CIRTRAN CORP
Form 10QSB/A
November 21, 2006

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

FORM 10-QSB/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from __________ to __________.

Commission file number 0-26059

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

Nevada	68-0121636
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No)
4125 South 6000 West West Valley City, Utah	84128
(Address of Principal Executive Offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes X No

The number of shares outstanding of the registrant's common stock as of November 14, 2006: 656,795,424.

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

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CIRTRAN CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2006	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 717,357	$ 1,427,865
Trade accounts receivable, net of allowance for doubtful accounts of $2,617 and $158,374, respectively	2,233,651	3,358,981
Inventory, Net of reserve of $751,296 and		

$751,296, respectively	1,783,446	2,271,604
Prepaid Deposits	50,000	142,188
Other	223,252	252,941
Total Current Assets	5,007,706	7,453,579
Property and Equipment, Net	2,714,205	2,686,737
Investment in Securities, at Cost	300,000	300,000
Intellectual Property	2,610,163	-
Long Term Receivable	1,705,000	-
Deposits	217,751	100,000
Other	364,303	361,581
Total Assets	$ 12,919,128	$ 10,901,897
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	$ 1,021,576	$ 1,239,519
Accrued liabilities	720,183	1,222,018
Deferred revenue	600,192	119,945
Derivative liability	6,122,705	4,910,303
Convertible debenture	-	996,252
Current maturities of long-term notes payable	-	12,610
Notes payable to stockholders	2,442,997	95,806
Total Current Liabilities	10,907,653	8,596,453
Long-Term Notes Payable, Less Current Maturities	1,443,925	1,037,390
Total Liabilities	12,351,578	9,633,843
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value $0.001; authorized 750,000,000 shares; issued and outstanding shares: 651,667,219 and 583,368,569	651,662	583,364
Additional paid-in capital	23,155,802	20,012,000
Accumulated deficit	(23,239,914)	(19,327,310)
Total Stockholders' Equity	567,550	1,268,054
Total Liabilities and Stockholders' Equity	$ 12,919,128	$ 10,901,897

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

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

	For the Three Months Ended September 30,		For the Nine Mon September
	2006	2005	2006
Net Sales	$ 3,044,853	$ 4,291,762	$ 7,007,118 $
Cost of Sales	(2,307,237)	(2,620,109)	(4,529,641)
Gross Profit	737,616	1,671,653	2,477,477
Operating Expenses			
Selling, general and administrative expenses	1,062,570	1,036,565	3,826,899
Non-cash employee compensation expense	-	-	65,616
Total Operating Expenses	1,062,570	1,036,565	3,892,515
Income (Loss) From Operations	(324,954)	635,088	(1,415,038)
Other Income (Expense)			
Interest	(693,494)	(149,732)	(2,330,309)
Other, net	-	(362)	-
Gain on forgiveness of debt	-	90,048	6,930
Gain on derivative valuation	(1,961,840)	-	(174,187)
Total Other Expense, Net	(2,655,334)	(60,046)	(2,497,566)
Net Income (Loss)	$ (2,980,288)	$ 575,042	$ (3,912,604) $
Basic loss per common share	$ -	$ -	$ -
Diluted loss per common share	$ -	$ -	$ -

The accompanying notes are an integral part of these financial statements

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

For the Nine Months Ended September 30,	2006	2005
Cash flows from operating activities		
Net income (loss)	$(3,912,604)	$ 839,543
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	353,793	253,701
Accretion expense	1,924,996	-
Provision for doubtful accounts	(155,757)	(276)
Amortization of loan premium to interest expense	-	84,409
Amortization of beneficial conversion feature	-	59,040
Gain on forgiveness of debt	(6,930)	(327,966)
Non-cash employee compensation expense	57,756	-
Loan costs and interest paid from loan proceeds	-	67,168
Deferred offering costs expensed	-	68,000
Options exercised in lieu of board compensation	-	69,000
Options issued to attorneys and consultants for services	59,851	109,728
Change in valuation of derivative	174,187	-
Changes in assets and liabilities:		
Trade accounts receivable	(1,079,913)	(3,686,267)
Other receivables	-	(58,494)
Prepaid Deposits	142,188	-
Inventories	864,158	5,169
Prepaid expenses and other assets	(259,946)	(244,764)
Accounts payable	(198,967)	1,110,172
Accrued liabilities	45,281	396,441
Deferred revenue	480,247	-
Intangibles	(120,000)	-
Total adjustments	2,280,944	(2,094,939)
Net cash used in operating activities	(1,631,660)	(1,255,396)
Cash flows from investing activities		
Cash acquired with PFE acquisition	-	39,331
Net change in deposits	-	(100,000)
Intangibles purchased with cash	(556,163)	-
ABS assets acquired with cash	(1,125,000)	-
Cash issued on LOC	(40,000)	-
Purchase of property and equipment	(262,100)	(253,196)
Net cash used in investing activities	(1,983,263)	(313,865)
Cash flows from financing activities		
Proceeds from notes payable to stockholders	-	4,414
Proceeds from notes payable	1,500,000	1,732,067
Principal payments on notes payable	(26,155)	-
Proceeds from notes payable to related parties	110,837	95,586
Payment on notes payable to related parties	(206,643)	-
Proceeds from stock issued in private placement	1,500,000	-
Proceeds from exercise of options and warrants to		

