy for Mr. Iehab Hawatmeh, the untimely death or disability of Mr. Hawatmeh could have a serious adverse affect on our operations.

Our international business activities subject us to risks that could adversely affect our business.

For the year ended December 31, 2004, sales of products manufactured in the United States accounted for 61.2 percent of our total net revenues, and sales of products manufactured in China accounted for 38.8 percent of our total net revenues. We anticipate that sales of our products manufactured internationally will increase, and could represent a larger percentage of our sales for the foreseeable future. Additionally, a significant portion of our products is produced at facilities in close proximity to our CirTran-Asia production facilities in ShenZhen, China. As a result, we are subject to the risks inherent in international operations. Our international business activities could be affected, limited, or disrupted by a variety of factors, including:

- o the imposition of or changes in governmental controls, taxes, tariffs, trade restrictions and regulatory requirements;
- o the costs and risks of localizing products for foreign countries;
- o longer accounts receivable payment cycles;

16

- o changes in the value of local currencies relative to our functional currency;
- o import and export restrictions;
- o loss of tax benefits due to international production;
- o general economic and social conditions within foreign countries;
- o taxation in multiple jurisdictions; and/or
- o political instability, war or terrorism.

All of these factors could harm future sales of our products to international customers or future production outside of the United States of our products, and have a material adverse effect on our business, results of operations and financial condition.

We may continue to expand our operations in international markets. Our failure

Edgar Filing: CIRTRAN CORP - Form 10KSB

to effectively manage our international operations could harm our business.

Entering new international markets, including our recent entry into China with CirTran-Asia, may require significant management attention and expenditures and could adversely affect our operating margins and earnings. To date, we have only recently begun to penetrate international markets. To the extent that we are unable to do so, our growth in international markets would be limited, and our business could be harmed.

We expect that our international business operations will be subject to a number of material risks, including, but not limited to:

- o difficulties in managing foreign sales channels;
- o difficulties in enforcing agreements and collecting receivables through foreign legal systems and addressing other legal issues;
- o longer payment cycles;
- o taxation issues;
- o differences in international telecommunications standards and regulatory agencies;
- o product requirements different from those of our current customers;
- o fluctuations in the value of foreign currencies; and
- o unexpected domestic and international regulatory, economic or political changes.

A combination of any or all of these risks could have a material adverse impact both on our international business, and on our core business operations in the United States.

We are dependent on the continued services of Charles Ho, the President of our CirTran-Asia subsidiary, and the untimely death or disability of Mr. Ho could have a serious adverse effect upon our subsidiary and company.

17

We view the continued services of Charles Ho, the president of our CirTran-Asia subsidiary, as critical to the success of that subsidiary. Though we have an employment agreement with Mr. Ho (see "Executive Compensation"), we have no key-man life insurance policy for Mr. Ho. The untimely death or disability of Mr. Ho could have a serious adverse affect on our international operations and our operations overall.

Holders of CirTran common stock are subject to the risk of additional and substantial dilution to their interests as a result of the issuances of common stock in connection with the SEDA Facility.

The following table describes the number of shares of common stock that would be issuable, assuming that the full remaining amount under the SEDA Facility had been drawn and shares put to Cornell (irrespective of the availability of registered shares), and further assuming that the applicable conversion or exercise prices at the time of such conversion or exercise were the following amounts:

Edgar Filing: CIRTRAN CORP - Form 10KSB

Hypothetical Conversion Price	Shares issuable upon draws of \$20,000,000 under SEDA Facility
\$0.01	2,000,000,000
\$0.02	1,000,000,000
\$0.03	666,666,667
\$0.04	500,000,000
\$0.05	400,000,000
\$0.10	200,000,000
\$0.15	133,333,333
\$0.25	80,000,000
\$0.50	40,000,000

Given the formulas for calculating the shares to be issued under the SEDA Facility, there effectively is no limitation on the number of shares of common stock which may be issued in connection with draws on the SEDA Facility, except for the number of shares registered under prospectuses and related registration statements. As such, holders of our common stock may experience substantial dilution of their interests to the extent that we draw against the SEDA Facility.

Because the number of shares issuable under the SEDA Facility is determined, in part, on the market price of our common stock, we may experience delays in drawing the full amount of the SEDA Facility.

The number of shares issuable under the SEDA Facility is determined, in part, on the market price of our common stock. If the market price of the common stock decreases, the number of shares of common stock issuable in connection with the SEDA Facility will increase and, accordingly, the aggregate amount of draws under the SEDA Facility will decrease. Accordingly, despite our right to draw up to an aggregate of \$20,000,000 under the SEDA Facility, we may run out of shares registered under this prospectus and the registration statement of which it is a part to issue to Cornell in connection with our draws. The following table demonstrates the correlation between share price decline and decreases in aggregate draw amounts available, given the maximum 249,900,000 shares of common stock registered under the prospectus and registration statement, which we filed with the SEC, but has not been declared effective, for issuance in connection with draws against the SEDA Facility.

Hypothetical Conversion Price	Shares issuable upon puts, up to a maximum of 249,900,000	Maximum draws available, up to \$20,000,000
-----	-----	-----
\$0.01	249,900,000	\$ 2,499,000
\$0.02	249,900,000	\$ 4,998,000
\$0.03	249,900,000	\$ 7,497,000
\$0.04	249,900,000	\$ 9,996,000
\$0.05	249,900,000	\$12,495,000
\$0.10	200,000,000	\$20,000,000
\$0.15	133,333,333	\$20,000,000
\$0.25	80,000,000	\$20,000,000
\$0.50	40,000,000	\$20,000,000

Our issuances of shares under the SEDA Facility likely will result in overall

Edgar Filing: CIRTRAN CORP - Form 10KSB

dilution to market value and relative voting power of previously issued common stock, which could result in substantial dilution to the value of shares held by shareholders prior to sales under this prospectus.

The issuance of common stock in connection with the draws under the SEDA Facility may result in substantial dilution to the equity interests of holders of CirTran common stock other than Cornell. Specifically, the issuance of a significant amount of additional common stock will result in a decrease of the relative voting control of our common stock issued and outstanding prior to the issuance of common stock in connection with the SEDA Facility. Furthermore, public resales of our common stock by Cornell following the issuance of common stock in connection with the SEDA Facility likely will depress the prevailing market price of our common stock. Even prior to the time of actual conversions, exercises and public resales, the market "overhang" resulting from the mere existence of our obligation to honor such conversions or exercises could depress the market price of our common stock.

Existing shareholders likely will experience increased dilution with decreases in market value of common stock in relation to our issuances of shares under the SEDA Facility, which could have a material adverse impact on the value of their shares.

The formula for determining the number of shares of common stock to be issued under the SEDA Facility is based, in part, on the market price of the common stock and are equal to the lowest closing bid price of our common stock over the five trading days after the advance notice is tendered by us to Cornell. As a result, the lower the market price of our common stock at and around the time we put shares under the SEDA Facility, the more shares of our common stock Cornell will receive. Any increase in the number of shares of our common stock issued upon puts of shares as a result of decreases in the prevailing market price would compound the risks of dilution described in the preceding paragraphs.

As a result of our net tangible book deficit, Cornell will experience immediate and substantial dilution to its holdings as a result of the issuances of common stock in connection with the SEDA Facility.

The net proceeds from the Equity Line and the SEDA Facility could potentially exceed our net tangible book deficit of \$2,242,033 at December 31, 2004. Accordingly, Cornell will experience immediate and substantial dilution between approximately \$0.0038 to \$0.4668 per share, or approximately 37.90% to 93.36% of the estimated average conversion price of \$0.01 to \$0.50. The dilution at various estimated average conversion prices is as follows:

19

Estimated	Average Dilution Per Share	Conversion Price Percent Dilution Per Share
\$0.01 (1)	\$0.0038	37.90%
\$0.02 (1)	\$0.0094	46.94%
\$0.03 (1)	\$0.0161	53.69%
\$0.04 (1)	\$0.0236	58.91%
\$0.05 (1)	\$0.0315	63.08%
\$0.10	\$0.0755	75.50%
\$0.15	\$0.1225	81.66%

Edgar Filing: CIRTRAN CORP - Form 10KSB

\$0.25	\$0.2195	87.80%
\$0.50	\$0.4668	93.36%

(1) At this conversion price, the Company would be required to register additional shares to receive the maximum proceeds available under the SEDA Facility.

There is an increased potential for short sales of our common stock due to the sales of shares put to Cornell in connection with the SEDA Facility, which could materially effect the market price of our stock.

Downward pressure on the market price of our common stock that likely will result from sales of our common stock by Cornell issued in connection with a draw under the SEDA Facility, could encourage short sales of common stock by Cornell. Pursuant to the Agreement, Cornell may be permitted to sell shares of our common stock during a pricing period in connection with an advance from the SEDA Facility. These sales could include short sales. A "short sale" is defined as the sale of stock by an investor that the investor does not own. Typically, investors who sell short believe that the price of the stock will fall, and anticipate selling at a price higher than the price at which they will buy the stock. Significant amounts of such short selling could place further downward pressure on the market price of our common stock.

The restrictions on the extent of draws under the SEDA Facility may have little if any effect on the adverse impact of our issuance of shares under the SEDA Facility, and as such, Cornell may sell a large number of shares, resulting in substantial dilution to the value of shares held by our existing shareholders.

We are prohibited from putting shares to Cornell under the SEDA Facility if such put would result in that investor holding more than 9.9% of the then outstanding common stock. These restrictions, however, do not prevent Cornell from selling shares of common stock received in connection with a draw, and then receiving additional shares of common stock in connection with a subsequent draw. In this way, Cornell could sell more than 9.9% of the outstanding common stock in a relatively short time frame while never holding more than 9.9% at one time.

The trading market for our common stock is limited, and investors who purchase shares from Cornell may have difficulty selling their shares.

The public trading market for our common stock is limited. On July 15, 2002, our common stock was listed on the OTC Bulletin Board. Nevertheless, an established public trading market for our common stock may never develop or, if developed, it may not be able to be sustained. The OTCBB is an unorganized, inter-dealer, over-the-counter market that provides significantly less liquidity than other markets. Purchasers of our common stock therefore may have difficulty selling their shares should they desire to do so.

20

The selling shareholders under a registration statement we have filed with the SEC may sell common stock at any price or time upon effectiveness of that registration statement, which could result in a decrease in the market price of our common stock and a resulting decrease in the value of shares held by existing shareholders.

Upon effectiveness of the registration statement filed in connection with the SEDA Facility, Cornell and Newbridge Securities Corporation, the two selling

Edgar Filing: CIRTRAN CORP - Form 10KSB

shareholders under that registration statement, may offer and sell the shares of common stock received in connection with the SEDA Facility and the Agreement at a price and time determined by Cornell or Newbridge. The timing of sales and the price at which the shares are sold by the Selling Shareholders could have an adverse effect upon the public market for our common stock. Although Cornell is a statutory underwriter, there is no independent or third-party underwriter involved in the offering of the shares held by or to be received by Cornell, and there can be no guarantee that the disposition of those shares will be completed in a manner that is not disruptive to the market for our common stock.

We may be unable to continue to make draws or put shares to Cornell if the trading volume in our stock is not sufficient to allow Cornell to sell the shares issued to it.

Despite our contractual right to make draws on the SEDA Facility and sell shares of our stock to Cornell, we are also prohibited by the Agreement from drawing down on the SEDA Facility to the extent any put would cause Cornell to own in excess of 9.9% of our then-outstanding common stock. Because the volume of trading in our stock has been volatile, there can be no assurance that Cornell will be able to sell a sufficient number of shares put to it to allow us to take full advantage of the draws.

For example, as of April 8, 2005, we had approximately 565,000,000 shares of our common stock outstanding. Nine and nine-tenths percent of 565,000,000 shares is approximately 55,836,000 shares. As of April 8, 2005, our average daily trading volume was approximately 2,100,000 shares traded per day. A hypothetical draw of \$1,000,000 the maximum amount we are entitled to draw under the Agreement, as of April 8, 2005, would result in the issuance of approximately 33,333,333 shares of our common stock. It could take Cornell longer than the 7 trading days we are required to wait between puts to sell 33,333,333 shares.

If Cornell is unable to sell all of the shares it receives in connection with draws under the SEDA Facility, once the number of unsold shares retained by Cornell reaches 9.9% of the then-outstanding shares of our common stock, we would be unable to make draws on the SEDA Facility until Cornell had sold additional shares into the market. Alternatively, our waiting to make subsequent draws on the SEDA Facility until Cornell has sold all the shares it receives pursuant to draws will result in a delay in our access to the capital available under the Agreement. These restrictions on our access to the capital available under the Agreement could have a material adverse effect on our operations.

It may be more difficult for us to raise funds in subsequent stock offerings as a result of the sales of our common stock by Cornell in this offering.

As noted above, sales by Cornell likely will result in substantial dilution to the holdings and interest of current and new shareholders. Additionally, as noted above, the volume of shares sold by Cornell could depress the market price of our stock. These factors could make it more difficult for us to raise additional capital through subsequent offerings of our common stock, which could have a material adverse effect on our operations.

Risks Related to Our Industry

The variability of customer requirements in the electronics industry could

Edgar Filing: CIRTRAN CORP - Form 10KSB

adversely affect our results of operations.

Electronic manufacturing service providers must provide increasingly rapid turnaround time for their OEM customers. We do not obtain firm, long-term purchase commitments from our customers and have experienced a demand for reduced lead-times in customer orders. Our customers may cancel their orders, change production quantities or delay design and production for several factors. Cancellations, reductions or delays by a customer or group of customers could adversely affect our results of operations. Additional factors that affect the electronics industry and that could have a material adverse effect on our business include the inability of our customers to adapt to rapidly changing technology and evolving industry standards and the inability of our customers to develop and market their products. If our customers' products become obsolete or fail to gain commercial acceptance, our results of operations may be materially and adversely affected, which could make it difficult for us to continue as a going concern.

Our customer mix and base fluctuates significantly, and responding to these fluctuations could cause us to lose business or have delayed revenues, which could have a material adverse impact on our business.

The majority of our revenue is generated from our contract manufacturing services. Our customers include electronics, telecommunications, networking, automotive, gaming, exercise equipment, and medical device OEMs that contract with us for the manufacture of specified quantities of products at a particular price and during a relatively short period of time. As a result, the mix and number of our clients varies significantly from time to time. Responding to the fluctuations and variations in the mix and number of our clients can cause significant time delays in the operation of our business and the realization of revenues from our clients. These delays could have a material adverse impact on our business.

Our industry is subject to rapid technological change. If we are not able to adequately respond to changes, our services may become obsolete or less competitive and our operating results may suffer.

We may not be able, especially given our lack of financial resources, to effectively respond to the technological requirements of a changing market, including the need for substantial additional capital expenditures that may be required as a result of these changes. The electronics manufacturing services industry is characterized by rapidly changing technology and continuing process development. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities and successfully anticipate or respond to technological changes on a cost-effective and timely basis. In addition, our industry could in the future encounter competition from new or revised technologies that render existing technology less competitive or obsolete. If we are unable to respond adequately to such changes, our business operations could be adversely impacted, which could make it difficult for us to continue as a going concern.

There may be shortages of required components which could cause us to curtail our manufacturing or incur higher than expected costs.

Component shortages or price fluctuations in such components could have an adverse effect on our results of operations. We purchase the components we use in producing circuit board assemblies and other electronic manufacturing services and we may be required to bear the risk of component price fluctuations. In addition, shortages of electronic components have occurred in the past and may occur in

the future. These shortages and price fluctuations could potentially have an adverse effect on our results of operations.

Our common stock is considered a penny stock. Penny stocks are subject to special regulations, which may make them more difficult to trade on the open market.

Securities in the OTC market are generally more difficult to trade than those on the Nasdaq National Market, the Nasdaq SmallCap Market or the major stock exchanges. In addition, accurate price quotations are also more difficult to obtain. The trading market for our common stock is subject to special regulations governing the sale of penny stock.

A "penny stock," is defined by regulations of the Securities and Exchange Commission as an equity security with a market price of less than \$5.00 per share. However, an equity security with a market price under \$5.00 will not be considered a penny stock if it fits within any of the following exceptions:

- o the equity security is listed on Nasdaq or a national securities exchange;
- o the issuer of the equity security has been in continuous operation for less than three years, and either has (a) net tangible assets of at least \$5,000,000, or (b) average annual revenue of at least \$6,000,000; or
- o the issuer of the equity security has been in continuous operation for more than three years, and has net tangible assets of at least \$2,000,000.

If you buy or sell a penny stock, these regulations require that you receive, prior to the transaction, a disclosure explaining the penny stock market and associated risks. Furthermore, trading in our common stock would be subject to Rule 15c-9 of the Exchange Act, which relates to non-Nasdaq and non-exchange listed securities. Under this rule, broker-dealers who recommend our securities to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale. Securities are exempt from this rule if their market price is at least \$5.00 per share.

Penny stock regulations will tend to reduce market liquidity of our common stock, because they limit the broker-dealers' ability to trade, and a purchaser's ability to sell the stock in the secondary market. The low price of our common stock will have a negative effect on the amount and percentage of transaction costs paid by individual shareholders. The low price of our common stock may also limit our ability to raise additional capital by issuing additional shares. There are several reasons for these effects. First, the internal policies of many institutional investors prohibit the purchase of low-priced stocks. Second, many brokerage houses do not permit low-priced stocks to be used as collateral for margin accounts or to be purchased on margin. Third, some brokerage house policies and practices tend to discourage individual brokers from dealing in low-priced stocks. Finally, broker's commissions on low-priced stocks usually represent a higher percentage of the stock price than commissions on higher priced stocks. As a result, our shareholders will pay transaction costs that are a higher percentage of their total share value than if our share price were substantially higher.

The price of our common stock is volatile, and an investor may not be able to

Edgar Filing: CIRTRAN CORP - Form 10KSB

resell our shares at or above the purchase price.

In recent years, the stock market in general, and the OTC Bulletin Board and the securities of technology companies in particular, has experienced extreme price and trading volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of individual

23

companies. These broad market fluctuations may materially adversely affect our stock price, regardless of operating results.

There may be additional unknown risks which could have a negative effect on us and our business.

The risks and uncertainties described in this section are not the only ones facing CirTran. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the foregoing risks actually occur, our business, financial condition, or results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline.

ITEM 2. DESCRIPTION OF PROPERTIES

On December 17, 2003, we entered into a ten-year lease agreement (the "Lease") with PFE Properties, LLC, a Utah limited liability company (the "Lessor"), for our existing 40,000 square-foot headquarters and manufacturing facility, located at 4125 South 6000 West in Salt Lake City, Utah. The workspace includes 10,000 square feet of office space to support the Registrant's Administration, Sales, and Engineering Staff. The 30,000 square feet of manufacturing space includes a highly secured inventory area, shipping and receiving areas, and manufacturing and assembly space that support six full surface-mount lines with state-of-the-art equipment capable of placing over 360 million components per year.

Our facilities in Shenzhen, China, constitute a sales and business office. We have no manufacturing facilities in China. Our office in Shenzhen is approximately 1,600 square feet. Under the terms of our lease on the space, the monthly payment is 15,000 Renminbi, which in October 2004 was approximately \$2,100, depending on the exchange rate. The term of the lease is for two years, running from July 18, 2004.

We believe that the facilities and equipment described above are generally in good condition, are well maintained, and are generally suitable and adequate for our current and projected operating needs.

On March 31, 2005, the Company entered into a Membership Acquisition Agreement (the "Acquisition Agreement") with Rajayee Sayegh (the "Seller") for the purchase of one hundred percent (100%) of the membership interests in PFE Properties LLC, a Utah limited liability company ("PFE"). Under the Acquisition Agreement, the Company agreed to issue twenty million (20,000,000) shares of its restricted common stock, with a fair value of \$680,000 on the date of issuance. No registration rights were granted. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

The primary asset of PFE is its rights, titles and interests in and to a parcel of real property, together with any improvements, rents and profits thereon or

Edgar Filing: CIRTRAN CORP - Form 10KSB

associated therewith, located at 4125 S. 6000 W., West Valley City, Utah, 84128, where the Company presently has its headquarters and manufacturing facility.

Prior to the purchase of the membership interests, on December 17, 2003, the Company had entered into a ten-year lease with PFE for the property. The lease payments were \$16,974. Following the acquisition of the PFE interests, PFE will continue to own the building, and the Company will continue to make lease payments under the 2003 lease.

24

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2004, the Company had accrued liabilities in the amount of \$223,660 for delinquent payroll taxes, including interest and penalties due to the State of Utah. In November 2003, the Company entered into an agreement with the Utah State Tax Commission to allow the Company to pay the liability owing to the State of Utah in equal monthly installments over a two year period. Under the agreement, the Company would make monthly payments of \$4,000 per month through November 2005. As of March 31, 2005, the Company was current in its payments to the State of Utah.

Prior to 2004, Racore had accrued state tax liabilities of \$9,913 due to the State of Utah. In November 2003, Racore entered into an agreement with the State of Utah whereby Racore would make monthly payments of \$1,000 per month through September 2004. Racore made all payments when due.

As of December 31, 2004, the Company had accrued liabilities in the amount of \$500,000 for delinquent payroll taxes, including interest and penalties, owed to the Internal Revenue Service. The Company, in response to collection notices, filed a due process appeal with the Internal Revenue Service's Appeals Office. The appeal was resolved by an agreement with the Appeals Office that allowed the Company to file an offer in compromise of all federal tax liabilities owed by the Company based on its ability to pay. The Company filed its offer in compromise with the IRS in November 2003, and after meeting with IRS personnel, filed a revised offer in compromise on August 31, 2004. The Company was notified in November 2004 that the IRS had accepted the offer in compromise. Under the offer, the Company was required to pay an aggregate amount of \$500,000 (representing payments of \$350,000 by Circuit Technology, Inc., \$100,000 by CirTran Corporation, and \$50,000 by Racore Technology, Inc.), not later than February 3, 2005. These amounts were paid. Additionally, the Company must remain current in its payment of taxes for 5 years, and may not claim any NOLs for the years 2001 through 2015, or until the three companies pay taxes in an amount equal to the taxes waived by the offer in compromise.

We (as successor to Circuit Technology, Inc.) were a defendant in an action in El Paso County, Colorado District Court, brought by Sunborne XII, LLC, a Colorado limited liability company, for alleged breach of a sublease agreement involving facilities located in Colorado. Our liability in this action was originally estimated to range up to \$2.5 million, and we subsequently filed a counter suit in the same court against Sunborne in an amount exceeding \$500,000 for missing equipment. Effective January 18, 2002, we entered into a settlement agreement with Sunborne with respect to the above-described litigation. The settlement agreement required us to pay Sunborne the sum of \$250,000. Of this

Edgar Filing: CIRTRAN CORP - Form 10KSB

amount, \$25,000 was paid upon execution of the agreement, and the balance of \$225,000, together with interest at 8% per annum, was payable by July 18, 2002. As security for payment of the balance, we executed and delivered to Sunborne a Confession of Judgment and also issued to Sunborne 3,000,000 shares of our common stock, which were held in escrow and have been treated as treasury stock recorded at no cost. Because 75% of the balance owing under the agreement was not paid by May 18, 2002, we were required to prepare and file with the Securities & Exchange Commission, at our expense, a registration statement with respect to the shares that were escrowed. The payment was not made, nor was a registration statement filed with respect to the escrowed shares.

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

As of April 8, 2005, the Company was in default of its obligations under the settlement agreement with

25

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 continuing to negotiate with Sunborne in an attempt to settle the remaining obligation.

C/S Utilities notified the Company that it believes it has a claim against the Company in the amount of \$32,472 regarding utilities services. The claim was assigned to BC Services, Inc., which obtained a judgment against Circuit Technology, Inc., for \$37,965.84 in El Paso County, Colorado, District Court on February 13, 2003. The Company is reviewing its records in an effort to confirm the validity of the claims and is evaluating its options.

We also assumed certain liabilities of Circuit Technology, Inc., in connection with our transactions with that entity in the year 2000, and as a result we are defendant in a number of legal actions involving nonpayment of vendors for goods and services rendered. We have accrued these payables and have negotiated settlements with respect to some of the liabilities, including those detailed below, and are currently negotiating settlements with other vendors.

Howard Salamon, dba Salamon Brothers vs. CirTran Corporation, Civil No. 2:03-00787, U.S. District Court, District of Utah. Howard Salamon originally filed suit against the Company in the U.S. District Court, Eastern District of New York, seeking finders fees, consisting of shares of the Company's common stock valued at \$350,000, allegedly owed in connection with Salamon's introducing the Company to Cornell Capital Partners, L.P., the Equity Line Investor. The Company disputes the claims in the complaint. The case was dismissed in New York and refiled in Utah. The Company has filed its answer in the Utah case and the lawsuit is proceeding. The Plaintiff has sought leave to file an amended complaint, which the court granted. The Company subsequently was served with a supplemental complaint, in which Salamon seeks additional finders

Edgar Filing: CIRTRAN CORP - Form 10KSB

fees, consisting of shares of the Company's common stock valued at \$1,400,000 (for an aggregate claim of \$1,750,000), to which the Company filed its answer. The case is still in the discovery phase. The Company is also currently conducting settlement negotiations.

RecovAR Group, LLC vs. CirTran Corporation, Inc., District Court of Maryland. This matter arises from an agreement between the Company and United Parcel Services, Inc. ("UPS"). UPS alleges that the Company owes approximately \$8,024 for services rendered. RecovAR Group, LLC, brought the action on behalf of UPS. The Company is continuing its settlement negotiations with RecovAR Group, LLC.

CirTran Asia v. Mindstorm Civil No. 050902290, Third Judicial District Court, Salt Lake County, State of Utah. CirTran Asia brought suit against Mindstorm Technologies, LLC, for nonpayment for goods provided. As of the date of this report, the suit was in its initial stages, and Mindstorm had not filed its answer.

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, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

26

Our common stock traded sporadically on the Pink Sheets under the symbol "CIRT" from July 2000 to July 2002. Effective July 15, 2002, the NASD approved our shares of common stock for quotation on the NASD Over-the-Counter Electronic Bulletin Board. The following table sets forth, for the calendar years ending December 31, 2004, 2003, and 2002, the prices of our common stock as reported and summarized on the Pink Sheets. These prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

Calendar Quarter Ended	High Bid	Low Bid
December 31, 2004	\$0.04	\$0.02
September 30, 2004	\$0.06	\$0.03
June 30, 2004	\$0.09	\$0.04
March 31, 2004	\$0.08	\$0.01
December 31, 2003	\$0.03	\$0.02
September 30, 2003	\$0.03	\$0.01
June 30, 2003	\$0.04	\$0.01
March 31, 2003	\$0.04	\$0.01
December 31, 2002	\$0.12	\$0.03
September 30, 2002	\$0.16	\$0.03
June 30, 2002	\$0.07	\$0.02
March 31, 2002	\$0.08	\$0.02

As of April 8, 2004, we had approximately 540 shareholders of record holding 564,868,569 shares of common stock.

We have not paid, nor declared, any dividends on our common stock since our

Edgar Filing: CIRTRAN CORP - Form 10KSB

inception and do not intend to declare any such dividends in the foreseeable future. Our ability to pay dividends is subject to limitations imposed by Nevada law. Under Nevada law, dividends may be paid to the extent the corporation's assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business.

Recent Sales of Unregistered Securities

Pursuant to the Equity Line of Credit Agreement (discussed more fully below under "Liquidity and Financing Arrangements"), we are entitled to put to the Equity Line Investor, in lieu of repayment of amounts drawn on the Equity Line, shares of the Company's common stock. Although the Company has filed a registration statement to register the resale by the Equity Line Investor of the shares put to it by the Company, the issuances of shares to the Company are 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 have been and will be issued to only one investor which has represented that it is an "accredited investor" as that term is defined in Regulation D promulgated pursuant to the Securities Act of 1933. Through December 31, 2003, we issued 64,253,508 shares of common stock to the Equity Line Investor in connection with draws on the Equity Line. Subsequent to December 31, 2003, and through March 25, 2004, we drew an additional \$2,150,000 under the Equity Line Agreement, and issued 57,464,386 additional shares of common stock to the Equity Line Investor. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

27

In December, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 30,000,000 shares of common stock in exchange for cancellation of an aggregate amount of \$1,500,000 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.05 per share, for the aggregate amount of \$1,500,000. The Company did not grant registration rights to the four creditors. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

In January, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 19,987,853 shares of common stock in exchange for cancellation of an aggregate amount of \$1,499,090 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.075 per share, for the aggregate amount of \$1,500,000. The Company did not grant registration rights to the four creditors. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

In March 2004, the Company issued 542,495 shares of restricted common stock to a financial institution in partial settlement of an obligation of the Company. The shares were issued without registration under the Securities Act of 1933, as amended (the "1933 Act") in reliance on Section 4(2) of the 1933 Act, and the rules and regulations promulgated thereunder.

Edgar Filing: CIRTRAN CORP - Form 10KSB

In May 2004, the Company issued 1,000,000 shares of restricted common stock to an unrelated party in settlement of a claim that the Company owed an obligation under a note. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the 1933 Act, and the rules and regulations promulgated thereunder.

In November 2004, the Company issued 1,000,000 shares of restricted common stock to a corporation in settlement of an obligation of the Company under a note payable to the corporation. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the 1933 Act, and the rules and regulations promulgated thereunder.

In 2004, the Company issued 45,273,989 shares of restricted common stock to Iehab and Shafer Hawatmeh in settlement of an obligation of the Company related to accrued compensation and accrued interest. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the 1933 Act, and the rules and regulations promulgated thereunder.

In March 2005, CirTran Corporation (the "Company"), entered into agreements with eight individuals or entities (collectively, the "Lenders") to whom the Company was indebted, in an aggregate amount of \$2,450,000, pursuant to which, the Company agreed to issue an aggregate of 61,250,000 shares of its restricted common stock in exchange for the Lenders' agreeing to cancel the debt obligations owed by the Company. With respect to \$2,050,000 of the indebtedness, that amount was owed to Abacas Ventures, Inc. ("Abacas"), a company that had purchased certain of the Company's obligations. Abacas agreed to the cancellation of the Company's obligation to Abacas in return for the Company's issuing shares to certain of Abacas's shareholders and the other named individuals. Trevor Saliba, who is a beneficiary of the Saliba Private Annuity Trust, has been a director of the Company since June 2001.

The remaining \$400,000 was due to I&R Properties in connection with past rent and accrued interest on the Company's headquarters building. I&R Properties is a company owned and controlled by individuals who are officers, directors and principal stockholders.

28

The Company issued the shares, and the Lenders cancelled the obligations, pursuant to subscription agreements (the "Agreements") with each of the Lenders. Pursuant to the Agreements, the Company issued shares for a purchase price of \$0.04 per share. The shares are restricted stock, and will bear standard restricted stock legends. No registration rights were granted to any of the Lenders. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

Penny Stock Rules

Our shares of common stock are subject to the "penny stock" rules of the Securities Exchange Act of 1934 and various rules under this Act. In general terms, "penny stock" is defined as any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. The rules provide that any equity security is considered to be a penny stock unless that security is registered and traded on a national securities exchange meeting specified criteria set by the SEC, authorized for quotation from the NASDAQ stock market, issued by a registered investment company, and excluded from the definition on the basis of price (at least \$5.00 per share), or based on the issuer's net

Edgar Filing: CIRTRAN CORP - Form 10KSB

tangible assets or revenues. In the last case, the issuer's net tangible assets must exceed \$3,000,000 if in continuous operation for at least three years or \$5,000,000 if in operation for less than three years, or the issuer's average revenues for each of the past three years must exceed \$6,000,000. Trading in shares of penny stock is subject to additional sales practice requirements for broker-dealers who sell penny stocks to persons other than established customers and accredited investors. Accredited investors, in general, include individuals with assets in excess of \$1,000,000 or annual income exceeding \$200,000 (or \$300,000 together with their spouse), and certain institutional investors. For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of the security and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, the rules require the delivery, prior to the first transaction, of a risk disclosure document relating to the penny stock. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the security. Finally, monthly statements must be sent disclosing recent price information for the penny stocks. These rules may restrict the ability of broker-dealers to trade or maintain a market in our common stock, to the extent it is penny stock, and may affect the ability of shareholders to sell their shares.

29

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Overview

We provide a mixture of high and medium size volume turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole and custom injection molded cabling for leading electronics OEMs in the communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our services include pre-manufacturing, manufacturing and post-manufacturing services. Through our subsidiary, Racore Technology Corporation, we design and manufacture Ethernet technology products. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management, and increased purchasing power.

During 2004, we established a new division, CirTran-Asia, Inc, which has contributed to a large portion of the increase in revenue for the year ended December 31, 2004. This new division, is our Asian-based, wholly owned subsidiary of CirTran Corporation and provides a myriad of manufacturing services to the direct response and retail consumer markets. Our experience and expertise in manufacturing enables CirTran-Asia to enter a project at any phase: engineering and design, product development and prototyping, tooling, and high-volume manufacturing.

CirTran has established a dedicated satellite office for CirTran-Asia, and has retained Mr. Charles Ho to lead the new division. Having proven the value and reliability of its core products, CirTran Corporation has chosen to expand into

Edgar Filing: CIRTRAN CORP - Form 10KSB

previously untapped product lines. CirTran-Asia will pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses and injection molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, retail, and direct consumer markets.

We have been preparing for more than a year for this strategic move into the Asian market. Management anticipates that this new division will elevate CirTran to an international contract manufacturer status for multiple products in a wide variety of industries, and will, in short order, allow us to target large-scale contracts. We anticipate that our new clients will be leading manufacturing and marketing firms in the retail and direct consumer markets.

Information relating to recent developments in our increasing line of fitness products is as follows:

On June 7, 2004, we announced that CirTran-Asia had received an initial purchase order on May 26, 2004, relating to the manufacture of 80,000 abdominal fitness machines. This order was the first order placed with CirTran-Asia under the exclusive manufacturing agreement. Subsequently, on June 14, 2004, we received another order for 80,000 units of the abdominal fitness machines, which was announced on June 16, 2004, through a separate press release. Since these announcements, CirTran-Asia has manufactured, shipped, and received payments of approximately \$5,288,000. On August 13, 2004, we also announced that on August 11, 2004 we had received new orders for Wal-Mart. The company shipped to Wal-Mart the complete order of abdominal fitness machines and received payments of approximately \$400,000 to date. The units were distributed to Wal-Mart stores throughout Canada.

On August 11, 2004, we announced that CirTran-Asia received a purchase order on August 10, 2004 relating to the manufacture of a household cooking appliance for hot dogs and sausages. Since these

30

announcements, CirTran-Asia has manufactured, shipped, and received payments of approximately \$362,000.

On September 9, 2004, we announced that on September 6, 2004, CirTran-Asia had been awarded the rights to manufacture a new abdominal fitness machine under the exclusive manufacturing agreement. This new product is another type of abdominal fitness machines. We are still awaiting production orders to begin manufacturing and shipping.

On September 10, 2004, we announced that on September 7, 2004, CirTran-Asia had been awarded the rights to manufacture another type of an abdominal fitness machine under the exclusive manufacturing agreement. Since this announcement, CirTran-Asia has manufactured, shipped, and received payments of approximately \$720,000.

On September 14, 2004, we announced that on September 7, 2004, we had begun manufacturing an abdominal fitness machine entitled another type of under the exclusive manufacturing agreement. Since this announcement, CirTran-Asia has manufactured, shipped, and received payments of approximately \$390,000.

On September 30, 2004, we announced that on September 23, 2004, CirTran-Asia had been awarded the rights to manufacture a pilates fitness machine under the exclusive manufacturing agreement. Since this announcement, CirTran-Asia has manufactured, shipped, and received payments of approximately \$85,000.

Edgar Filing: CIRTRAN CORP - Form 10KSB

Information relating to recent developments in new products under development along with procuring new products for development is as follows:

On January 19, 2005, CirTran Corporation signed an Exclusive Manufacturing Agreement with a company relating to the manufacture of a hair product in California. Since these announcements, CirTran-Asia has manufactured, shipped, and received payments of approximately \$366,000.

On October 1, 2004, we entered into an agreement with Transactional Marketing Partners, Inc. ("TMP"), for consulting services. Pursuant to the agreement, we engaged TMP to provide strategic planning and for introduction of new business to us. Under the agreement, we agreed to pay to TMP a fee of ten percent of the net proceeds received by us from business brought to us by TMP. The fee is to be paid within 15 calendar days following the end of the month in which we receive the net proceeds. Additionally, we agreed to pay \$7,500 during each of the first three months of the term of the agreement, with such payments being viewed as an advance against the fee to be earned. The advance payments are not refundable, but will be deducted from fees earned by TMP. The agreement has an initial term of six months, beginning October 1, 2004, and can be automatically extended for successive six-month periods unless either party gives written notice at least 30 days prior to the expiration of the term of the agreement of its intent not to renew. Additionally, we may terminate the agreement at any time by giving 30 days written notice. In March 2005, we extended our agreement to an additional 6 months that will expire in early September 2005. The parties will evaluate the relationship at that time and decide if there needs to be another extension. To date the relationship has proven successful resulting in multiple new manufacturing relationships.

Due to lack of performance, at management's suggestion, Mr. Michael Casey submitted his written resignation from the board of directors of CirTran-Asia on January 31, 2005. He was provided written acceptance by Mr. Hawatmeh, Chairman of the parent company, CirTran Corp on February 1, 2005.

31

Significant Accounting Policies

Revenue Recognition

Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment. Returns for defective items are repaired and sent back to the customer. Historically, expenses experienced with such returns have not been significant and have been recognized as incurred.