purchase common stock	-	33,000
Exercise of options issued to attorneys and consultants for services	26,376	450
Net cash provided by financing activities	2,904,415	1,865,517
Net increase (decrease) in cash and cash equivalents	(710,508)	296,256
Cash and cash equivalents at beginning of year	1,427,865	81,101
Cash and cash equivalents at end of period	$ 717,357	$ 377,357

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

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

For the Nine Months Ended September 30,	2006	2005
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$ 119,552	$ 112,706
Noncash investing and financing activities		
Acquisition of PFE Properties, LLC for stock and assumption of note payable	$ -	$1,868,974
Common stock issued for settlement of note payable and accrued interest	-	2,148,913
Deposit applied to purchase of property and equipment	-	100,000
Issuance of stock and options for settlement of litigation	464,187	411,402
Reclassification accounts receivable to notes receivable	1,665,000	-
Stock issued for settlement of notes payable and accrued interest	130,000	234,500
ABS assets acquired in exchange for guaranteed payment and reduction of claim	1,185,000	-
Warrants issued with derivative liability features	955,520	-
Options granted and exercised in partial settlement of payable	18,974	-
Stock options exercised for settlement of notes payable to stockholders	-	23,000
Loan fees incurred as part of convertible debenture	-	250,765
Beneficial conversion feature on convertible debenture	-	441,176
Common Stock issued for partial conversion of Convertible Debenture	1,910,477	-
Convertible debenture proceeds used to settle notes payable outstanding	-	2,265,000

The accompanying notes are an integral part of these financial statements

CIRTRAN CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Financial Statements -- The accompanying unaudited condensed consolidated financial statements include the accounts of CirTran Corporation and its subsidiaries (the "Company"). These financial statements are condensed and, therefore, do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the Company's annual financial statements included in the Company's Annual Report on Form 10-KSB. In particular, the Company's significant accounting principles were presented as Note 1 to the consolidated financial statements in that Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements for the nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2006.

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

In March of 2006, the Company formed Diverse Media Group Corporation ("DMG"), a wholly owned subsidiary to provide services to the direct response and entertainment industries.

Stock-Based Compensation -- Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, Share Based Payment ("SFAS 123R") for its one stock-based compensation plan. The Company previously accounted for this plan under the recognition and measurement principles of Accounting Standards No. 25, Accounting for Stock Issued to Employees, ("APB 25") and related interpretations and disclosure requirements established by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123") as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure.

Under APB 25, no compensation expense was recorded in earnings for the Company's stock-based options granted under its compensation plans. The pro forma effects on net income and earnings per share for the options and awards granted under the plans were instead disclosed in a note to the consolidated financial statements. Under SFAS 123R, all stock-based compensation is measured at the grant date, based on the fair value of the option or award, and is recognized as an expense in earnings over the requisite service period, which is typically through the date the options vest.

The Company adopted SFAS 123R using the modified prospective method. Under this method, for all stock-based options and awards, granted prior to January 1, 2006 that remain outstanding as of that date, compensation cost is recognized for the unvested portion over the remaining requisite service period, using the grant-date fair value measured under the original provisions of SFAS 123 for pro forma and disclosure purposes. No such options were outstanding as of January 1, 2006.