Inventories

Inventories are stated at the lower of average cost or market value. Costs include labor, material and overhead costs. Overhead costs are based on indirect costs allocated among cost of sales, work-in-process inventory and finished goods inventory. Indirect overhead costs have been charged to cost of sales or capitalized as inventory based on management's estimate of the benefit of indirect manufacturing costs to the manufacturing process.

Edgar Filing: CIRTRAN CORP - Form 10KSB

When there is evidence that the inventory's value is less than original cost, the inventory is reduced to market value. The Company determines market value on current resale amounts and whether technological obsolescence exists. The Company has agreements with most of its customers that require the customer to purchase inventory items related to their contracts in the event that the contracts are cancelled.

The Company typically orders inventory on a customer-by-customer basis. In doing so the Company enters into binding agreements that the customer will purchase any excess inventory after all orders are complete. Almost 80% of the total inventory is secured by these agreements.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred that indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable. As of December 31, 2004, the Company does not consider any of its long-lived assets to be impaired. Related Party Transactions

Certain transactions involving Abacas Ventures, Inc., the Saliba Private Annuity Trust and the Saliba Living Trust are regarded as related party transactions under FAS 57. Disclosure concerning these transactions is set out in this Item 6 under "Liquidity and Capital Resources - Liquidity and Financing Arrangements," and in "Item 12 - Certain Relationships and Related Transactions."

Results of Operations - Comparison of Years Ended December 31, 2004 and 2003

Sales and Cost of Sales

32

Net sales increased 629.3% to \$8,862,715 for the year ended December 31, 2004, as compared to \$1,215,245 for the year ended December 31, 2003. This sales increase can be attributed to several factors. The first factor was the strengthening of the overall market economy. Industry-wide, we are seeing more OEMs release larger order commitments with extended time tables. The second significant factor directly related to CirTran is our marketing approach. Most contract manufacturers approach customers on a job-by-job basis. CirTran approaches customers on a partner basis. We have developed a program where we can be more effective when we control the material procurement, purchasing, and final assembly, providing the customer a final quality product delivered on time and at a lower market cost. This approach for the electronics assembly and manufacture division has resulted in sales to new customers of \$577,337 during the year ended December 31, 2004. The biggest factor contribution to the increase of net sales during the 2004 was the establishment of the new division CirTran-Asia, which has contributed \$5,458,944 of the increase in revenue.

Cost of sales increased by 722.8%, from \$854,542 during the year ended December 31, 2003, to \$7,030,934 during year ended December 31, 2004. The increase in cost of sales is due to an increase in revenue. Our gross profit margin for the year ended December 31, 2004, was 20.5%, up from 16.5% from the year ended December 31, 2003. The increase in margins is attributable to better control of

Edgar Filing: CIRTRAN CORP - Form 10KSB

materials and scrap.

The following charts present (i) comparisons of sales, cost of sales and gross profit generated by our two main areas of operations, i.e., electronics assembly and Ethernet technology, during 2003 and 2004; and (ii) comparisons during these two years for each division between sales generated by pre-existing customers and sales generated by new customers.

	Year	Sales	Cost of Sales	Gross Loss/Margin
Asia Division	2004	\$ 5,458,944	\$ 4,736,479	\$ 722,465
	2003	0	0	
Electronics Assembly	2004	3,354,057	2,282,253 (2)	1,071,804
	2003	1,050,090	929,800 (1)	120,290
Ethernet Technology	2004	49,714	25,202	24,512
	2003	165,155	84,742	80,413

	Year	Total Sales	Pre-existing Customers	New Customers
Asia Division	2004	\$ 5,458,944	\$ 0	\$ 5,458,944
	2003	0	0	
Electronics Assembly	2004	3,354,057	2,796,720	557,337
	2003	1,050,090	1,036,418	13,672
Ethernet Technology	2004	49,714	30,257	19,457
	2003	165,155	127,040	38,115

(1) Includes the write-down of carrying value of inventories of \$160,000

(2) Includes the write-down of carrying value of inventories of \$13,000

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the

33

quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at December 31, 2004 was \$1,453,754, as compared to \$1,247,428 at December 31, 2003. The increase in inventory is required to facilitate the increase in turnkey sales.

Selling, General and Administrative Expenses

During the year ended December 31, 2004, selling, general and administrative expenses were \$3,362,933 versus \$2,402,968 for 2003, a 39.9% increase. The increase was due to expenses related to the CirTran- Asia division, along with our efforts to aggressively market our products. Selling, general and administrative expenses as a percentage of sales as of December 30, 2004 were 37.9% as compared to 197.7% during 2003. This decrease is due in part to an increase in sales and better control of expenses.

Other Income and Expense

Interest expense for 2004 was \$495,637 as compared to \$571,044 for 2003, a decrease of 13.2%. The decrease is primarily due to the reduction in interest expense related the settlement of various notes payable. As of December 31, 2004 and 2003, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was \$723,660 and \$2,107,930, respectively. We also had a gain on forgiveness of debt related to previously unpaid liabilities in the amount of \$1,713,881.

As a result of the above factors, our overall net loss decreased 77.4% to \$658,322 for the year ended December 31, 2004, as compared to \$2,910,978 for the year ended December 31, 2003.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses, and our accumulated deficit was \$18,799,602 at December 31, 2004, and \$18,141,280 at December 31, 2003. Our net loss for the year ending December 31, 2004 was \$658,322, compared to \$2,910,978 for the year ending December 31, 2003. Our current liabilities exceeded our current assets by \$3,558,826 as of December 31, 2004, and \$5,529,244 as of December 31, 2003. The decrease in the difference is due to the settlement of notes payable and the agreement with the Internal Revenue Service. For the years ended December 31, 2004 and 2003, we recorded negative cash flows from operations of \$1,680,054 and \$1,123,818, respectively.

Cash

We had cash on hand of \$81,101 at December 31, 2004, compared to \$54,135 at December 31, 2003. The increase in cash on hand is due to a new cash management system that was established during 2003.

Edgar Filing: CIRTRAN CORP - Form 10KSB

Net cash used in operating activities was \$1,680,054 for the fiscal year ended December 31, 2004. During 2004, net cash used in operations was primarily attributable to \$658,322 in net losses from operations, a gain on forgiveness of debt of \$1,713,881 and an increase in accounts receivable of \$1,211,799, partially offset by increases in accrued liabilities of \$538,132 and accounts payable of \$515,690. The non-cash charge was for depreciation and amortization of \$249,395.

Net cash used in investing activities during the fiscal year ended December 31, 2004, consisted of equipment purchases of \$545,844 along with an investment of \$300,000 in Broaddata. We also have an outstanding deposit on equipment of \$100,000.

34

Net cash provided by financing activities was \$2,652,844 during the fiscal year ended December 31, 2004. Principal sources of cash were proceeds from stockholder notes payable of \$18,500, proceeds of \$2,927,000 from long-term notes payable, proceeds from the exercise of options to purchase common stock of \$111,500 and proceeds from notes payable to related parties of \$3,128,281. Principal uses of cash during 2004 consisted of \$3,523,364 principal payments of notes payable and notes payable to related parties and stockholders and a decrease to checks written in excess of cash in the bank of \$9,623.

Accounts Receivable

At December 31, 2004, we had receivables of \$1,288,719, net of a reserve for doubtful accounts of \$41,143, as compared to \$89,187 at December 31, 2003, net of a reserve of \$28,876.

This increase was primarily attributed to sales having substantially increased in the last months of the year as compared to the last two months in 2003. The Company has implemented an aggressive process to collect past due accounts over the past eighteen months. As such, the receivables that were past due for a period of greater than 45 days as of December 31, 2004, were less than 3% of total receivables. Individual accounts are continually monitored for collectibility. As part of monitoring individual customer accounts, the Company evaluates the adequacy of its allowance for doubtful accounts. Since the implementation of the new collection process, very few accounts have been deemed uncollectible. In addition, the majority of the increase in accounts receivable as of December 31, 2004, related to sales that occurred in the last month of the year. Therefore they were not deemed uncollectible.

Accounts Payable

Accounts payable were \$1,104,392 at December 31, 2004, as compared to \$1,300,597 at December 31, 2003. This decrease is primarily attributed to conversions of accounts payable to notes payable in relation to settlements made by Abacas Ventures.

Liquidity and Financing Arrangements

We have a history of substantial losses from operations and using rather than providing cash in operations. We had an accumulated deficit of \$18,799,602 and a total stockholders' deficit of \$2,242,033 at December 31, 2004. In addition, during 2004 and 2003, we have used, rather than provided, cash in our operations. As of December 31, 2004, our monthly operating costs and interest

Edgar Filing: CIRTRAN CORP - Form 10KSB

expenses averaged approximately \$320,000 per month.

35

Since February 2000, we have operated without a line of credit. Abacas Ventures, Inc., an entity whose shareholders include the Saliba Private Annuity Trust, one of our major shareholders (see "Item 11 - Security Ownership of Certain Beneficial Owners and Management") and a related entity, the Saliba Living Trust, purchased our line of credit of \$2,792,609, and this amount was converted into a note payable to Abacas 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 Abacas pursuant to this note payable. During 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 6,666,667 shares to these trusts for \$500,000 cash which was used for working capital for the Company. During December 2002, an additional \$1,020,154 of principal and \$479,846 of accrued interest owed to Abacas was converted to 30,000,000 shares of our common stock. We issued no common stock to Abacas during 2003. During 2003 and 2002, the Company received \$350,000 and \$845,000 of cash proceeds under the terms of a bridge loan from Abacas. The Company made principal payments of \$875,000 and 156,268 during 2003 and 2002, respectively, on the bridge loan. At December 31, 2003, the balance owed on the bridge loan was \$163,742. See "Item 12 - Certain Relationships and Related Transactions." During 2003 and 2002, we converted approximately \$34,049 and \$316,762, respectively of trade payables into notes and stock. During January 2002, in addition to the above-described transactions with the Saliba trusts, we issued 16,666,666 shares of restricted common stock at a price of \$0.075 per share in exchange for the cancellation of \$1,250,000 of notes payable to various stockholders. See "Item 12 - Certain Relationships and Related Transactions." We continue to work with vendors in an effort to convert other trade payables into long-term notes and common stock and to cure defaults with lenders with forbearance agreements that we are able to service.

Despite our efforts to make our debt-load more serviceable, significant amounts of additional cash will be needed to reduce our debt and fund our losses until such time as we are able to become profitable. As at December 31, 2003, we were in default of notes payable whose principal amount, not including the amount owing to Abacas Ventures, Inc., exceeded \$635,000. In addition, the principal amount of notes that either mature in 2003 or are payable on demand exceed \$875,000 which includes \$650,000 of notes to the equity line investor. The total amount per month that we have committed to paying pursuant to various settlements for outstanding debt, litigation and delinquent payroll taxes is currently approximately \$38,000, all of which is against accrued liabilities and notes payable. None of these settlements, however, have resulted in the forgiveness of any amounts owed, but have simply resulted in a restructuring in the terms of the various debts.

During the year ended December 31, 2004, Abacas completed negotiations with several vendors of the Company, whereby Abacas purchased various past due amounts for goods and services provided by vendors, as well as notes payable (see Note 6). The total of these obligations was \$1,263,713. The Company has recorded this transaction as a \$1,263,713 non-cash increase to the note payable owed to Abacas, pursuant to the terms of the Abacas agreement.

The total principal amount owed to Abacas between the note payable and the bridge loan was \$1,530,587 and \$163,742 as of December 31, 2004 and 2003, respectively. The total accrued interest owed to Abacas between the note payable and the bridge loan was \$430,828 and \$230,484 as of December 31, 2004 and 2003, respectively, and is included in accrued liabilities.

Edgar Filing: CIRTRAN CORP - Form 10KSB

In March 2005, the shareholders of Abacas agreed to cancel \$2,050,000 to principal and accrued interest in return for the Company's issuing 51,250,000 shares of our restricted common stock to the shareholders of Abacas. No registration rights were granted.

36

As of December 31, 2004, the Company had accrued liabilities in the amount of 500,000 for delinquent payroll taxes, including interest and penalties, owed to the Internal Revenue Service. The Company, in response to collection notices, filed a due process appeal with the Internal Revenue Service's Appeals Office. The appeal was resolved by an agreement with the Appeals Office that allowed the Company to file an offer in compromise of all federal tax liabilities owed by the Company based on its ability to pay. The Company filed its offer in compromise with the IRS in November 2003, and after meeting with IRS personnel, filed a revised offer in compromise on August 31, 2004. The Company was notified in November 2004 that the IRS had accepted the offer in compromise. Under the offer, the Company was required to pay an aggregate amount of \$500,000 (representing payments of \$350,000 by Circuit Technology, Inc., \$100,000 by CirTran Corporation, and \$50,000 by Racore Technology, Inc.), not later than February 3, 2005. These amounts were paid. Additionally, the Company must remain current in its payment of taxes for 5 years, and may not claim any NOLs for the years 2001 through 2015, or until the three companies pay taxes in an amount equal to the taxes waived by the offer in compromise.

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

In conjunction with our efforts to improve our results of operations, discussed above, we are also actively seeking infusions of capital from investors and are seeking to replace our operating line of credit. It is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to paying the debt and securing the debt with assets. We may therefore have to rely on equity financing to meet our anticipated capital needs. There can be no assurances that we will be successful in obtaining such capital. If we issue additional shares for debt and/or equity, this will dilute the value of our common stock and existing shareholders' positions.

Subsequent to our acquisition of Circuit in July 2000, we took steps to increase the marketability of our shares of common stock and to make an investment in our company by potential investors more attractive. These efforts consisted primarily of seeking to become current in our filings with the Securities and Exchange Commission and of seeking approval for quotation of our stock on the NASD Over the Counter Electronic Bulletin Board. NASD approval for quotation of our stock on the Over the Counter Electronic Bulletin Board was obtained in July 2002.

There can be no assurance that we will be successful in obtaining more debt and/or equity financing in the future or that our results of operations will materially improve in either the short or the long term. If we fail to obtain such financing and improve our results of operations, we will be unable to meet our obligations as they become due. That would raise substantial doubt about our ability to continue as a going concern.

Notes Payable to Equity Line Investor

During 2003, we borrowed a total of \$1,830,000 from Cornell Capital Partners, LP

Edgar Filing: CIRTRAN CORP - Form 10KSB

("Cornell"), pursuant to nine unsecured promissory notes. The loans were made and the notes were issued from June 2003 through December 2003. In lieu of interest, we paid fees to the lender, ranging from 5% to 10%, of the amount of the loan. These fees have been recorded as interest expense. The fees were negotiated in each instance and agreed upon by us and by the lender and its affiliate. The notes were repayable over periods ranging from 70 days to 131 days. Each of the notes stated that if we did not repay the notes when due, a default interest rate of 24% would apply to the unpaid balance. Through December 31, 2003, we directed the repayment of \$1,180,000 of these notes from proceeds generated under the Equity Line Agreement.

37

At December 31, 2003, the balance owing on these notes was \$650,000. All notes were paid when due or before, and at no time did we incur the 24% penalty interest rate.

During the year ended December 31, 2004, Cornell loaned us an additional \$3,200,000 pursuant to four additional unsecured promissory notes, \$1,700,000 of which remained outstanding at April 8, 2005. The loans were made and the notes were issued in January through June 2004, bringing the total aggregate loans from Cornell to \$5,030,000. As before, in lieu of interest, we paid fees to the lender, ranging from 4% to 5%, of the amount of the loan. The fees were negotiated in each instance and agreed upon by us and by the lender and its affiliate. The notes were repayable over periods of 88 days and 193 days. Each of the notes stated that if we did not repay the notes when due, a default interest rate of 24% would apply to the unpaid balance.

As discussed above, we received proceeds of \$5,030,000 from notes payable to Cornell. We used the proceeds from these notes to fund operating losses of approximately \$2,938,000, pay down accounts payable, notes payable and other settlements of approximately \$1,401,000, purchase equipment and tooling in the amount of \$391,000, and to invest in Broaddata in the amount of \$300,000. During January 2005 the Company received proceeds of \$565,000 from an additional note payable to Cornell to fund the settlement with the Internal Revenue Service. The note has a one-year term, bears interest at 7.5 percent per annum, and will be repaid along with a nine percent premium

The following table lists the notes issued to Cornell, amounts of each note, repayment dates, and other information about each note.

Note	Date of Issuance	Amount of Note	Prepaid Equity Line Fees	Note Payable Fees	Due Date	Repayment Dates
1	6/9/2003	230,000	9,200	20,800	8/18/2003	6/23/03 - 9/19/03
2	7/16/2003	100,000	4,000	7,150	10/4/2003	9/19/03 - 9/29/03
3	8/28/2003	100,000	4,000	10,500	1/6/2004	10/6/03
4	9/26/2003	200,000	8,000	14,000	11/21/2003	10/20/03 - 10/27/03
5	10/3/2003	300,000	12,000	20,750	1/5/2004	11/3/03 - 11/24/03

Edgar Filing: CIRTRAN CORP - Form 10KSB

6	10/23/2003	250,000	10,000	13,000	12/23/2003	12/8/03 - 12/22/03
7	11/10/2003	250,000	10,000	13,000	1/20/2004	1/5/04 - 1/19/04
8	12/5/2003	250,000	10,000	13,000	2/9/2004	2/16/04 - 3/16/04
9	12/23/2003	150,000	6,000	8,000	3/1/2004	3/16/04 - 3/22/04
10	1/29/2004	250,000	10,000	13,000	4/26/2004	4/5/04
11	2/27/2004	250,000	10,000	13,000	5/24/2004	4/12/04
12	3/23/2004	1,000,000	40,000	50,500	8/2/2004	5/31/04 - 7/19/04
13	6/17/2004	1,700,000	68,000	68,500	12/27/2004	none to date
14	1/28/2005	565,000	0	61,500	1/28/2006	none to date

There can be no assurance that we will be successful in obtaining more debt and/or equity financing in the future or that our results of operations will materially improve in either the short- or the long-term. If we fail to obtain such financing and improve our results of operations, we will be unable to meet our obligations as they become due. That would raise substantial doubt about our ability to continue as a going concern.

Equity Line of Credit Agreement

In conjunction with efforts to improve the results of our operations, discussed above, on November 5, 2002, we entered into an Equity Line of Credit Agreement with Cornell Capital Partners, LP. We subsequently terminated that agreement, and on April 8, 2003, we entered into an amended equity line agreement (the "Equity Line Agreement") with Cornell. Under the Equity Line Agreement, we have the right to draw up to \$5,000,000 from Cornell against an equity line of credit (the "Equity Line"), and to put to Cornell shares of our common stock in lieu of repayment of the draw. The number of shares to be issued is determined by dividing the amount of the draw by the lowest closing bid price of our common stock over the five trading days after the advance notice is tendered. Cornell is required under the 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.

During the year ended December 31, 2004, we drew an aggregate amount of \$2,150,000 under the Equity Line Agreement, pursuant to draws on the Equity Line, net of fees of \$86,000, and issued a total of 57,464,386 shares of common stock to Cornell under the Equity Line Agreement. At our direction, Cornell retained the proceeds of the draws under the Equity Line Agreement and applied them as payments on the notes to Cornell, discussed above.

Pursuant to the Equity Line Agreement, in connection with each draw, we agreed to pay a fee of 4% of the amount of the draw to Cornell as consideration for its providing the Equity Line. Total fees paid for the year ended December 31, 2004 were \$128,000. These fees were withheld from proceeds of notes payable and are in addition to fees paid in relation to these notes. Of these payments, \$86,000

Edgar Filing: CIRTRAN CORP - Form 10KSB

was offset against additional paid-in capital as shares were issued under the Equity Line Agreement and \$68,000 was recorded as deferred offering costs for total deferred offering costs of \$68,000 at December 31, 2004. These deferred offering costs will be offset against additional paid-in capital as shares are issued under the Equity Line Agreement subsequent to December 31, 2004.

The following table shows when shares were issued into escrow in connection with the prior Equity Line Agreement with Cornell. We intend to terminate the prior Equity Line Agreement when the registration statement covering the resale of shares received by Cornell in connection with the SEDA facility has been declared effective. At that point, any shares remaining in escrow will be returned to us and will be canceled.

Date	Shares	Total to Date
6/9/2003	10,000,000	10,000,000
7/17/2003	10,000,000	20,000,000
8/28/2003	10,000,000	30,000,000
9/26/2003	20,000,000	50,000,000
10/2/2003	20,000,000	70,000,000
11/11/2003	10,000,000	80,000,000
12/4/2003	10,000,000	90,000,000
12/22/2003	10,000,000	100,000,000
1/15/2004	10,000,000	110,000,000
2/26/2004	10,000,000	120,000,000

39

3/22/2004	20,000,000	140,000,000
-----------	------------	-------------

In connection with the prior Equity Line Agreement, we used the proceeds of draws against that Equity Line to pay down the notes to Cornell.

Standby Equity Distribution Agreement

We entered into a Standby Equity Distribution Agreement (the "Agreement") dated May 21, 2004, with Cornell. Under the Agreement, we have the right, at our sole discretion, to sell periodically to Cornell shares of our common stock for an aggregate purchase price of up to \$20 million. The purchase price for the shares sold to Cornell is equal to the lowest volume-weighted average price of our common stock during the pricing period consisting of the five consecutive trading days after we give an advance notice. The periodic sale of shares is known as an advance. We may request an advance, by giving a written advance notice to Cornell, and may not request advances more frequently than every seven trading days. A closing will be held on the first trading day after the end of the pricing period. The maximum advance amount is one million dollars (\$1,000,000) per advance, with a minimum of seven trading days between advances. In addition, we may not request advances if the shares to be issued in

Edgar Filing: CIRTRAN CORP - Form 10KSB

connection with such advances would result in Cornell's owning more than 9.9% of our outstanding common stock.

Cornell will retain a commitment fee of 5% of the amount of each advance under the Agreement.

Proceeds used under the Agreement will be used for general corporate purposes and likely will include the repayment of notes issued to Cornell. We cannot predict the total amount of proceeds to be raised in this transaction because we have not determined the total amount of the advances we intend to draw.

As noted above, we intend to use proceeds from the SEDA facility to repay the outstanding balance of \$1,700,000 owing to Cornell under a note payable. Doing so will reduce the amount available to us for other corporate purposes under the SEDA facility from \$20,000,000 to \$18,300,000. Management believes that the remaining amount will be sufficient to sustain our operations for the commitment period of the SEDA facility, which is 24 months from the date a registration statement covering the resale of shares by Cornell is declared effective. However, if we are able to obtain funding on better terms, or if our operations begin to generate sufficient revenues to allow us to operate without drawing on the SEDA facility or at reduced amounts, we may not draw the full remaining \$18,300,000 available to us. As discussed above, under the Agreement we are not required to draw any of the amounts available to us under the SEDA facility. Whether to draw and the extent to which we make draws is in our discretion, and we will make draws only as needed.

Forward-looking statements

All statements made in this report, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that we expect or anticipate will or may occur in the future, including such things as expansion and growth of operations and other such matters, are forward-looking statements. Any one or a combination of factors could materially affect our operations and financial condition. These factors include competitive pressures, success or failure of marketing programs, changes in pricing and availability of parts inventory, creditor actions, and conditions in the capital markets. Forward-looking statements made by us are based on knowledge of our business and the environment in which we currently operate. Because of the factors listed above, as well as other factors beyond our control, actual results may differ from those in the forward-looking statements.

40

ITEM 7. FINANCIAL STATEMENTS

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

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

Edgar Filing: CIRTRAN CORP - Form 10KSB

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer, who is also our Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this annual report, has concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Section 404 Assessment. Section 404 of the Sarbanes-Oxley Act of 2002 requires management's annual review and evaluation of our internal controls, and an attestation of the effectiveness of these controls by our independent registered public accountants beginning with our Form 10-K for the fiscal year ending on December 31, 2007. We plan to dedicate significant resources, including management time and effort, and to incur substantial costs in connection with our Section 404 assessment. The evaluation of our internal controls will be conducted under the direction of our senior management. We will continue to work to improve our controls and procedures, and to educate and train our employees on our existing controls and procedures in connection with our efforts to maintain an effective controls infrastructure at our Company.

Limitations on Effectiveness of Controls. A system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the system will meet its objectives. The design of a control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon assumptions about the likelihood of future events.

PART III

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

41

Directors and Officers

The following sets forth the names, ages and positions of our directors and officers and the officers of our operating subsidiary, CirTran Corporation (Utah), along with their dates of service in such capacities.

Name	Age	Positions
------	-----	-----------

Edgar Filing: CIRTRAN CORP - Form 10KSB

Iehab J. Hawatmeh	38	President, Chief Financial Officer, Secretary and Director of CirTran Corporation; President of CirTran Corporation (Utah). Served since July 2000.
Raed Hawatmeh	39	Director since June 2001.
Trevor Saliba	30	Director since June 2001. Senior Vice-President, Sales and Marketing since January 2002.

IehabJ. Hawatmeh. Mr. Hawatmeh is our President and Secretary and a member of our Board of Directors. Mr. Hawatmeh served as the President and Chief Executive Officer of Circuit Technology, Inc. from 1993 until we acquired it in July 2000. In this position, he was responsible for all operational, financial, marketing and sales activities of Circuit Technology. He now performs similar functions for us and our operating subsidiary, CirTran Corporation (Utah).

Raed Hawatmeh. Raed Hawatmeh, who is not related to Iehab Hawatmeh, has served as a director since June 2001. Mr. Hawatmeh has been a self-employed investor and venture capitalist for the past five years, specializing in financing start-up companies in various industries.

Trevor Saliba. Mr. Saliba has served as a director since June 2001 and was appointed Senior Vice- President, Sales and Marketing in January 2002. In 1997, Mr. Saliba founded Saliba Corporation, a San Francisco construction company, and has served as its president from the founding through June 2002. Prior to 1997, Mr. Saliba was employed as a project engineer for Tutor-Saliba Corporation.

At this time, the Company does not have an audit committee. The Company's Board of Directors acts as the Company's audit committee. Similarly, the Company's Board of Directors has determined that the Company does not have an audit committee financial expert as defined under Securities and Exchange Commission rules.

In June 2002 Mr. Saliba filed for personal bankruptcy in the U.S. Bankruptcy Court in Los Angeles, California, which was discharged in March 2005. The bankruptcy was unrelated to Mr. Saliba's involvement in CirTran.

Compliance with Section 16(a) of the Exchange Act.

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who beneficially own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required by regulation of the Securities and Exchange Commission to furnish us with copies of all Section 16(a) forms which they file. Based solely on its review of the copies of such forms furnished to us during the fiscal year ended December 31, 2004, we are aware of the following untimely filings:

In January 2004, Iehab Hawatmeh received a total of 30,288,465 shares of the Company's restricted common stock in exchange for forgiveness of debt owed to him by the Company. The transaction should have been reported on a Form 4. It

Edgar Filing: CIRTRAN CORP - Form 10KSB

will be reported on a Form 5 to be filed. Additionally, in January and May 2004, Mr. Iehab Hawatmeh exercised options to purchase 1,500,000 shares of the Company's stock and sold the shares received upon exercise of the options. The transactions should have been reported on Forms 4. They will be reported on a Form 5 to be filed.

In January, May, and July 2004, Mr. Saliba exercised options to purchase 2,250,000 shares of the Company's stock and sold the shares received upon exercise of the options. The transactions should have been reported on Forms 4. They will be reported on a Form 5 to be filed.

In January and May 2004, Mr. Raed Hawatmeh exercised options to purchase 1,500,000 shares of the Company's stock and sold the shares received upon exercise of the options. The transactions should have been reported on Forms 4. They will be reported on a Form 5 to be filed.

Code of Ethics. The Company has not yet adopted a code of ethics. The Board of Directors anticipates that it will adopt a code of ethics during the second quarter of 2005, and that we will file the code of ethics as an exhibit to our second quarterly report.

Indemnification Provisions

Our Bylaws provide, among other things, that our officers or directors are not personally liable to us or to our stockholders for damages for breach of fiduciary duty as an officer or director, except for damages for breach of such duty resulting from (a) acts or omissions which involve intentional misconduct, fraud, or a knowing violation of law, or (b) the unlawful payment of dividends. Our Bylaws also authorize us to indemnify our officers and directors under certain circumstances. We anticipate we will enter into indemnification agreements with each of our executive officers and directors pursuant to which we will agree to indemnify each such person for all expenses and liabilities incurred by such person in connection with any civil or criminal action brought against such person by reason of their being an officer or director of the Company. In order to be entitled to such indemnification, such person must have acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company and, with respect to criminal actions, such person must have had no reasonable cause to believe that his conduct was unlawful.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information regarding the annual and long-term compensation for services to us in all capacities (including Circuit Technologies, Inc.) for the prior fiscal years ended December 31, 2004, 2003, and 2002, of those persons who were either (i) the chief executive officer during the last completed fiscal year or (ii) one of the other four most highly compensated executive officers as of the end of the last completed fiscal year. The individuals named below received no other compensation of any type, other than as set out below, during the fiscal years indicated.

Edgar Filing: CIRTRAN CORP - Form 10KSB

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Restricted Stock Awards (\$)	Stock Options (#)
Iehab J. Hawatmeh President, Secretary, Treasurer and Director	2004	200,000	-	-	3,500,000
	2003	175,000	-	-	6,500,000
	2002	175,000	-	-	1,850,000
Trevor M. Saliba Sr. Vice President and Director of CirTran Corporation	2004	108,000	-	-	4,250,000
	2003	127,000	-	-	3,000,000
	2002	118,000	-	-	500,000
Raed S. Hawatmeh Director of CirTran Corporation	2004	-	-	-	2,500,000
	2003	-	-	-	3,000,000
	2002	-	-	-	500,000

Option/SAR Grants in the Year Ended December 31, 2004

Name	Number of Securities Underlying Options/SARs Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)
Iehab Hawatmeh	3,500,000	14.58%	\$0.015 - \$0.03
Trevor Saliba	4,250,000	17.71%	\$0.015 - \$0.03
Raed Hawatmeh	3,500,000	14.58%	\$0.015 - \$0.03

Aggregated Option/SAR Exercises in the Year Ended December 31, 2004 and December 31, 2004 Option/SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY End (#) Exercisable/Unexercisable
Iehab Hawatmeh	1,500,000	\$33,750	-
Trevor Saliba	2,250,000	\$56,250	-
Raed Hawatmeh	750,000	\$11,250	2,250,000/0

Employment Agreements

On July 1, 2004, CirTran Corporation entered into an employment agreement with Iehab Hawatmeh, dated as of June 26, 2004. The agreement, which is for a term of five years and renews automatically on a year-to year basis, provides for a base salary of \$225,000, plus a bonus of 5% of our earnings before interest, taxes, depreciation, and amortization, payable quarterly, as well as any other bonus our board of directors may approve. Under the Agreement, Mr. Hawatmeh agreed to serve as our Chief Executive Officer and President and to perform such other duties as delegated by our board of directors. The agreement provides for benefits including health insurance coverage, cell phone, car allowance, life insurance, and D&O insurance. Under the Agreement, Mr. Hawatmeh's employment may be terminated for cause, or upon his death or disability. In the event that Mr. Hawatmeh is terminated without cause, we are obligated to pay him, as a severance payment, an amount equal to five full years of his then-current annual base compensation, half upon such termination and half one year later, together with a continuation of insurance benefits for a period of five years.

Additionally, on July 1, 2004, CirTran Corporation entered into an employment agreement with Trevor Saliba, dated as of June 26, 2004. The agreement, which is for a term of three years and renews automatically on a year-to year basis, provides for a base salary of \$120,000, plus a bonus of 1% of our gross sales generated directly by Mr. Saliba, a bonus of 5% of all gross investments made into CirTran which are directly generated and arranged by Mr. Saliba, a bonus of 1% of the net purchase price of any acquisitions completed by us which are directly generated and arranged by Mr. Saliba (payable in CirTran common stock), as well as any other bonus our board of directors may approve. Under the Agreement, Mr. Saliba agreed to serve as our Executive Vice President of Sales and Marketing, and to perform such other duties as delegated by our board of directors. The agreement provides for benefits including health insurance coverage, cell phone, car allowance, life insurance, and D&O insurance. Under the Agreement, Mr. Saliba's employment may be terminated for cause, or upon his death or disability. In the event that Mr. Saliba is terminated without cause, we are obligated to pay him, as a severance payment, an amount equal to one years' salary. If the Agreement expires of its terms or is terminated for any reason, Mr. Saliba may not compete with us for a period of one year from the date of termination of the agreement. Mr. Saliba also agreed not to solicit our employees or customers, or attempt to induce anyone to cease doing business with us for a period of two years after the termination of the agreement.

On July 1, 2004, we also entered into an employment agreement, dated as of June 26, 2004, with Shaher Hawatmeh, the brother of Iehab Hawatmeh. The agreement, which is for a term of three years and renews automatically on a year-to year basis, provides for a base salary of \$150,000, plus a bonus of 1% of our earnings before interest, taxes, depreciation, and amortization, payable quarterly, as well as any other bonus our board of directors may approve. Under the Agreement, Mr. Shaher Hawatmeh agreed to serve as our Chief Operating Officer, and to perform such other duties as delegated by our board of directors. The agreement provides for benefits including health insurance coverage, cell phone, life insurance, and D&O insurance. Under the Agreement, Mr. Shaher Hawatmeh's employment may be terminated for cause, or upon his death or disability. In the event that Mr. Shaher Hawatmeh is terminated without cause, we are obligated to pay him, as a severance payment, an amount equal to one years' salary. If the Agreement expires of its terms or is terminated for any reason, Mr. Shaher Hawatmeh may not compete with us for a period of one year from the date of termination of the agreement. Mr. Shaher Hawatmeh also agreed not to solicit our employees or customers, or attempt to induce anyone to cease

Edgar Filing: CIRTRAN CORP - Form 10KSB

doing business with us for a period of two years after the termination of the agreement.

45

On June 15, 2004, our subsidiary, CirTran-Asia, entered into an employment agreement with Charles Ho. The agreement, which is for a term of three years and renews automatically on a year-to year basis, provides that for each additional product that Mr. Ho procures pursuant to the agreement between CirTran-Asia and Michael Casey Enterprises, LTD., Mr. Ho shall be entitled to receive such compensation as provided for in that agreement in the form of options to purchase shares of CirTran common stock. Under the Agreement, CirTran-Asia will not provided benefits to Mr. Ho., and his employment may be terminated for cause, or upon his death or disability. If the Agreement expires of its terms or is terminated for any reason, Mr. Ho may not compete with us for a period of one year from the date of termination of the agreement. Mr. Ho also agreed not to solicit our employees or customers, or attempt to induce anyone to cease doing business with us for a period of two years after the termination of the agreement.

2001 Stock Plan

The 2001 Stock Plan has been fully distributed.

2002 Stock Plan

The 2002 Stock Plan has been fully distributed.

2003 Stock Plan

In November 2003, our board approved and adopted our 2003 Stock Plan, or the 2003 Plan, subject to shareholder approval. An aggregate of 35,000,000 shares of our common stock are subject to the 2003 Plan, which provides for grants to employees, officers, directors and consultants of both non-qualified (or non-statutory) stock options and "incentive stock options" (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended). The 2003 Plan also provides for the grant of certain stock purchase rights, which are subject to a purchase agreement between us and the recipient. The purpose of the 2003 Plan is to enable us to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to such persons, and to promote the success of our business.

The 2003 Plan is administered by our board of directors, which designates from time to time the individuals to whom awards are made under the 2003 Plan, the amount of any such award and the price and other terms and conditions of any such award. The 2003 Plan shall continue in effect until the date which is ten years from the date of its adoption by the board of directors, subject to earlier termination by our board. The board may suspend or terminate the 2003 Plan at any time.

The board determines the persons to whom options are granted, the option price, the number of shares to be covered by each option, the period of each option, the times at which options may be exercised and whether the option is an incentive or non-statutory option. No employee may be granted options or stock purchase rights under the 2003 Plan for more than an aggregate of 15,000,000 shares in any given fiscal year. We do not receive any monetary consideration

Edgar Filing: CIRTRAN CORP - Form 10KSB

upon the granting of options. Options are exercisable in accordance with the terms of an option agreement entered into at the time of grant.

The board may also award our shares of common stock under the 2003 Plan as stock purchase rights. The board determines the persons to receive awards, the number of shares to be awarded and the time of the award. Shares received pursuant to a stock purchase right are subject to the terms, conditions and restrictions determined by the board at the time the award is made, as evidenced by a restricted stock purchase agreement.

46

As of April 8, 2005, 35,000,000 options to purchase shares of common stock and no stock purchase rights have been granted under the 2003 Plan. Therefore, the 2003 Plan has been fully distributed.

2004 Stock Plan

In December 2004, our board approved and adopted our 2004 Stock Plan, or the 2004 Plan, subject to shareholder approval. An aggregate of 40,000,000 shares of our common stock are subject to the 2004 Plan, which provides for grants to employees, officers, directors and consultants of both non-qualified (or non-statutory) stock options and "incentive stock options" (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended). The 2004 Plan also provides for the grant of certain stock purchase rights, which are subject to a purchase agreement between us and the recipient. The purpose of the 2004 Plan is to enable us to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to such persons, and to promote the success of our business.

The 2004 Plan is administered by our board of directors, which designates from time to time the individuals to whom awards are made under the 2004 Plan, the amount of any such award and the price and other terms and conditions of any such award. The 2004 Plan shall continue in effect until the date which is ten years from the date of its adoption by the board of directors, subject to earlier termination by our board. The board may suspend or terminate the 2004 Plan at any time.