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The Company utilized the Black-Scholes model for calculating the fair value pro forma disclosures under SFAS 123 and will continue to use this model, which is an acceptable valuation approach under SFAS 123R. The following table summarizes the Black-Scholes option-pricing model assumptions used to compute the weighted-average fair value of stock options granted during the periods below:

	Nine Months Ended September 30,	
	2006	2005
Expected dividend yield	-	-
Risk free interest rate	4.95%	3.91%
Expected volatility	243%	276%
Expected life	0.10 years	0.13 years
Weighted average fair value per share	$ 0.02	$ 0.02

* Not applicable as there were no options granted during the period

All previously issued options were fully vested prior to January 1, 2006. Therefore, there were no compensation costs relating to stock-based compensation from previous periods including the effects from adoption of SFAS 123R. There were 4,000,000 employee options granted during the nine months ended September 30, 2006, that resulted in $29,590 in compensation costs which would have previously been presented in a pro forma disclosure, as discussed above.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair-value recognition provisions of SFAS 123 to all of its stock-based compensation awards for periods prior to adoption of SFAS 123R:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net loss, as reported	$ 575,042	$ 839,543
Add: Stock-based employee compensation expense included in net loss	-	69,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(47,850)	(271,456)
Pro forma net loss	$ 527,192	$ 637,087
	$ 380,871	$ 109,895
Basic and diluted loss per common share as reported	$ (0.00)	$ (0.00)

Basic and diluted loss per common share pro forma	$ (0.00)	$ (0.00)

Patents -- Legal fees and other direct costs incurred in obtaining patents in the United States and other countries are capitalized. Patents costs are amortized over the estimated useful life of the patent. During the year ended December 31, 2005, the Company capitalized $35,799 in patent related legal costs. Amortization expense was $11,511 during the nine months ended September 30, 2006.

The realization of patents and other long-lived assets is evaluated periodically when events or circumstances indicate a possible inability to recover the carrying amount. An impairment loss is recognized for the excess of the carrying amount over the fair value of the asset or the group of assets. Fair value is determined based on expected discounted net future cash flows. The analysis

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necessarily involves significant management judgment to evaluate the capacity of an asset to perform within projections. As required, an evaluation of impairment was made on the patents as of September 30, 2006. No indicators of impairment were noted.

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. The Company had a net loss of $3,912,604 for the nine months ended September 30, 2006, compared to a net loss of $527,708 for the year ended December 31, 2005. As of September 30, 2006, and December 31, 2005, the Company had an accumulated deficit of $23,239,914 and $19,327,310, respectively, and a total stockholders' equity of $567,544 and $1,268,054, respectively. The Company also had a working capital deficit of $5,899,947 and $1,142,874 as of September 30, 2006, and December 31, 2005, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of $1,631,660 and $1,751,744 for the nine months ended September 30, 2006, and the year ended December 31, 2005, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

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

NOTE 3 - BASIC AND DILUTED NET INCOME (LOSS) PER SHARe

In accordance with SFAS No. 128, "Earnings per Share," the following presents the computation of basic and diluted net income (loss) per share:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 20
Basic and diluted net income (loss) available to common shareholders	$ (2,980,291)	$ 575,042	$ (3,912,604)	$
Basic weighted-average common shares outstanding	576,101,903	545,535,235		
Effect of convertible debenture	-	125,000,000	-	125,
Effect of dilutive stock options	-	4,370,619	-	5,
Diluted weighted-average common shares outstanding	-	705,472,522	-	675,
Basic income (loss) per common share	$ -	$ -	$ -	$
Diluted income (loss) per common share	$ -	$ -	$ -	$

Those were approximately 10,750,000 options and warrants outstanding as of September 30, 2006 that were not included as their effect would be anti-dilutive.

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NOTE 4 - Asset Purchase Agreement

During 2005, the Company had various manufacturing agreements with Advanced Beauty Solutions, LLC ("ABS"), an unrelated party, relating to the manufacture of two beauty products. In early October 2005, the Company was notified that ABS had defaulted on its obligation to its financing company. Following the notice of ABS's default, the Company terminated the agreements for the products based on the default. In January 2006, following efforts to resolve the disputes with ABS, the Company filed a lawsuit against ABS, bringing numerous claims and seeking damages from ABS. Later in January 2006, ABS filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code.