The board determines the persons to whom options are granted, the option price, the number of shares to be covered by each option, the period of each option, the times at which options may be exercised and whether the option is an incentive or non-statutory option. No employee may be granted options or stock purchase rights under the 2004 Plan for more than an aggregate of 15,000,000 shares in any given fiscal year. We do not receive any monetary consideration upon the granting of options. Options are exercisable in accordance with the terms of an option agreement entered into at the time of grant.

The board may also award our shares of common stock under the 2004 Plan as stock purchase rights. The board determines the persons to receive awards, the number of shares to be awarded and the time of the award. Shares received pursuant to a stock purchase right are subject to the terms, conditions and restrictions determined by the board at the time the award is made, as evidenced by a restricted stock purchase agreement.

As of April 8, 2005, 20,000,000 options to purchase shares of common stock and no stock purchase rights have been granted under the 2004 Plan.

Edgar Filing: CIRTRAN CORP - Form 10KSB

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number and percentage of the 564,868,569 outstanding shares of our common stock which, according to the information supplied to us, were beneficially owned, as of April 8, 2005, by (i) each person who is currently a director, (ii) each executive officer, (iii) all current directors and executive officers as a group and (iv) each person who, to our knowledge, is the beneficial owner of more than 5% of our outstanding common stock.

Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable. Beneficial ownership is determined according to the rules of the Securities and Exchange Commission, and generally means that person has beneficial ownership of a security if he or she possesses sole or shared voting or investment power over that security. Each director, officer, or 5% or more shareholder, as the

47

case may be, has furnished us information with respect to beneficial ownership. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below, based on the information each of them has given to us, have sole investment and voting power with respect to their shares, except where community property laws may apply.

Name and Address	Relationship	Common Shares
Saliba Private Annuity Trust (1) 115 S. Valley Street Burbank, CA 91505	5% Shareholder	75,698,990
Iehab J. Hawatmeh * 4125 South 6000 West West Valley City, Utah 84128	Director, Officer & 5% Shareholder	64,729,621
Raed Hawatmeh ** 10989 Bluffside Drive Studio City, CA 91604	Director & 5% Shareholder	33,566,530
Trevor Saliba * 13848 Valleyheart Drive Sherman Oaks, CA 91423	Director	13,375,000
All Officers and Directors as a Group (3 persons)		187,370,141

Edgar Filing: CIRTRAN CORP - Form 10KSB

(1) Includes 13,189,620 shares held by the Saliba Living Trust. Thomas L. Saliba and Betty R. Saliba are the trustees of The Saliba Living Trust and Thomas L. Saliba is the sole trustee of The Saliba Private Annuity Trust. These persons control the voting and investment decisions of the shares held by the respective trusts. Mr. Thomas L. Saliba is a nephew of the grandfather of Mr. Trevor Saliba, one of our directors and officers. Mr. Trevor Saliba is one of five passive beneficiaries of Saliba Private Annuity Trust and has no control over its operations or management. Mr. Saliba disclaims beneficial control over the shares indicated.

* Includes options of 2,000,000 shares each that can be exercised anytime at exercise price of \$0.02 - \$0.03 per share.

** Includes options of 4,250,000 shares that can be exercised anytime at exercise price of \$0.02 - \$0.03 per share.

Securities authorized for issuance under equity compensation plans

The following table sets forth information about the Company's equity compensation plans, including the number of securities to be issued upon the exercise of outstanding options, warrants, and rights; the weighted average exercise price of the outstanding options, warrants, and rights; and the number of securities remaining available for issuance under the specified plan through April 8, 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number remaining for future equity
Equity compensation plans approved by shareholders	0	0	
Equity compensation plans not approved by shareholders	2001 Plan: 0 options 2002 Plan: 500 options 2003 Plan: 3,750,000 options 2004 Plan: 10,500,000 options	2001 Plan: 0 options * 2002 Plan: \$0.0001/share 2003 Plan: \$0.01/share 2004 Plan: \$0.03/share	2001 2002 2003 2004
Total	\$14,250,000	\$0.03/share	20,000

* All options issued under this plan to date have been exercised.

Edgar Filing: CIRTRAN CORP - Form 10KSB

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

An explanation of the relationship between CirTran and Abacas Ventures, Inc., is as follows: Two trusts, the Saliba Living Trust and the Saliba Private Annuity Trust (collectively, the "Saliba Trusts"), were investors in Circuit Technology, a Utah corporation and predecessor entity of the Company. The trustees of the trusts are Tom and Betty Saliba, and Tom Saliba, respectively. (Tom Saliba is the nephew of the grandfather of Trevor Saliba, one of the directors of CirTran.) In July 2000, CirTran Corporation merged with Circuit Technology. Through that merger, the Saliba Trusts became shareholders of CirTran. The Saliba Trusts are also two of the shareholders of an entity named Abacas Ventures, Inc. ("Abacas"). At the time of the merger, CirTran was in default on several of its obligations, including an obligation to Imperial Bank. The Saliba Trusts, through Abacas, purchased the bank's claim against CirTran to protect their investment in CirTran. Since that time, Abacas has continued to settle debts of CirTran to improve Abacas's position and to take advantage of certain discounts that creditors of CirTran offered to settle their claims. On two occasions, the Abacas shareholders have agreed to convert outstanding debt owed by CirTran to Abacas into shares of CirTran common stock (discussed below). Abacas continues to work with the company to settle claims by creditors against CirTran, and, on occasion, to provide funding. There can be no assurance that Abacus will agree to convert its existing debt, or any debt it acquires in the future, into shares of CirTran, or that conversions will occur at a price and on terms that are favorable to CirTran. If Abacus and CirTran cannot agree on acceptable conversion terms, Abacus may demand payment of some or all of the debt. If CirTran does not have sufficient cash or credit facilities to pay the amount then due and owing by CirTran to Abacus, Abacus may exercise its rights as a senior secured lender and commence foreclosure or other proceedings against the assets of CirTran. Such actions by Abacus could have a material adverse effect upon CirTran and its ability to continue in business.

In January, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 19,987,853 shares of common stock to four of Abacas's shareholders in exchange for cancellation by Abacas of an aggregate amount of \$1,499,090 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.075 per share, for the aggregate amount of \$1,500,000.

49

In December, 2002, the Company entered into an agreement with Abacas under which the Company issued an aggregate of 30,000,000 shares of common stock to four of Abacas's shareholders in exchange for cancellation by Abacas of an aggregate amount of \$1,500,000 in senior debt owed to the creditors by the Company. The shares were issued with an exchange price of \$0.05 per share, for the aggregate amount of \$1,500,000.

During 2002, the Company entered into a bridge loan agreement with Abacas. This agreement allows the Company to request funds from Abacas to finance the build-up of inventory relating to specific sales. The loan bears interest at 24% and is payable on demand. There are no required monthly payments. During the years ended December 31, 2004 and 2003, the Company was advanced \$3,128,281 and \$350,000, respectively, and made cash payments of \$3,025,149 and \$875,000, respectively. During the year ended December 31, 2004, Abacas completed negotiations with several vendors of the Company, whereby Abacas purchased various past due amounts for goods and services provided by vendors, as well as

Edgar Filing: CIRTRAN CORP - Form 10KSB

notes payable (see Note 6). The total of these obligations was \$1,263,713. The Company has recorded this transaction as a \$1,263,713 non-cash increase to the note payable owed to Abacas, pursuant to the terms of the Abacas agreement. The total principal amount owed to Abacas between the note payable and the bridge loan was \$1,530,587 and \$163,742 as of December 31, 2004 and 2003, respectively. The total accrued interest owed to Abacas between the note payable and the bridge loan was \$430,828 and \$230,484 as of December 31, 2004 and 2003, respectively, and is included in accrued liabilities.

In March 2005, the shareholders of Abacas agreed to cancel \$2,050,000 of principal and accrued interest in return for the Company's issuing 51,250,000 shares of our restricted common stock to the shareholders of Abacas. No registration rights were granted.

As of December 31, 2001, Iehab Hawatmeh had loaned us a total of \$1,390,125. The loans were demand loans, bore interest at 10% per annum and were unsecured. Effective January 14, 2002, we entered into four substantially identical agreements with existing shareholders pursuant to which we issued an aggregate of 43,321,186 shares of restricted common stock at a price of \$0.075 per share for \$500,000 in cash and the cancellation of \$2,749,090 principal amount of our debt. Two of these agreements were with the Saliba Private Annuity Trust, one of our principal shareholders, and a related entity, the Saliba Living Trust. The Saliba trusts are also principals of Abacas Ventures, Inc., which entity purchased our line of credit in May 2000. (See "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Liquidity and Financing Arrangements.") Pursuant to the Saliba agreements, the trusts were issued a total of 26,654,520 shares of common stock in exchange for \$500,000 cash and the cancellation of \$1,499,090 of debt. We used the \$500,000 cash from the sale of the shares for working capital. As a result of this transaction, the percentage of our common stock owned by the Saliba Private Annuity Trust and the Saliba Living Trust increased from approximately 6.73% to approximately 17.76%. Mr. Trevor Saliba, one of our directors and officers, is a passive beneficiary of the Saliba Private Annuity Trust. Pursuant to the other two agreements made in January 2002, we issued an aggregate of 16,666,666 shares of restricted common stock at a price of \$0.075 per share in exchange for the cancellation of \$1,250,000 of notes payable by two shareholders, Mr. Iehab Hawatmeh (our president, a director and our principal shareholder) and Mr. Rajai Hawatmeh. Of these shares, 15,333,333 were issued to Iehab Hawatmeh in exchange for the cancellation of \$1,150,000 in debt. As a result of this transaction, the percentage of our common stock owned by Mr. Hawatmeh increased from 19.9% to approximately 22.18%.

50

In February 2000, prior to its acquisition of Vermillion Ventures, Inc., a public company, Circuit Technology, Inc., while still a private entity, redeemed 680,145 shares (as presently constituted) of common stock held by Raed Hawatmeh, who was a director of Circuit Technology, Inc. at that time, in exchange for \$80,000 of expenses paid on behalf of the director. No other stated or unstated rights, privileges, or agreements existed in conjunction with this redemption. This transaction was consistent with other transactions where shares were offered for cash.

In 1999, Circuit entered into an agreement with Cogent Capital Corp., or "Cogent," a financial consulting firm, whereby Cogent agreed to assist and provide consulting services to Circuit in connection with a possible merger or acquisition. Pursuant to the terms of this agreement, we issued 800,000 (pre-forward split) restricted shares (12,000,000 post-forward split shares) of

Edgar Filing: CIRTRAN CORP - Form 10KSB

our common stock to Cogent in July 2000 in connection with our acquisition of the assets and certain liabilities of Circuit. The principal of Cogent was appointed a director of Circuit after entering into the financial consulting agreement and resigned as a director prior to the acquisition of Circuit by Vermillion Ventures, Inc. on July 1, 2000.

Also, as of December 31, 2004 the company owed I&R Properties, LLC, the previous owner of our principal office and manufacturing facility for unpaid accrued rent and accrued interest. The Company settled with owed I&R Properties, LLC., on accrued rent and interest of \$400,000 by issuing 10,000,000 shares of unregistered common stock in March 2005.

Management believed at the time of each of these transactions and continues to believe that each of these transactions were as fair to the Company as could have been made with unaffiliated third parties.

ITEM 13. EXHIBITS

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

Exhibit No.	Document
3.1	Articles of Incorporation (previously filed as Exhibit No. 2 to our 8-K dated July 1, 2000, Commission File No. 33-13674-LA, and incorporated herein by reference).
3.2	Bylaws (previously filed as Exhibit No. 3 to our 8-K dated July 1, 2000, Commission File No. 33-13674-LA, and incorporated herein by reference).

10. Material Contracts:

- 10.1 Lease Agreement dated 2 November 1996 between I & R Properties, LLC and Circuit Technology, Inc. (previously filed as Exhibit No. 4 to our 8-K dated July 1, 2000, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.2 Financial Advisory Agreement dated 12 May 1999 between Circuit Technology, Inc. and Cogent Capital Corp. (previously filed as Exhibit No. 2 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.3 Form of Product Representative Agreement between CirTran Corporation and a Representative (previously filed as Exhibit No. 3 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33- 13674-LA, and incorporated herein by reference).

- 10.4 Security and Loan Agreement dated April 6, 1998 between Imperial Bank and Circuit Technology, Inc. (previously filed as Exhibit

Edgar Filing: CIRTRAN CORP - Form 10KSB

No. 4 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).

- 10.5 Line of Credit Purchase Agreement dated May 1, 2000 between Imperial Bank and Abacas Ventures, Inc. (previously filed as Exhibit No. 5 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.6 Assignment of Loan dated May 1, 2000 from Imperial Bank to Abacas Ventures, Inc. (previously filed as Exhibit No. 6 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.7 Unsecured Promissory Note for \$73,000.00 dated November 3, 2000 from CirTran Corporation to Future Electronics Corporation (previously filed as Exhibit No. 7 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.8 Unsecured Promissory Note for \$166,000.00 dated November 3, 2000 from CirTran Corporation to Future Electronics Corporation (previously filed as Exhibit No. 8 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.9 Lock-Up Agreement dated November 3, 2000 between Iehab Hawatmeh and Future Electronics Corporation (previously filed as Exhibit No. 9 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.10 Lock-Up Agreement dated November 3, 2000 between Raed Hawatmeh and Future Electronics Corporation (previously filed as Exhibit No. 10 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.11 Lock-Up Agreement dated November 3, 2000 between Roger Kokozyon and Future Electronics Corporation (previously filed as Exhibit No. 11 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.12 Registration Rights Agreement dated November 3, 2000 between CirTran Corporation and Future Electronics Corporation (previously filed as Exhibit No. 12 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.13 Promissory Note and Confession of Judgment dated September 26, 2000 by Circuit Technology Corp. in favor of Arrow Electronics, Inc. (previously filed as Exhibit No. 13 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.14 Promissory Note and Confession of Judgment dated November 16, 2000 by Circuit Technology Corp. in favor of Sager Electronics (previously filed as Exhibit No. 14 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No.

Edgar Filing: CIRTRAN CORP - Form 10KSB

33-13674-LA, and incorporated herein by reference).

52

- 10.15 Confession of Judgment dated November 3, 2000 by CirTran Corporation and Iehab Hawatmeh in favor of Future Electronics Corporation (previously filed as Exhibit No. 15 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.16 Settlement Agreement and Release of Claims dated November 3, 2000 between CirTran Corporation, Iehab Hawatmeh and Future Electronics Corporation (previously filed as Exhibit No. 16 to our Annual Report filed on Form 10-KSB for the year ending 12/31/00, Commission File No. 33-13674-LA, and incorporated herein by reference).
- 10.17 Sublease dated 30 November 1998 between Colorado Electronics Corporation, LLC and Circuit Technology Corporation (previously filed as Exhibit No. 10.17 to our Registration Statement on Form SB-2, Amendment No. 1, dated October 29, 2001, and incorporated herein by reference).
- 10.18 Attornment Agreement dated 30 November 1998 among Sun Borne XII, LLC et al, Colorado Electronics Corporation LLC and Circuit Technology Corporation (previously filed as Exhibit No. 10.17 to our Registration Statement on Form SB-2, Amendment No. 1, dated October 29, 2001, and incorporated herein by reference).
- 10.19 Form of Subscription Agreement entered into between CirTran Corporation and various subscribers pursuant to a debt settlement and private placement completed in January 2002 (previously filed as Exhibit 10.2 to our Current Report on Form 8-K dated March 19, 2002, and incorporated herein by this reference).
- 10.20 Settlement Agreement entered into on January 18, 2002 among Sunborne XII, LLC, CirTran Corporation et al. (previously filed as Exhibit 10.1 to our Current Report on Form 8-K dated March 19, 2002, and incorporated herein by this reference).
- 10.21 Standby Equity Distribution Agreement between CirTran Corporation and Cornell Capital Partners, LP, dated as of May 21, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.22 Registration Rights Agreement between CirTran Corporation and Cornell Capital Partners, LP, dated as of May 21, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.23 Placement Agent Agreement between CirTran Corporation and Newbridge Securities Corporation, dated as of May 21, 2004 (previously filed as an exhibit to an amended Quarterly Report on

Edgar Filing: CIRTRAN CORP - Form 10KSB

Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

10.24 Placement Agent Agreement between CirTran Corporation and Newbridge Securities Corporation, dated as of May 21, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

10.25 Exclusive Manufacturing Agreement ("Exclusive Agreement") by and among Michael Casey; Michael Casey Enterprises, Ltd.; Charles Ho; Uking System Industry Co., Ltd.; David Hayek; HIPMG, Inc. and CirRran-Asia, Inc., dated as of June 10, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

53

10.26 Appendix A-1 to Exclusive Agreement for AbKing Pro (portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission) (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

10.27 Appendix A-2 to Exclusive Agreement for AbRoller (portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission) (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

10.28 Appendix A-3 to Exclusive Agreement for AbTrainer Club Pro (portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission)

10.29 Appendix A-4 to Exclusive Agreement for Instant Abs (portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission) (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

10.30 Appendix A-5 to Exclusive Agreement for Hot Dog Express (portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission) (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

Edgar Filing: CIRTRAN CORP - Form 10KSB

- 10.31 Appendix A-7 to Exclusive Agreement for Condiment Caddy (portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission) (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.32 Appendix A-8 to Exclusive Agreement for Denise Austin Pilates product (portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission) (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.33 Employment Agreement with Iehab Hawatmeh, dated as of July 1, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.34 Employment Agreement with Shaher Hawatmeh, dated as of July 1, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.35 Employment Agreement with Trevor Saliba, dated as of July 1, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 54
- 10.36 Employment Agreement with Charles Ho, dated as of July 1, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.37 Letter Agreement between MET Advisors and CirTran Corporation, dated August 1, 2003 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.38 Consulting Agreement between CirTran Corporation and Cogent Capital Corp., dated September 14, 2003 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).
- 10.39 Agreement between CirTran Corporation and Transactional Marketing Partners, Inc., dated as of October 1, 2004 (previously filed as an exhibit to an amended Quarterly Report on Form 10-QSB/A filed with the Commission on December 22, 2004, and incorporated herein by reference).

Edgar Filing: CIRTRAN CORP - Form 10KSB

- 10.40 Subscription Agreement between CirTran Corporation and the Saliba Living Trust (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.41 Subscription Agreement between CirTran Corporation and the Saliba Private Annuity Trust (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.42 Subscription Agreement between CirTran Corporation and Trevor M. Saliba (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.43 Subscription Agreement between CirTran Corporation and Basem Neshiewat (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.44 Subscription Agreement between CirTran Corporation and Sam Attallah (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.45 Subscription Agreement between CirTran Corporation and Amer Hawatmeh (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.46 Subscription Agreement between CirTran Corporation and Anwar Ajnass (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.47 Subscription Agreement between CirTran Corporation and I&R Properties, LLC (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
- 10.48 PFE Properties, LLC, Membership Acquisition Agreement between CirTran Corporation and Rajayee Sayegh, dated as of March 31, 2005 (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 14, 2005, and incorporated herein by reference).
21. Subsidiaries of the Registrant
31. Certification of President and Chief Financial Officer

32. Certification pursuant to 18 U.S.C. Section 1350

Edgar Filing: CIRTRAN CORP - Form 10KSB

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) AUDIT FEES

The aggregate fees billed for professional services rendered by Hansen Barnett & Maxwell, for the audit of the registrant's annual financial statements and review of the financial statements included in the registrant's Form 10-QSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal year 2004 and 2003 were \$85,740 and \$54,975, respectively.