On June 6, 2006, the Company and ABS entered into an asset purchase agreement whereby the Company purchased certain assets of ABS. This asset purchase was approved by the bankruptcy court. Under the terms of the agreement the consideration paid by the Company consisted of a $1,125,000 cash payment, a reduction of the Company's allowed claim against ABS of $750,000, and the obligation to pay ABS a royalty equal to $3.00 per unit sold of one of the beauty products. As part of the royalty agreement the Company guaranteed royalty payments of at least $435,000 over a two year period. This amount has been recorded as a note payable. The maximum royalty obligation is $4,135,000. The difference between the guaranteed royalty obligation and the maximum royalty obligation has been determined to be contingent consideration and will be recorded at such time that those royalties are earned.

The assets acquired include inventory, an infomercial, trademarks and copyrights. The Company has allocated the purchase price to these assets based on the relative fair value of the assets as estimated by the Company.

NOTE 5 - RELATED PARTY TRANSACTIONS

Notes Payable to Stockholders -- During June 2006, the President of the Company loaned the Company a net amount of $110,837 which was recorded as a note payable to a stockholder. In August 2006, the Company made a payment to the President which repaid the entire balance $110,837 of the loan.

During December 2005, the President of the Company loaned the Company $95,806 which was recorded as a note payable to a stockholder. The proceeds of this loan were used to fund on going operations of the Company. In January 2006, the Company made a payment to the President which repaid the entire balance $95,806 of the loan.

NOTE 6 - 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.

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 were held in escrow and were 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.

As of December 31, 2005, the Company was in default of its obligations under the settlement agreement and 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. The plaintiff filed a Confession of Judgment and proceeded with execution thereon. The shares in escrow were released and issued as partial settlement of $92,969 on the note payable outstanding.

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 was 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 estimated that the probability of the $109,125 being considered additional rent expense was remote and disputed the claim.

On January 26, 2006, a settlement was reached related to the leased facilities in Colorado. The Company settled the remaining claim for $200,000 cash.

During 2003 and 2004, an investment firm filed suits in the U.S. District Court for the District of Utah seeking payment of a commission consisting of common stock valued at $1,750,000 for allegedly introducing the Company to the Equity Line Investor. The case was previously dismissed in a New York court.

On February 24, 2006, the Company entered into a settlement agreement with the investment firm. The Company issued 4,000,000 shares of restricted stock with a fair value of $0.044 per share. Warrants were also issued to purchase 7,000,000 shares of the Company's common stock with an exercise price of $0.05 cents per share and a life of 5 years. The warrants were valued using the Black-Scholes pricing model at $288,186. Total consideration for the settlement was valued at $464,186.

Litigation - Various vendors have notified the Company that they believe they have claims against the Company totaling $18,810. None of these vendors have filed lawsuits in relation to these claims. The Company has accrued for 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 $164,802. The Company has determined the probability of realizing any loss on these claims 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.

Registration Rights - In May 2005, in connection with the Company's issuance of a convertible debenture to Highgate House Funds, LTD. ("Highgate") (discussed below), the Company granted to Highgate registration rights, pursuant to which the Company agreed to file, within 120 days of the closing of the purchase of the debenture, a registration statement to register the resale of shares of the Company's common stock issuable upon conversion of the debenture. The company also agreed to use its best efforts to have the registration statement declared

effective within 270 days after filing the registration statement. The Company agreed to register the resale of up to 100,000,000 shares, and to keep such registration statement effective until all of the shares issuable upon conversion of the debenture have been sold. The Company filed the registration statement on September 23, 2005. On August 11, 2006, the registration statement was declared effective.

In December 2005, in connection with the Company's issuance of a convertible debenture to Cornell Capital Partners, L.P. ("Cornell Capital") (discussed below in Note 8), the Company granted to the debenture holder registration rights, pursuant to which the Company agreed to file, within 120 days of the closing of the purchase of the debenture, a registration statement to register the resale of shares of the Company's common stock issuable upon conversion of the debenture. The Company subsequently entered into an agreement with Cornell to extend the filing date of the registration statement to October 30, 2006. [The agreement was subsequently amended to extend the filing date of the registration to December 31, 2006.] The Company also agreed to use its best efforts to have the registration statement declared effective within 270 days after filing the registration statement.