(2) AUDIT-RELATED FEES

The aggregate fees billed for assurance and related services by Hansen Barnett & Maxwell, that are reasonably related to the performance of the audit or review of the registrant's financial statements for fiscal year 2004 and 2003 were \$0 and \$0, respectively.

(3) TAX FEES

The aggregate fees billed for each of the fiscal years ended December 31, 2004 and 2003, for professional services rendered by Hansen Barnett & Maxwell for tax compliance, tax advice, and tax planning, for those fiscal years were \$2,967 and \$2,000, respectively. Services provided included preparation of federal and state income tax returns.

(4) ALL OTHER FEES

The aggregate fees billed in each of the fiscal years ended December 31, 2004 and 2003, for products and services provided by Hansen Barnett & Maxwell other than those services reported above, for those fiscal years were \$12,598 and \$0, respectively.

(5) AUDIT COMMITTEE POLICIES AND PROCEDURES

Not applicable.

(6) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

Not applicable.

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

Edgar Filing: CIRTRAN CORP - Form 10KSB

Date: April 14, 2004

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 14, 2005

/s/ Iehab J. Hawatmeh
Iehab J. Hawatmeh
President, Chief Financial Officer and Director

Date: April 14, 2005

/s/ Raed Hawatmeh
Raed Hawatmeh, Director

Date: April 14, 2005

/s/ Trevor Saliba
Trevor Saliba, Director

57

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following report of independent registered public accounting firm, financial statements of CirTran Corporation and related notes thereto are filed as part of this Form 10-KSB:

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2004 and 2003	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2004 and 2003	F-4
Consolidated Statements of Stockholders' Deficit for the Years Ended December 31, 2003 and 2004	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2004 and 2003	F-6
Notes to Consolidated Financial Statements	F-8

F-1

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS
5 Triad Center, Suite 750
Salt Lake City, UT 84180-1128

Edgar Filing: CIRTRAN CORP - Form 10KSB

Phone: (801) 532-2200
Fax: (801) 532-7944
www.hbmcpas.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and the Stockholders
CirTran Corporation

We have audited the accompanying consolidated balance sheets of CirTran Corporation and Subsidiaries as of December 31, 2004 and 2003, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CirTran Corporation and Subsidiaries as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company sustained losses from operations, had an accumulated deficit, had a stockholders' deficit, had negative working capital, had negative cash flows from operations, and the Company is a defendant in numerous legal actions. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
March 14, 2005

F-2

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Edgar Filing: CIRTRAN CORP - Form 10KSB

December 31,	2004	2003
	-----	-----
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 81,101	\$ 54,000
Trade accounts receivable, net of allowance for doubtful accounts of \$41,143 and \$28,876, respectively	1,288,719	89,000
Inventory	1,453,754	1,247,000
Other	153,062	165,000
	-----	-----
Total Current Assets	2,976,636	1,555,000
Property and Equipment, Net	840,793	577,000
Investment in Securities, at Cost	300,000	
Other Assets, Net	8,000	10,000
Deposits	100,000	
Deferred Offering Costs	68,000	26,000
	-----	-----
Total Assets	\$ 4,293,429	\$ 2,169,000
	-----	-----
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Checks written in excess of cash in bank	\$ -	\$ 9,000
Accounts payable	1,104,392	1,300,000
Accrued liabilities	2,066,022	3,615,000
Current maturities of long-term notes payable	1,815,875	1,964,000
Notes payable to stockholders	18,586	31,000
Notes payable to related parties	1,530,587	163,000
	-----	-----
Total Current Liabilities	6,535,462	7,085,000
	-----	-----
Long-Term Notes Payable, Less Current Maturities	-	
	-----	-----
Commitments and Contingencies		
Stockholders' Deficit		
Common stock, par value \$0.001; authorized 750,000,000 shares; issued and outstanding shares: 474,118,569 and 349,087,699 net of 3,000,000 shares held in treasury at no cost at December 31, 2004 and 2003, respectively	474,114	349,000
Additional paid-in capital	16,083,455	12,876,000
Accumulated deficit	(18,799,602)	(18,141,000)
	-----	-----
Total Stockholders' Deficit	(2,242,033)	(4,915,000)
	-----	-----

Edgar Filing: CIRTRAN CORP - Form 10KSB

Total Liabilities and Stockholders' Deficit \$ 4,293,429 \$ 2,169,-----

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

F-3

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2004	2003
	-----	-----
Net Sales	\$ 8,862,715	\$ 1,215,245
Cost of Sales	(7,030,934)	(854,542)
Writedown of carrying value of inventories	(13,000)	(160,000)
	-----	-----
Gross Profit	1,818,781	200,703
	-----	-----
Operating Expenses		
Selling, general and administrative expenses	3,362,933	2,402,968
Non-cash employee compensation expense	332,181	137,500
	-----	-----
Total Operating Expenses	3,695,114	2,540,468
	-----	-----
Loss From Operations	(1,876,333)	(2,339,765)
	-----	-----
Other Income (Expense)		
Interest	(495,637)	(571,044)
Other, net	(233)	(169)
Gain on forgiveness of debt	1,713,881	-
	-----	-----
Total Other Expense, Net	1,218,011	(571,213)
	-----	-----
Net Loss	\$ (658,322)	\$ (2,910,978)
	-----	-----
Basic and diluted loss per common share	\$ (0.00)	\$ (0.01)
	-----	-----
Basic and diluted weighted-average common shares outstanding	451,620,617	277,068,175
	-----	-----

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

F-4

Edgar Filing: CIRTRAN CORP - Form 10KSB

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

	Common Stock		Additional Paid-in Capital
	Number of Shares	Amount	
Balance - December 31, 2002	247,184,691	\$ 247,185	\$ 11,089,020
Shares issued for accrued wages	500,000	500	9,500
Shares issued for conversion of notes payable to equity line investor	64,253,508	64,254	1,024,318
Options granted to employees, consultants and attorneys	-	-	239,227
Exercise of stock options by directors and employees	33,900,000	33,900	517,600
Exercise of stock options by consultants and attorneys	3,249,500	3,249	(2,724)
Net loss	-	-	-
Balance - December 31, 2003	349,087,699	\$ 349,088	\$ 12,876,941
Shares issued for conversion of notes payable to equity line investor	57,464,386	57,460	2,006,540
Shares issued for settlement of notes payable	1,542,495	1,542	53,458
Shares issued for settlement expense	1,000,000	1,000	59,000
Shares issued as settlement of salaries, accrued salaries and related interest	45,273,989	45,274	498,014
Options granted to employees, consultants and attorneys	-	-	334,952
Exercise of stock options by directors and employees	14,250,000	14,250	259,500
Exercise of stock options by consultants and attorneys	5,500,000	5,500	(4,950)
Net loss	-	-	-

Edgar Filing: CIRTRAN CORP - Form 10KSB

Balance - December 31, 2004	474,118,569	\$	474,114	\$	16,083,455

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

F-5

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2004

Cash flows from operating activities	
Net loss	\$ (658,322)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	249,395
Provision for loss on trade receivables	12,267
Provision for obsolete inventory	13,000
Loss on disposal of property and equipment	33,238
Gain on forgiveness of debt	(1,713,881)
Non-cash compensation expense	226,250
Loan costs and fees in lieu of interest on notes payable	145,000
Note payable issued as settlement of litigation expense	-
Stock issued for employee compensation	105,931
Stock issued for settlement expense	60,000
Options issued to attorneys and consultants for services	209,952
Changes in assets and liabilities:	
Trade accounts receivable	(1,211,799)
Inventories	(219,326)
Prepaid expenses and other assets	14,419
Accounts payable	515,690
Accrued liabilities	538,132

Total adjustments	(1,021,732)

Net cash used in operating activities	(1,680,054)

Cash flows from investing activities	
Purchase of investment	(300,000)
Payment for property and equipment deposit	(100,000)
Purchase of property and equipment	(545,824)

Net cash used in investing activities	(945,824)

Cash flows from financing activities	
Change in checks written in excess of cash in bank	(9,623)

Edgar Filing: CIRTRAN CORP - Form 10KSB

Proceeds from notes payable to stockholders	18,500	
Payments on notes payable to stockholders	(31,752)	
Proceeds from notes payable, net of cash paid for offering costs	2,927,000	
Principal payments on notes payable	(466,463)	
Proceeds from notes payable to related parties	3,128,281	
Payment on notes payable to related parties	(3,025,149)	
Proceeds from exercise of options and warrants to purchase common stock	111,500	
Exercise of options issued to attorneys and consultants for services	550	

Net cash provided by financing activities	2,652,844	

Net increase in cash and cash equivalents	26,966	
Cash and cash equivalents at beginning of year	54,135	

Cash and cash equivalents at end of period	\$ 81,101	\$

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

F-6

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

For the Years Ended December 31,

Supplemental disclosure of cash flow information

Cash paid during the period for interest	\$	
Noncash investing and financing activities		
Notes issued for accounts payable and capital lease obligations	\$	
Common stock issued for settlement of note payable and accrued interest	\$	2,
Common stock issuance in which proceeds were retained as payment of notes payable	\$	
Common stock issued for accrued compensation	\$	
Accrued interest converted to notes payable	\$	
Stock options exercised for settlement of accrued interest and accrued compensation	\$	
Note issued for settlement of notes payable and accrued interest	\$	
Fees withheld from notes payable for Equity Line Agreement	\$	
Loan costs included in notes payable	\$	
Deferred offering costs withheld from notes payable proceeds	\$	
Shares issued as settlement of salaries, accrued salaries and related interest	\$	

Edgar Filing: CIRTRAN CORP - Form 10KSB

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

F-7

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In June 2004, the Company incorporated CirTran-Asia, Inc., a Utah corporation, as a wholly owned subsidiary. CirTran-Asia was formed to manufacture, either directly or through foreign subcontractors, certain products under exclusive manufacturing agreements. Other such agreements will be sought in the future.

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

Revenue Recognition--Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment. Returns for defective items are repaired and sent back to the customer. Historically, expenses experienced with such returns have not been significant and have been recognized as incurred.

Cash and Cash Equivalents--The Company considers all highly-liquid, short-term investments with an original maturity of three months or less to be cash equivalents.

Inventories-- Inventories are stated at the lower of average cost or market value. Costs include labor, material and overhead costs. Overhead costs are based on indirect costs allocated among cost of sales, work-in-process inventory and finished goods inventory. Indirect overhead costs have been charged to cost of sales or capitalized as inventory based on management's estimate of the benefit of indirect manufacturing costs to the manufacturing process. When there is evidence that the inventory's value is less than original cost, the inventory is reduced to market value. The Company determines market value on current resale amounts and whether technological obsolescence exists. The Company has agreements with most of its customers that require the customer to purchase inventory items related to their contracts in the event that the contracts are cancelled.

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

Edgar Filing: CIRTRAN CORP - Form 10KSB

the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operating results.

F-8

Depreciation expense for the years ended December 31, 2004 and 2003, was \$249,394 and \$300,520, respectively.

Impairment of Long-Lived Assets--The Company reviews its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred that indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable. As of December 31, 2004, the Company did not consider any of its long-lived assets to be impaired.

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. These overdrafts are included as a current liability in the balance sheets.

Stock-Based Compensation-- At December 31, 2004, the Company had one stock-based employee compensation plan, which is described more fully in Note 12. The Company accounts for the plan under APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. During the years ended December 31, 2004 and 2003, the Company recognized compensation expense relating to stock options and warrants of \$226,250 and \$137,500, respectively. During the year ended December 31, 2004, the Company recognized compensation expense relating to the issuance of common stock of \$105,931. The following table illustrates the effect on net loss and basic and diluted loss per common share as if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

	Years Ended December 31,	
	2004	2003
Net loss, as reported	\$ (658,322)	\$ (2,910,978)
Add: Stock-based employee compensation expense included in net loss	332,181	137,500
Deduct: Total stock-based employee compensation benefit (expense) determined under fair value based method for all awards	(517,924)	(292,247)
Pro forma net loss	\$ (844,065)	\$ (3,065,725)
Basic and diluted loss per common share as reported	\$ (0.00)	\$ (0.01)
Basic and diluted loss per common share pro forma	\$ (0.00)	\$ (0.01)

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

F-9

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

Concentrations of Risk-- Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade accounts receivable. The Company sells substantially to recurring customers, wherein the customer's ability to pay has previously been evaluated. The Company generally does not require collateral. Allowances are maintained for potential credit losses, and such losses have been within management's expectations. At December 31, 2004 and 2003, this allowance was \$41,143 and \$28,876, respectively.

During the year ended December 2004, sales to two customers accounted for 52 percent and 14 percent of net sales. No individual customer account receivable balance at December 31, 2004 created a concentration of credit risk.

During the year ended December 2003, sales to two customers accounted for 29 percent and 11 percent of net sales. No individual customer account receivable balance at December 31, 2003 created a concentration of credit risk.

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 carrying value of the Company's notes payable also approximates fair value because notes are recorded at fair value plus any default provisions.

Loss Per Share--Basic loss per share is calculated by dividing loss available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted loss per share is similarly calculated, except that the weighted-average number of common shares outstanding would include common shares that may be issued subject to existing rights with dilutive potential when applicable. The Company had 14,250,500 and 3,850,500 in potentially issuable common shares at December 31, 2004 and 2003, respectively. The potentially issuable common shares at December 31, 2004 and 2003 were excluded from the calculation of diluted loss per share because the effects are anti-dilutive.

New Accounting Standards--In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs." SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The Company will be required to apply

Edgar Filing: CIRTRAN CORP - Form 10KSB

this statement to inventory costs incurred after December 31, 2005. The Company is currently evaluating what effect this statement will have on the Company's financial position and results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchange of Non-monetary Assets." SFAS No. 153 amends APB Opinion No. 29, "Accounting for Non-monetary Transactions," to eliminate the exception for non-monetary exchanges of similar productive assets. The Company will be required to apply this statement to non-monetary exchanges after December 31, 2005. The adoption of this standard is not expected to have a material effect on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," which is an amendment to SFAS No. 123, "Accounting for Stock-Based

F-10

Compensation." This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees" (APB 25) and requires such transactions to be accounted for using a fair-value-based method and the resulting cost recognized in the Company's financial statements. This new standard is effective for interim and annual periods beginning after December 15, 2005. The Company is currently evaluating SFAS No. 123 as revised and intends to implement it in the first quarter of 2006 and does not anticipate that the new standard will have a material effect on the Company's financial statements.

NOTE 2 - REALIZATION OF ASSETS

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company sustained losses of \$658,322 and \$2,910,978 for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2004 and 2003, the Company had an accumulated deficit of \$18,799,602 and \$18,141,280, respectively, and a total stockholders' deficit of \$2,242,033 and \$4,915,251, respectively. The Company also had negative working capital of \$3,558,826 and \$5,529,244 as of December 31, 2004 and 2003, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of \$1,680,054 and \$1,123,818 for the years ended December 31, 2004 and 2003, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

In addition, the Company is a defendant in numerous legal actions (see Note 9). These matters may have a material impact on the Company's financial position, although no assurance can be given regarding the effect of these matters in the future.

In view of the matters described in the preceding paragraphs, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheets is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain or replace present financing, to acquire additional capital from investors, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Edgar Filing: CIRTRAN CORP - Form 10KSB

The Company's plans include working with vendors to convert trade payables into long-term notes payable and common stock and cure defaults with lenders through forbearance agreements that the Company will be able to service. During 2004 and 2003, the Company successfully converted trade payables of approximately \$711,894 and \$2,986, respectively, into notes. The Company intends to continue to pursue this type of debt conversion going forward with other creditors.

The Company's plans include working with vendors to convert trade payables into long-term notes payable and common stock, and to cure defaults with lenders through forbearance agreements that the Company will be able to service. During the years ended December 31, 2004 and 2003, the Company successfully converted trade payables, notes payable, and accrued interest of approximately \$1,263,713 and \$2,986, respectively, into notes payable to Abacas Ventures, Inc. ("Abacas"). Accrued interest of \$27,020 associated with the notes payable was not converted to the note payable with Abacas; therefore, a gain on forgiveness of debt was recorded for \$27,020 for the year ended December 31, 2004. The Company intends to continue to pursue this type of debt conversion going forward with other creditors. As discussed in Note 10, the Company has entered into an equity line of credit agreement with a private investor. Realization of

F-11

additional proceeds under the agreement is not assured.

NOTE 3 - INVESTMENT IN SECURITIES AT COST

On April 13, 2004, the Company entered into a stock purchase agreement with an unrelated party under which the Company purchased 400,000 shares of the investee's Series B Preferred Stock (the "Preferred Shares") for an aggregate purchase price of \$300,000 cash. This purchase was made at fair value. The Preferred Shares are convertible, at the Company's option, into an equivalent number of shares of investee common stock, subject to adjustment. The Preferred Shares are not redeemable by the investee. As a holder of the Preferred Shares, the Company has the right to vote the number of shares of investee common stock into which the Preferred Shares are convertible at the time of the vote. The investment represents less than a 5% interest in the investee. The investment does not have a readily determinable fair value and is stated at historical cost, less an allowance for impairment when circumstances indicate an investment has been impaired. The Company periodically evaluates its investments as to whether events and circumstances have occurred which indicate possible impairment. No indicators of impairment were noted for the year ended December 31, 2004.

Separate from the purchase of the Preferred Shares, the Company and the investee also entered into a Preferred Manufacturing Agreement. Under this agreement, the Company will perform exclusive "turn-key" manufacturing services handling most of the investee's manufacturing operations from material procurement to complete finished box-build of all of investee products. The initial term of the agreement is three years, continuing month to month thereafter unless terminated by either party. Sales under this agreement totaled \$538,233 for the year ended December 31, 2004.

NOTE 4 - INVENTORIES

Inventories consist of the following:

Inventories Note

	2004	2003
	-----	-----

Edgar Filing: CIRTRAN CORP - Form 10KSB

Raw materials	\$	1,095,901	\$	1,114,445
Work-in process		356,160		130,810
Finished goods		1,693		2,173
		-----		-----
	\$	1,453,754	\$	1,247,428
		-----		-----

During 2004 and 2003, write downs of \$13,000 and \$160,000, respectively, were recorded to reduce items considered obsolete or slow moving to their fair value.

F-12

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2004	2003
	-----	-----
Production equipment	\$ 3,220,847	\$ 3,146,488
Leasehold improvements	992,018	958,939
Office equipment	159,199	639,375
Other	47,789	118,029
	-----	-----
	4,419,853	4,862,831
Less accumulated depreciation and amortization	3,579,060	4,285,228
	-----	-----
	\$ 840,793	\$ 577,603
	-----	-----

NOTE 6 - NOTES PAYABLE

During the 2004, the Company successfully converted five notes payable and accrued interest of \$551,819 into notes with Abacas (see Note 2). Accrued interest of \$27,020 associated with these notes payable was not converted to the note payable with Abacas; therefore, a gain on forgiveness of debt was recorded for \$27,020 for the year ended December 31, 2004.

In March 2004, the Company settled a note payable with a financial institution. The outstanding loan balance and accrued interest at the time of settlement was \$189,663. The balance was settled for \$90,000 in cash and 542,495 shares of common stock valued at \$30,000, based on the per share fair value of the Company's common stock on the dates of issuance. A gain on forgiveness of debt of \$61,370 was recorded on this transaction.

In April 2004, the Company settled three notes payable with a financing company. The outstanding loan balances and accrued interest at the time of settlement was \$192,043. The balance was settled for \$75,000 in cash. A gain on forgiveness of debt of \$117,043 was recorded on this transaction.

In November 2004, the Company settled a note payable with a corporation. The outstanding loan balance and accrued interest at the time of settlement was

Edgar Filing: CIRTRAN CORP - Form 10KSB

\$75,000. The balance was settled for \$50,000 in cash and 1,000,000 shares of common stock valued at \$25,000, based on the per share fair value of the Company's common stock on the dates of issuance.

In December 2004, the Company settled a note payable with a financial institution. The outstanding loan balance and accrued interest at the time of settlement was \$36,902. The balance was settled for \$10,000 in cash. A gain on forgiveness of debt of \$26,902 was recorded on this transaction.

In December 2004, the Company settled a note payable with an individual. The outstanding loan balance and accrued interest at the time of settlement was \$145,779. The balance was settled for \$120,000 in cash. A gain on forgiveness of debt of \$25,779 was recorded on this transaction.

F-13

Notes Payable consist of the following at December 31, 2004 and 2003:

	2004	
Notes payable to Equity Line Investor, no periodic interest, matures 70 to 131 days after issuance, (see below).	\$ 1,700,000	\$
Note payable to a company, interest at 8.00%, matured August 2002, collateralized by 3,000,000 shares of the Company's common stock currently held in escrow, in default.	115,875	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Note payable settled as of December 31, 2004.	-	
Total Notes Payable	1,815,875	

Edgar Filing: CIRTRAN CORP - Form 10KSB

Less current maturities	(1,815,875)	-----
Long-Term Notes Payable	\$ -	\$ -----

F-14

Certain of the Company's notes payable contain various covenants and restrictions, including providing for the acceleration of principal payments in the event of a covenant violation or a material adverse change in the operations of the Company. The Company is out of compliance on several notes payable, primarily due to a failure to make monthly payments. In instances where the Company is out of compliance, these amounts have been shown as current. Additionally, all default provisions have been accrued as part of the principal balance of the related notes payable.

Notes Payable to Equity Line Investor -- During 2003, the Company borrowed a total of \$1,830,000 from Cornell Capital Partners, LP, pursuant to nine unsecured promissory notes. The loans were made and the notes were issued from June 2003 through December 2003. In lieu of interest, the Company paid fees to the lender, ranging from 5% to 10%, of the amount of the loan. These fees have been recorded as interest expense. The fees were negotiated in each instance and agreed upon by the Company and by the lender and its affiliate. The notes were repayable over periods ranging from 70 days to 131 days. Each of the notes stated that if the Company did not repay the notes when due, a default interest rate of 24% would apply to the unpaid balance. Through December 31, 2003, the Company directed the repayment of \$1,180,000 of these notes from proceeds generated under the Equity Line Agreement, discussed in Note 11 below. At December 31, 2003, the balance owing on these notes was \$650,000. All notes were paid when due or before, and at no time did the Company incur the 24% penalty interest rate.

During the year ended December 31, 2004, the Company borrowed an additional \$3,200,000, before offering costs of \$273,000, from Cornell, pursuant to four additional unsecured promissory notes. In lieu of interest, the Company paid fees at closing of 4% to 5% of the loan amount to an affiliate of the lender. These fees have been recorded as interest expense. The fees were negotiated in each instance and agreed upon by the Company and by the lender and its affiliate. The notes were repayable over periods ranging from 88 days to 193 days. Each of the notes stated that if the Company did not repay the notes when due, a default interest rate of 24% would apply to the unpaid balance. Through December 31, 2004, the Company directed the repayment of \$2,150,000 of these notes from proceeds generated under the Equity Line Agreement, discussed in Note 7 below. At December 31, 2004, the balance owing on these notes was \$1,700,000.

NOTE 7 - LEASES

The Company conducts a substantial portion of its operations utilizing leased facilities consisting of a warehouse and a manufacturing plant. The lease was originally with a related party. In December of 2003, the related party sold the facilities to an unrelated party. The Company entered into a new ten-year lease agreement with an unrelated party. As described in Note 15, the Company purchased the entity that owns the building in March 2005 (unaudited).

F-15

Edgar Filing: CIRTRAN CORP - Form 10KSB

The following is a schedule of future minimum lease payments under the operating lease:

Year Ending December 31,	
2005	225,480
2006	215,492
2007	203,688
2008	203,688
Thereafter	1,018,440
Total	\$ 1,866,788

The building lease provides for payment of property taxes, insurance, and maintenance costs by the Company. Rental expense for operating leases totaled \$213,688 and \$200,492 for 2004 and 2003, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

Notes Payable to Stockholder -- The Company had amounts due to stockholders from three separate notes. The balance due to stockholders at December 31, 2004 and 2003, was \$18,586 and \$31,838, respectively. Interest associated with amounts due to stockholders is accrued at 10 percent. Unpaid accrued interest was \$7,976 and \$6,900 at December 31, 2004 and 2003, respectively, and is included in accrued liabilities. These notes are due on demand.

Notes Payable to Related Party -- The Company had amounts due to Abacas Ventures, Inc., a related party, under the terms of a note payable and a bridge loan.

During 2002, the Company entered into a bridge loan agreement with Abacas. This agreement allows the Company to request funds from Abacas to finance the build-up of inventory relating to specific sales. The loan bears interest at 24% and is payable on demand. There are no required monthly payments. During the years ended December 31, 2004 and 2003, the Company was advanced \$3,128,281 and \$350,000, respectively, and made cash payments of \$3,025,149 and \$875,000, respectively.

During the year ended December 31, 2004, Abacas completed negotiations with several vendors of the Company, whereby Abacas purchased various past due amounts for goods and services provided by vendors, as well as notes payable (see Note 6). The total of these obligations was \$1,263,713. The Company has recorded this transaction as a \$1,263,713 non-cash increase to the note payable owed to Abacas, pursuant to the terms of the Abacas agreement.

The total principal amount owed to Abacas between the note payable and the bridge loan was \$1,530,587 and \$163,742 as of December 31, 2004 and 2003, respectively. The total accrued interest owed to Abacas between the note payable and the bridge loan was \$430,828 and \$230,484 as of December 31, 2004 and 2003, respectively, and is included in accrued liabilities.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Settlement of Litigation -- During January 2002, the Company settled a lawsuit that had alleged a breach of facilities sublease agreement involving facilities located in Colorado. The Company's liability in this action was originally estimated to range up to \$2.5 million. The Company had filed a counter suit in the same court for an amount exceeding \$500,000 for missing equipment.

Edgar Filing: CIRTRAN CORP - Form 10KSB

Effective January 18, 2002, the Company entered into a settlement agreement which required the Company to pay the plaintiff the sum of \$250,000. Of this amount, \$25,000 was paid upon execution of the settlement, and the balance, together with interest at 8% per annum, was payable by July 18, 2002. As security for payment of the balance, the Company executed and delivered to the plaintiff a Confession of Judgment and also issued 3,000,000 shares of common stock, which are currently held in escrow and have been treated as treasury stock recorded at no cost. The fair value of the 3,000,000 shares was less than the carrying amount of the note payable. Because 75 percent of the balance had not been paid by May 18, 2002, the Company was required to prepare and file with the Securities & Exchange Commission, at its own expense, a registration statement with respect to the escrowed shares. The remaining balance has not been paid, and the registration statement with respect to the escrowed shares has not been declared effective and the Company has not replaced the escrowed shares with registered free-trading shares pursuant to the terms of the settlement agreement; therefore, the plaintiff filed the Confession of Judgment and proceeded with execution thereon. The Company is currently negotiating with the plaintiff to settle this obligation without the release of the shares held in escrow.

In connection with a separate sublease agreement of these facilities, the Company received a settlement from the sublessee during May 2002, in the amount of \$152,500, which has been recorded as other income. The Company did not receive cash from this settlement, but certain obligations of the Company were paid directly. \$109,125 of the principal balance of the note related to the settlement mentioned above was paid. Also, \$7,000 was paid to the Company's legal counsel as a retainer for future services. The remaining \$36,375 was paid to the above mentioned plaintiff as a settlement of rent expense.

During September 2002, the plaintiff filed a claim that the \$109,125 portion of the payment was to be applied as additional rent expense rather than a principal payment on the note payable. The Company estimates that the probability of the \$109,125 being considered additional rent expense is remote and disputes the claim. The Company intends to vigorously defend the action.

On April 14, 2004, an unrelated party filed a claim against the Company alleging that the Company stopped paying amounts due under a note entered into in June 1998. The suit claimed \$90,500 plus fees and costs. During May 2004, the Company settled this claim by issuing 1,000,000 shares of common which resulted in a settlement expense of \$60,000.

Litigation - During 2000, the Company settled a lawsuit filed by a vendor by issuing 5,281,050 shares of the Company's common stock valued at \$324,284, paying \$83,000 in cash and issuing two notes payable totaling \$239,000. During 2002, the vendor filed a confession of judgment, in the amount of \$519,052, claiming that the Company defaulted on its agreement and claims the 2000 lawsuit was not properly satisfied. At December 31, 2003, the Company owed \$60,133 of principal under the terms of the remaining note payable. During November 2004, the Company settled the principal and accrued interest of the remaining note payable for \$75,000. The balance was settled for \$50,000 in cash and 1,000,000 shares of common stock valued at \$25,000, based on the per share fair value of the Company's common stock on the date of issuance.

During 2003 and 2004, an investment firm filed suits in the U.S. District Court, District of Utah seeking finders fees, consisting of common stock valued at \$1,750,000 for allegedly introducing the Company to the Equity Line Investor (Note 11). The case was previously dismissed in a New York court. The Company estimates that the risk of loss is remote, therefore no accrual has been made.

In December 1999, a vendor of the Company filed a lawsuit that alleges breach of

Edgar Filing: CIRTRAN CORP - Form 10KSB

contract and seeks payment in the amount of approximately \$213,000 of punitive damages from the Company related to the Company's non-payment for materials provided by the vendor. Judgment was entered against the Company in May 2002 in

F-17

the amount of \$213,718. During 2004, this claim was purchased by Abacas and recorded as an increase to the amount owed to Abacas under the terms of the bridge loan.

During October 1999, a former vendor of the Company brought action against the Company alleging that the Company owed approximately \$199,600 for materials and services and pursuant to the terms of a promissory note. The Company entered a settlement agreement under which the Company is to pay \$6,256 each month until the obligation and interest thereon are paid. This did not represent the forgiveness of any obligation, but rather the restructuring of the terms of the previous agreement. At December 31, 2003, the Company owed \$183,429 for this settlement. The Company has defaulted on its payment obligations under the settlement agreement. During 2004, this claim was purchased by Abacas and recorded as an increase to the amount owed to Abacas under the terms of the bridge loan.

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, 2003, the Company had accrued the entire amount of the claim. During 2004, this claim was purchased by Abacas and recorded as an increase to the amount owed to Abacas under the terms of the bridge loan.

In December 1999, a vendor of the Company filed a lawsuit that seeks payment in the amount of \$44,269 for the cost of goods provided to the Company. The Company admits owing certain amounts to the vendor and has accrued the entire amount claimed as of December 31, 2003. During 2004, this claim was purchased by Abacas and recorded as an increase to the amount owed to Abacas under the terms of the bridge loan.

During 2002, a vendor of the Company filed a lawsuit that seeks payment in the amount of \$31,745 for the cost of goods provided to the Company. The Company has accrued the entire amount claimed. During 2004, this claim was purchased by Abacas and recorded as an increase to the amount owed to Abacas under the terms of the bridge loan.

An individual filed suit during January 2001, seeking to recover the principal sum of \$135,941, plus interest on a promissory note. During 2004, this claim was purchased by Abacas and recorded as an increase to the amount owed to Abacas under the terms of the bridge loan.

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. At December 31, 2003, the Company owed \$87,632 on this settlement agreement. During 2004, this claim was purchased by Abacas and recorded as an increase to the amount owed to Abacas under the terms of the bridge loan.

A financial institution brought suit against the Company during February 2000, alleging that the Company owed approximately \$439,000 for a loan provided to the Company for the Company's use and benefit. Judgment was entered against the Company and certain guarantors in the amount of \$427,292 plus interest at the rate of 8.61% per annum from June 27, 2000. The Company has made payments to the

Edgar Filing: CIRTRAN CORP - Form 10KSB

financial institution, reducing the obligation to \$215,516 at December 31, 2003, plus interest accruing from January 1, 2002. In March 2004, the balance was settled for \$90,000 in cash and 542,495 shares of common stock valued at \$30,000, based on the per share fair value of the Company's common stock on the date of issuance.

F-18

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. In December 2004, the Company settled the balance outstanding for \$120,000 in cash.

A financial institution brought suit against the Company in June 2003 for the non-payment of \$39,367 under the terms of a note payable. The balance was settled for \$10,000 in cash. A gain on forgiveness of debt of \$26,902 was recorded on this transaction.

Various vendors have notified the Company that they believe they have claims against the Company totaling \$147,592. None of these vendors have filed lawsuits in relation to these claims. The Company has accrued the entire amount of these claims and they are included in accounts payable.

In addition, various vendors have notified the Company that they believe they have claims against the Company totaling \$159,308. The Company has determined the probability of realizing any loss is remote. The Company has made no accrual for these claims and is currently in the process of negotiating the dismissal of these claims with the various vendors.

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

Registration Rights - In connection with the conversion of certain debt to equity during 2000, the Company has granted the holders of 5,281,050 shares of common stock the right to include 50% of the common stock of the holders in any registration of common stock of the Company, under the Securities Act for offer to sell to the public (subject to certain exceptions). The Company has also agreed to keep any filed registration statement effective for a period of 180 days at its own expense.

Additionally, in connection with the Company's entering into an Equity Line of Credit Agreement (described in Note 11), 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.

Also, in connection with the Company's entering into a standby equity distribution agreement (described in Note 11), the Company granted to the investor registration rights, in connection with which the Company is required to file a registration statement covering the resale of shares put to the investor under the standby equity distribution agreement. The Company is also required to keep the registration statement effective until two years following

Edgar Filing: CIRTRAN CORP - Form 10KSB

the date of the last advance under the standby equity distribution agreement. The Company has not yet had such registration statement declared effective by the Securities and Exchange Commission.

Accrued Payroll Tax Liabilities -- In November 2004, the Internal Revenue Service (IRS) accepted the Company's Amended Offer in Compromise (Offer) to settle delinquent payroll taxes, interest and penalties. The acceptance of the Offer required the Company to pay \$500,000 by February 3, 2005. Additionally,

F-19

the Company must remain current in its payment of taxes for 5 years, and may not claim any net operating losses for the years 2001 through 2015, or until the Company pays taxes in an amount equal to the taxes waived by the offer in compromise. The Company made the required payment on February 2, 2005. The outstanding balance of delinquent payroll taxes, interest and penalties was \$1,955,767 on the settlement date. The future cash payments specified by the offer, including interest and principal, were less than the carrying amount of the payable; therefore the Company reduced the carrying amount of the liability to the total future cash payments of \$500,000 and recorded a gain \$1,455,767.

Further, the Utah State Tax Commission has entered into an agreement to allow the Company to pay the liability owing to the State of Utah in equal monthly installments of \$4,000 over a two-year period running through December 2005. Through December 2004, the Company had made the required payments. The balance owed to the State of Utah as of December 31, 2004, was \$223,660, including penalties and interest.

As of December 31, 2003, the Company had accrued liabilities in the amount of \$2,107,930 for delinquent payroll taxes, including interest estimated at \$393,311 and penalties estimated at \$230,927. Of this amount, approximately \$329,739 was due the State of Utah. Approximately \$1,767,253 was owed to the Internal Revenue Service as of December 31, 2003. Approximately \$10,939 was owed to the State of Colorado as of December 31, 2003.

Marketing Agreement -- On October 1, 2004, the Company signed an agreement with a marketing firm to provide strategic planning advice. The term of the agreement was for six months from October 1, 2004 through March 31, 2005. The agreement shall be automatically extended for successive six month periods unless either party gives written notice of its intent not to renew the agreement. The Company will pay the marketing firm a commission of ten percent of all net proceeds from any new business brought to the Company by the marketing firm. Net proceeds are defined in the agreement as payments actually received by the Company from new business (net of returns, discounts, and rebates) from which costs of sales is subtracted. The Company also agreed to pay \$7,500 to the marketing firm during each of the first three months of the agreement. These payments were nonrefundable, but may be applied toward future commissions earned.

Manufacturing Agreement -- On June 10, 2004, the Company entered into an exclusive manufacturing agreement with certain Developers. Under the terms of the agreement, the Company, through its wholly-owned subsidiary CirTran-Asia has the exclusive right to manufacture the certain products developed by the Developers or any of their affiliates. The Developers will continue to provide marketing and consulting services related to the products under the agreement. Should the Developers early terminate the agreement, they must pay the Company \$150,000. Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment.

In connection with this agreement the Company has agreed to issue options to purchase 1,500,000 shares common stock to the Developers upon the sale, shipment

Edgar Filing: CIRTRAN CORP - Form 10KSB

and payment for 200,000 units of a fitness product. In addition, the Company agreed to issue options to purchase 300,000 shares of common stock to the Developers for each multiple of 100,000 units of the fitness product sold in excess of the initial 200,000 units within twenty-four months of the agreement (June 2004). The options will be exercisable at \$0.06 per share, vest on the grant date and expire one year after issuance. As of December 31, 2004, the Company had sold, shipped and received payment for, 191,702 units of the fitness product. Because the Developers must provide future services for the options to vest, the options are treated as unissued for accounting purposes. The cost of these options will be recognized when the options are earned. See Note 15 for subsequent issuance of options.