In August 2006, in connection with the Company's issuance of another convertible debenture to Cornell Capital, the Company entered into an amended and restated registration rights agreement with Cornell Capital, which superseded the registration rights agreement from the December 2005 debenture transaction. Pursuant to the amended registration rights agreement, the Company agreed to file a registration statement to register the resale of shares of the Company's common stock issuable upon conversion of both debentures. The Company agreed to file the registration statement by October 30, 2006. [The agreement was subsequently amended to extend the filing date of the registration to December 31, 2006.] The Company also agreed to use its best efforts to have the registration statement declared effective within 270 days after filing the registration statement. The Company agreed to register the resale of up to 32,608,696 shares and 10,000,000 warrants, and to keep such registration statement effective until all of the shares issuable upon conversion of the debenture have been sold. As of November 14, 2006 no such registration statement had been filed.

In connection with the settlement agreement with the investment firm discussed above in this Note, the Company agreed to register the resale by the investment firm of shares issued or issuable to it in connection with the settlement.

Diverse Talent Group Transaction - On May 26, 2006, our subsidiary, Diverse Media Group ("DMG") entered into an assignment and exclusive services agreement with Diverse Talent Group, Inc., an unrelated party, ("DT Group") and Christopher Nassif ("Nassif" and together with DT Group, "DT"). The Services Agreement was made effective as of April 1, 2006 (the "Effective Date"). The term of the Services Agreement is for five years, and expires on March 31, 2011.

Pursuant to the Services Agreement, DMG and DT entered into an exclusive operations relationship whereby DMG agreed to outsource its talent agency operations to DT and to provide financing to DT to assist in DT's growth. Under the Services Agreement, DMG and DT created a relationship whereby DT would operate exclusively under the DMG business structure.

At the time of signing the Services Agreement, DMG paid to DT an initial payment of $50,000 for the right to use the name "Diverse", the right to obtain DT's services on an exclusive basis, all accounts receivable and contracts receivable of DT Group as of the Effective Date and the assignment by DT of certain talent contracts. This has been classified as an intangible asset and will be amortized over the five year term of the agreement.

As future compensation for services provided, DMG agreed to pay to DT a percentage of the gross profits for the talent contracts entered into between DT and its clients. The percentage ranges from 62.5% to 85%, depending on the type of talent contract and the amount of gross compensation paid under the talent contract.

In connection with the Services Agreement, Nassif entered into an employment agreement (the "Employment Agreement") with DMG. Nassif's continued employment with DMG is an express condition of the Services Agreement. Under the Employment

Agreement, DMG agreed to cause to be issued to DT options (the "Options") to purchase a total of 2,500,000 shares of the Company's common stock, with an exercise price of $0.045 per share. The Options will expire five years from the date of grant if not exercised prior to that date. The Options vest as follows: 500,000 on the date of grant, and an additional 500,000 on each of the next four anniversaries of the Effective Date, subject to Nassif's continued employment with DMG.

The Company estimated the fair value of these options of $27,691 using the Black Scholes model with the following assumption: risk fee interest rate of 4.95%, estimated future volatility of 244% and a dividend yield of 0.00. The Company recognized $7,560 of the total fair value as compensation expense in the current period.

DMG also agreed in the Services Agreement to provide financing to DT, in the form of a non-interest-bearing capital line of credit (the "Capital Line"), not to exceed $200,000, pursuant to a loan agreement (the "Loan Agreement"). DT may make weekly draws not to exceed $20,000 on terms as set forth in the Loan Agreement. As of September 30, 2006, DT had drawn $40,000 on the Capital Line, which is included in long term receivables.

In connection with the Loan Agreement, DT and DMG entered into a security agreement (the "Security Agreement"), pursuant to which DT granted to DMG a security interest the "Security Interest") in all of the personal property of DT, including inventory, accounts, equipment, general intangibles, deposit accounts, and other items listed in the Security Agreement. The Security Interest secures DT's obligations to DMG under the Capital Line.

Accrued Payroll Tax Liabilities -- The Utah State Tax Commission entered into an agreement to allow the Company to pay the tax liability owing to the State of Utah in equal monthly installments of $4,000. Through December 2005, the Company had made the required payments.

In January 2006, the Utah State Tax Commission reduced the remaining accrued payroll taxes, penalties and interest due on prior period payroll taxes to the amount of $98,316. The balance was paid in full.