F-20

In connection with the above manufacturing agreement, the Company agreed to issue various options to purchase shares of common stock to the Developers upon the sale, shipment, and payment of certain quantities of additional the products. In addition, the Company agreed to issue additional options to purchase common stock to the developers for each multiple of units sold in excess of the initial units within the first twenty-four months of the agreements. The schedule of units and potential options that will be issued follows:

Product	Initial Units	Options for Initial Units Sold	Each Multiple of Units above Initial Units
1	500,000	500,000	200,000
2	25,000	500,000	15,000
3	100,000	500,000	50,000
4	300,000	1,000,000	100,000
5	200,000	250,000	100,000
6	200,000	500,000	100,000

As of December 31, 2004, the Company had manufactured only nominal quantities of the additional products under these agreements. Because the Developers must provide future services for the options to vest, the options are treated as unissued for accounting purposes. The cost of these options will be recognized when the options are earned.

NOTE 10 - INCOME TAXES

The Company has paid no federal or state income taxes during the years ended December 31, 2004 and 2003. The significant components of the Company's deferred tax assets and liabilities at December 31, 2004 and 2003, are as follows:

	2004	2003
Deferred Income Tax Assets:		
Inventory reserve	\$ 266,026	\$ 261,177
Bad debt reserve	15,346	10,771
Vacation reserve	26,809	26,177

Edgar Filing: CIRTRAN CORP - Form 10KSB

Research and development credits	27,285	26,360
Net operating loss carryforward	4,597,493	4,465,571
Depreciation	2,668	
Intellectual property	115,581	130,067
	-----	-----
Total Deferred Income Tax Assets	5,051,208	4,920,123
Valuation allowance	(5,051,208)	(4,843,751)
Deferred Income Tax Liability - depreciation	-	(76,372)
	-----	-----
Net Deferred Income Tax Asset	\$ -	\$ -
	-----	-----

F-21

The Company has sufficient long-term deferred income tax assets to offset the deferred income tax liability related to depreciation. The long-term deferred income tax assets relate to the net operating loss carryforward and the intellectual property.

The Company has sustained net operating losses in both periods presented. There were no deferred tax assets or income tax benefits recorded in the financial statements for net deductible temporary differences or net operating loss carryforwards because the likelihood of realization of the related tax benefits cannot be established. Accordingly, a valuation allowance has been recorded to reduce the net deferred tax asset to zero and consequently, there is no income tax provision or benefit presented for the years ended December 31, 2004 and 2003.

As of December 31, 2004, the Company had net operating loss carryforwards for tax reporting purposes of approximately \$12,325,719. These net operating loss carryforwards, if unused, begin to expire in 2019. As discussed in Note 9, the Company may not claim any net operating losses for the years 2001 through 2015 due to the Offer accepted by the IRS. Utilization of approximately \$1,193,685 of the total net operating loss is dependent on the future profitable operation of Racore Technology Corporation under the separate return limitation rules and limitations on the carryforward of net operating losses after a change in ownership.

The following is a reconciliation of the amount of tax benefit that would result from applying the federal statutory rate to pretax loss with the benefit from income taxes for the years ended December 31, 2004 and 2003:

	2004	2003
	-----	-----
Benefit at statutory rate (34%)	\$ (223,829)	\$ (989,733)
Non-deductible expenses	38,099	37,225
Change in valuation allowance	207,457	1,048,572
State tax benefit, net of federal tax benefit	(21,727)	(96,064)
	-----	-----
Net Benefit from Income Taxes	\$ -	\$ -

NOTE 11- STOCKHOLDER'S EQUITY

Common Stock Issuances -- As discussed in Note 6, the Company issued 542,495 shares and 1,000,000 shares of common stock in 2004 with a fair value of \$30,000 and \$25,000, respectively, based on the per share fair value of the Company's common stock on the dates of issuance, as part of a settlement agreements for notes payable.

As discussed in Note 9, during 2004, the Company settled a legal claim by issuing 1,000,000 shares of common which resulted in a settlement expense of \$60,000, which was the fair value of the shares issued based on the per share fair value of the Company's common stock on the date of issuance.

During 2004, the Company issued 45,273,989 shares of the Company's restricted common stock to officers of the Company. The shares were valued at \$543,288

F-22

based on the fair value of the Company's stock on the date of issuance. The shares were issued as settlement of accrued compensation of \$431,770, accrued interest of \$5,587, and compensation of \$105,931.

During 2003, the Company issued 500,000 shares of the Company's restricted common stock to a relative of a director for \$10,000 of accrued compensation owed to the director, based on the per share fair value of \$0.02 per share of the Company's common stock on the date of issuance.

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

During the year ended December 31, 2004, the Company drew an aggregate amount of \$2,150,000 under the Equity Line Agreement, pursuant to draws on the equity line, net of fees of \$86,000, and issued a total of 57,464,386 shares of common stock to Cornell under the Equity Line Agreement. At the Company's direction, Cornell retained the proceeds of the draws under the Equity Line Agreement and applied them as payments on the notes to Cornell, discussed in Note 6 above.

Pursuant to the Equity Line Agreement, in connection with each draw the Company agreed to pay a fee of 4% of the amount of the draw to Cornell as consideration for its providing the Equity Line. Total fees paid for the year ended December 31, 2004 were \$128,000. These fees were withheld from proceeds of notes payable (see Note 6) and are in addition to fees paid in relation to those notes. Of these payments, \$86,000 was offset against additional paid in capital as shares were issued under the Equity Line Agreement and \$68,000 was classified as

Edgar Filing: CIRTRAN CORP - Form 10KSB

deferred offering costs at December 31, 2004.

During the year ended December 31, 2003, the Company drew an aggregate amount of \$1,180,000 under the Equity Line Agreement, pursuant to draws on the equity line, net of fees of \$47,200 and prior offering costs of \$44,228, and issued a total of 64,253,508 shares of common stock to Cornell under the Equity Line Agreement. At the Company's direction, Cornell retained the proceeds of the draws under the Equity Line Agreement and applied them as payments on the notes to Cornell, discussed in Note 6 above.

Pursuant to the Equity Line Agreement, in connection with each draw the Company agreed to pay a fee of 4% of the amount of the draw to Cornell as consideration for its providing the Equity Line. Total fees paid for the year ended December 31, 2003 were \$73,200. Of these payments, \$47,200 was offset against additional paid in capital as shares were issued under the Equity Line Agreement and \$26,000 was classified as deferred offering costs at December 31, 2003. These deferred offering costs were offset against additional paid in capital as shares were issued under the Equity Line Agreement subsequent to December 31, 2003.

Standby Equity Distribution Agreement - The Company entered into a Standby Equity Distribution Agreement dated May 21, 2004, with Cornell. Under the Agreement, the Company has the right, at its sole discretion, to draw up to \$20 million on the standby equity facility (the "SEDA Facility") and put to Cornell

F-23

shares of its common stock in lieu of repayment of the draws. The number of shares to be issued in connection with each draw is determined by dividing the amount of the draw by the lowest volume-weighted average price of our common stock during the five consecutive trading days after the advance is sought. The maximum advance amount is \$1,000,000 per advance, with a minimum of seven trading days between advances. Cornell will retain 5% of each advance as a fee under the Agreement. The term of the Agreement runs over a period of twenty-four months after a registration statement related to the Agreement is declared effective or until the full \$20 million has been drawn, whichever comes first.

The Company intends to terminate the Equity Line of Credit Agreement and cease further draws or issuances of shares in connection with the Equity Line Agreement when it is able to draw against the SEDA Facility, which will be when the SEC declares effective a registration statement registering resale by Cornell of shares issued under the SEDA Facility. The SEC has not yet declared the registration statement effective.

NOTE 12- STOCK OPTIONS AND WARRANTS

Stock-Based Compensation - The Company accounts for stock options issued to directors, officers and employees under APB No. 25 and related interpretations. Under APB 25, compensation expense is recognized if an option's exercise price on the measurement date is below the fair value of the Company's common stock. For options that provide for cashless exercise or that have been modified, the measurement date is considered the date the options are exercised or expire. Those options are accounted for as variable options with compensation adjusted each period based on the difference between the market value of the common stock and the exercise price of the options at the end of the period. The Company accounts for options and warrants issued to non-employees, including the developers mentioned in Note 5, at their fair value in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Stock Option Plan - During February 2003, the Company adopted the 2002 Stock

Edgar Filing: CIRTRAN CORP - Form 10KSB

Option Plan (the "2002 Plan") with 25,000,000 shares of common stock reserved for issuance there under. Also, during November 2003, the Company adopted the 2003 Stock Option Plan (the "2003 Plan") with 35,000,000 shares of common stock reserved for issuance there under. Also, during December 2004, the Company adopted the 2004 Stock Option Plan (the "2004 Plan") with 40,000,000 shares of common stock reserved for issuance there under. The Company's Board of Directors administers the plans and has discretion in determining the employees, directors, independent contractors and advisors who receive awards, the type of awards (stock, incentive stock options or non-qualified stock options) granted, and the term, vesting, and exercise prices.

Non-Employee Grants - During 2004, the Company granted options to purchase 6,500,000 shares of common stock to attorneys for services at exercise prices of \$0.0001 per share. The options were all five year options and vested on the dates granted. Legal expense of \$209,952 was recorded for the fair value of options issued during 2004. 5,000,000 of these options were exercised in 2004 for cash proceeds of \$500. An additional 500,000 of previously issued options were exercised in 2004 for cash proceeds of \$50. A total of 3,000,500 non-employee options were outstanding as of December 31, 2004.

During 2003, the Company granted options to purchase 5,250,000 shares of common stock to non-employees for services, prepaid services and in settlement of amounts owed for previous services at exercise prices of \$0.0001 per share. The options were all five year options and vested on the dates granted. 3,249,500 of these options were exercised for cash proceeds of \$525, leaving 2,000,500 options to non-employees outstanding at December 31, 2003.

F-24

Employee Grants - During 2004, the Company granted options to purchase 24,000,000 shares of common stock to directors and employees of the Company pursuant to the 2003 and 2004 Plans. These options are five year options that vested on the date of grant. The related exercise prices range from \$0.01 to \$0.03 per share. Non-cash compensation relating to the grant of these options was recognized for \$125,000 during 2004, based upon the intrinsic value of options on the grant date. 14,250,000 of these options were exercised during 2004 for \$111,500 of cash, \$101,250 of compensation and \$61,000 of accrued compensation. The \$101,250 of compensation was recorded in conjunction with the cashless exercise of 4,500,000 of the options. A total of 11,250,000 employee options were outstanding as of December 31, 2004.

During, 2003, the Company granted options to purchase 40,750,000 shares of common stock to directors and employees of the Company pursuant to the 2002 and 2003 Plans. These options are five year options that vested on the date of grant. The related exercise prices range from \$0.01 to \$0.14 per share. As of September 30, 2003, the Company had granted 5,000,000 more options under the 2002 Plan than were available under that plan. Prior to December 31, 2003, the Company rescinded the grant of those options through agreements with three option holders. 33,900,000 of these options were exercised during 2003 for \$301,500 of cash, \$175,000 of accrued interest and \$75,000 of accrued compensation, leaving 1,850,000 options outstanding at December 31, 2003.

A summary of the stock option activity for the years ended December 31, 2004 and 2003, is as follows:

Shares

Weighted
Average
Exercise
Price

Edgar Filing: CIRTRAN CORP - Form 10KSB

Outstanding at December 31, 2002	-
Granted	46,000,000
Exercised	(37,149,500)
Cancelled	(5,000,000)

Outstanding at December 31, 2003	3,850,500
Granted	30,500,000
Exercised	(19,750,000)
Cancelled	(350,000)

Outstanding at December 31, 2004	14,250,500
	=====
Excercisable at December 31, 2004	14,250,500
	=====

The fair value of stock options was determined at the grant dates using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended 2004 and 2003:

	2004

Expected dividend yield	-
Risk free interest rate	3.39%
Expected volatility	300%
Expected life	.10 years
Weighted average fair value per share	\$ 0.02

F-25

A summary of stock option and warrant grants with exercise prices less than, equal to or greater than the estimated market value on the date of grant during the years ended December 31, 2004 and 2003, is as follows:

	Options Granted	Weighted Average Exercise Price
	-----	-----
Year Ended - December 31, 2004		
Grants with exercise prices less than the estimated market value of the common stock	12,750,000	\$
Grants with exercise prices equal to the estimated market value of the common stock	17,750,000	\$
Grants with exercise prices greater than the estimated market value of the common stock	-	\$

Edgar Filing: CIRTRAN CORP - Form 10KSB

Year Ended - December 31, 2003

Grants with exercise prices less than the estimated market value of the common stock	21,750,000	\$
Grants with exercise prices equal to the estimated market value of the common stock	23,000,000	\$
Grants with exercise prices greater than the estimated market value of the common stock	1,250,000	\$

A summary of the stock options outstanding and exercisable at December 31, 2004, follows:

	Options Outstanding			Options Exer	
Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	
\$0.0001	3,000,500	4.44	\$0.0001	3,000,500	
\$0.02	10,500,000	4.83	\$0.02	10,500,000	
\$0.03	750,000	4.35	\$0.03	350,000	

F-26

NOTE 13 -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 three reportable segments: electronics assembly, Ethernet technology, and contract manufacturing. The electronics assembly segment manufactures and assembles circuit boards and electronic component cables. The Ethernet technology segment designs and manufactures Ethernet cards. The contract manufacturing segment manufactures, either directly or through foreign subcontractors, certain products under an exclusive manufacturing agreement. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies. The Company evaluates performance of each segment based on earnings or loss from operations. Selected segment information is as follows:

		Electronics Assembly		Ethernet Technology		Contract Manufacturing
2004						
Sales to external customers	\$	3,354,057	\$	49,714	\$	5,458,944
Intersegment sales		11,610		167		-
Segment income (loss)		(375,864)		74,665		(357,123)
Segment assets		3,085,208		208,043		1,000,178

Edgar Filing: CIRTRAN CORP - Form 10KSB

Depreciation and amortization	220,940	2,438	26,017
-------------------------------	---------	-------	--------

2003

Sales to external customers	\$ 1,050,090	\$ 165,155	\$ -
Intersegment sales	75,814	-	-
Segment loss	(2,689,392)	(221,586)	-
Segment assets	1,946,221	223,613	-
Depreciation and amortization	295,439	5,081	-

Sales	2004	2003
	-----	-----

Total sales for reportable segments	\$ 8,874,492	\$ 1,291,059
Elimination of intersegment sales	(11,777)	(75,814)
	-----	-----

Consolidated net sales	\$ 8,862,715	\$ 1,215,245
	-----	-----

Total Assets	2004	2003
	-----	-----

Total assets for reportable segments	\$ 4,293,429	\$ 2,169,834
Adjustment for intersegment amounts	-	-
	-----	-----

Consolidated total assets	\$ 4,293,429	\$ 2,169,834
	-----	-----

NOTE 14 - GEOGRAPHIC INFORMATION

All revenue-producing assets are located in the United States of America or China. Revenues are attributed to the geographic areas based on the location of

F-27

the customers purchasing the products. The Company's net sales and assets by geographic area are as follows:

	Revenues		Revenue-producing	
	2004	2003	2004	
	-----	-----	-----	-----
United States of America	\$ 8,850,775	\$ 1,206,510	\$ 454,610	\$ -
China	-	-	386,183	-
Other	11,940	8,735	-	-
	-----	-----	-----	-----

Edgar Filing: CIRTRAN CORP - Form 10KSB

\$ 8,862,715	\$ 1,215,245	\$ 840,793
-----	-----	-----

NOTE 15 - SUBSEQUENT EVENTS (UNAUDITED)

Notes Payable - On January 28, 2005 the Company issued an additional promissory note to the Equity Line Investor in the amount of \$565,000, with a 9% premium of \$50,850, in exchange for \$503,500 of cash proceeds and \$61,500 of loan costs. The loan costs will be amortized over the one year life of the note. The note bears interest at a rate of 7.5% per annum. Interest only payments are due for the first six months of the note, after which the Company will be required to pay \$94,167 plus accrued interest, plus a portion of the premium each month until the note is paid in full.

Stock Options - On January 12, 2005 the Company granted options to purchase 6,000,000 and 2,000,000 shares of the Company's common stock to directors and employees of the Company, respectively. These options were five year options that vested immediately and had an exercise price of \$0.027 per share. The exercise price of the options equaled the fair value of the common shares on the date of grant therefore the options had no intrinsic value. The Company estimated the fair value of the options at the grant date using the Black-Scholes option-pricing model. The following assumptions were used in the Black-Scholes model to determine the fair value of the options to purchase a share of common stock of \$0.01: risk-free interest rate of 3.72 percent, dividend yield of 0 percent, volatility of 278 percent, and expected lives of 0.10 years.

During January 2005, directors and employees exercised options to purchase 8,000,000 shares of commons stock with a weighted average exercise price of \$0.02 per share. These options were exercised for consideration consisting of \$37,500 in cash, \$69,000 in compensation, \$59,000 in accrued wages and bonuses, and \$18,500 in notes to shareholders.

In connection with the Cirtran Asia manufacturing agreement discussed in Note 9, the Company agreed to issue options to purchase 1,500,000 shares common stock to the Developers upon the sale, shipment and payment for 200,000 units of a fitness product. The Company met this level of sales during January 2005 and the options were issued at that time. The options are exercisable at \$0.06 per share, vested on the grant date and expire one year after issuance. The Company estimated the fair value of the options at the grant date using the Black-Scholes option-pricing model. The following assumptions were used in the Black-Scholes model to determine the fair value of the options to purchase a share of common stock of \$0.043: risk-free interest rate of 4.00 percent, dividend yield of 0 percent, volatility of 302 percent, and expected lives of 0.10 years. This resulted in \$64,581 of expense which has been classified as cost of sales.

On January 5, 2005, 1,500,000 options to purchase shares of the Company's common stock, held by the Company's legal counsel, were exercised for proceeds of \$150.

Stockholders' Equity - On March 22, 2005, the Company issued 51,250,000 shares of the Company's restricted common stock for \$2,050,000 of principal and accrued interest related to the related party note payable to Abacas. Because Abacas is a related party, no gain or loss on forgiveness of debt will be recognized.

Edgar Filing: CIRTRAN CORP - Form 10KSB

On March 22, 2005, the Company issued 10,000,000 shares of the Company's restricted common stock for \$400,000 of accrued rent and accrued interest owed to the former owner of the facilities leased by the Company. The entity that formerly owned the facilities is a related party through common ownership. Because the former landlord is a related party, no gain or loss on forgiveness of debt will be recognized.

On March 31, 2005, the Company purchased a 100% interest in PFE Properties LLC (PFE). PFE was previously owned by an unrelated party. PFE owns the land and building in which the Company's manufacturing facilities and administrative offices are located. The liabilities of PFE on the date of acquisition include a mortgage note payable of \$1,050,000, secured by the building. The Company acquired PFE by issuing 20,000,000 shares of the Company's restricted common stock with a fair value of \$680,000 on the date of acquisition.