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 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 terminate the agreement early, 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 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. 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 August 18, 2006, the Company had sold, shipped and received payment for, 257,577 units of the fitness product. In January 2005, the Company issued 1,500,000 options under the terms of the agreement. During the nine months ended September 30, 2006, the options expired.

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 the additional 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	Options for Each Multiple of Units
1	500,000	500,000	200,000	200,000
2	25,000	500,000	15,000	100,000
3	100,000	500,000	50,000	100,000
4	300,000	1,000,000	100,000	200,000
5	200,000	250,000	100,000	100,000
6	200,000	500,000	100,000	100,000

As of September 30, 2006, the Company had not sold, shipped and received payment for enough units to require the issuance of options related to 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 7 - MORTGAGE NOTE PAYABLE

In conjunction with the acquisition of PFE, the Company assumed a mortgage note payable for $1,050,000, which is secured by the land and the building that was acquired as part of the PFE acquisition. The note bears interest at 12.5% per annum and is collateralized by the land and building. Interest only payments were made through January 2006. Starting in February 2006, principal and interest payments were required based on a twenty-year amortization of the note. The entire balance of principal and unpaid interest will be due in December 2008.

NOTE 8 - CONVERTIBLE DEBENTURES

Highgate - On May 26, 2005, the Company entered into an agreement with Highgate to issue to Highgate a $3,750,000, 5% Secured Convertible Debenture (the "Debenture"). The Debenture is due December 2007 and is secured by all of the Company's property.

Accrued interest is payable at the time of maturity or conversion. The Company may, at its option, elect to pay accrued interest in cash or shares of the Company's common stock. If paid in stock, the conversion price shall be the closing bid price of the common stock on either the date the interest payment is due or the date on which the interest payment is made. The balance of accrued interest owed at September 30, 2006, and December 31, 2005, was $227,966 and $111,986, respectively.

At any time, Highgate may elect to convert principal amounts owing on the Debenture into shares of the Company's common stock at a conversion price equal to the lesser of $0.10 per share, or an amount equal to the lowest closing bid price of the Company's common stock for the twenty trading days immediately preceding the conversion date. The Company has the right to redeem a portion or the entire Debenture then outstanding by paying 105% of the principal amount redeemed plus accrued interest thereon.

Highgate's right to convert principal amounts into shares of the Company's common stock is limited as follows:

(i) Highgate may convert up to $250,000 worth of the principal amount plus accrued interest of the Debenture in any consecutive 30-day period when the market price of the Company's stock is $0.10 per share or less at the time of conversion;

(ii) Highgate may convert up to $500,000 worth of the principal amount plus accrued interest of the Debenture in any consecutive 30-day period when the price of the Company's stock is greater than $0.10 per share at the time of conversion; provided, however, that Highgate may convert in excess of the foregoing amounts if the Company and Highgate mutually agree; and

(iii) Upon the occurrence of an event of default, Highgate may, in its sole discretion, accelerate full repayment of all debentures outstanding and accrued interest thereon or may convert the Debentures and accrued interest thereon into shares of the Company's common stock.

Except in the event of default, Highgate may not convert the Debenture for a number of shares that would result in Highgate owning more than 4.99% of the Company's outstanding common stock.

In connection with the issuance of the Highgate Debenture, the Company granted Highgate registration rights related to the issuance of the debenture. (See Note 6.)

The Company determined that the features of the Debenture fell under derivative accounting treatment. As of September 30, 2006 the carrying value of the Debenture was $1,544,347. The carrying value will be accreted each quarter over the life of the Debenture until the carrying value equals the unconverted face value of $2,850,000 (see below). The fair value of the derivative liability as of September 30, 2006 was $2,221,058.

In connection with the issuance of the Debenture, $2,265,000 of the proceeds were paid to Cornell to repay promissory notes. Fees of $256,433 were withheld from the proceeds, were capitalized, and are being amortized over the life of the note. As such, of the total Debenture of $3,750,000, the net proceeds to the Company were $1,228,567. The proceeds were used for general corporate and working capital purposes, at the Company's discretion.

In January 2006, Highgate converted $750,000 of its convertible debenture into 24,193,548 shares of the Company's common stock at a conversion rate of $0.031 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

In September 2006, Highgate converted $150,000 of its convertible debenture into 8,051,530 shares of the Company's common stock at a conversion rate of $0.01863 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

In November 2006, Highgate converted $100,000 of accrued interest of its convertible debenture into 5,128,205 shares of the Company's common stock at a conversion rate of $0.019 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

Cornell - On December 30, 2005, the Company entered into an agreement with Cornell Capital Partners, L.P. ("Cornell") to issue to Cornell a $1,500,000, 5% Secured Convertible Debenture (the "Cornell Debenture"). The Cornell Debenture is due July 30, 2008, and is secured by all the Company's property, junior to the Highgate security interest.

Accrued interest is payable at the time of maturity or conversion. The Company may, at its option, elect to pay accrued interest in cash or shares of the Company's common stock. If paid in stock, the conversion price shall be the closing bid price of the common stock on either the date the interest payment is due or the date on which the interest payment is made. The balance of accrued interest owed at September 30, 2006 and December 31, 2005 was $55,890 and zero, respectively.

At any time, Cornell may elect to convert principal amounts owing on the Cornell Debenture into shares of the Company's common stock at a conversion price equal to an amount equal to the lowest closing bid price of the Company's common stock for the twenty trading days immediately preceding the conversion date. The Company has the right to redeem a portion or the entire Cornell Debenture then outstanding by paying 105% of the principal amount redeemed plus accrued interest thereon.

Cornell's right to convert principal amounts into shares of the Company's common stock is limited as follows:

(i) Cornell may convert up to $250,000 worth of the principal amount plus accrued interest of the Cornell Debenture in any consecutive 30-day period when the market price of the Company's stock is $0.10 per share or less at the time of conversion;

(ii) Cornell may convert up to $500,000 worth of the principal amount plus accrued interest of the Cornell Debenture in any consecutive 30-day period when the price of the Company's stock is greater than $0.10 per share at the time of conversion; provided, however, that Cornell may convert in excess of the foregoing amounts if the Company and Cornell mutually agree; and

(iii) Upon the occurrence of an event of default, Cornell Capital Partners, LP may, in its sole discretion, accelerate full repayment of the debenture outstanding and accrued interest thereon or may convert the Debenture and accrued interest thereon into shares of the Company's common stock.

Except in the event of default, Cornell may not convert the Cornell Debenture for a number of shares that would result in Cornell owning more than 4.99% of the Company's outstanding common stock.

The Cornell Debenture was issued with 10,000,000 warrants with an exercise price of $0.09 per share that vest immediately and have a three year life.

In connection with the issuance of the Cornell Debenture, the Company granted Cornell registration rights related to the issuance of the Cornell Debenture and warrants. (See Note 6.)

The Company determined that the features on the Cornell Debenture and the associated warrants fell under derivative accounting treatment. As of September 30, 2006 the carrying value of the Cornell Debenture was $434,252. The carrying value will be accreted each quarter over the life of the Cornell Debenture until the carrying value equals the face value of $1,500,000. The fair value of the derivative liability relating to the Cornell debenture, excluding the warrants, as of September 30, 2006 was $1,342,864. The fair value of the warrants was $80,452 as of September 30, 2006.

In connection with the issuance of the Cornell Debenture, fees of $130,000 were withheld from the proceeds, capitalized, and will be amortized over the life of the Cornell Debenture. As such, of the total Cornell Debenture of $1,500,000, the net proceeds to the Company were $1,370,000. The proceeds will be used for general corporate and working capital purposes, at the Company's discretion.

As of September 30, 2006, Cornell had not converted any of the Cornell Debenture into shares of the Company's common stock.

Cornell - On August 23, 2006, the Company entered into another securities purchase agreement (the "Purchase Agreement") with Cornell, relating to the sale by the Company of a 5% Secured Convertible Debenture, due April 23, 2009, in the aggregate principal amount of $1,500,000 (the "August Debenture").

Accrued interest is payable at the time of maturity or conversion. The Company may, at its option, elect to pay accrued interest in cash or shares of the Company's common stock. If paid in stock, the conversion price shall be the closing bid price of the common stock on either the date the interest payment is due or the date on which the interest payment is made. The balance of accrued interest owed at September 30, 2006 was $7,603.

The Company also paid a commitment fee of $120,000 and a structuring fee of $15,000 to Cornell. As such, of the total purchase amount of $1,500,000, the net proceeds to the Company were $1,365,000. The Company used these proceeds for general corporate and working capital purposes, in its discretion. The Company did not use any of the proceeds of the sale of the August Debenture to repay any of the Highgate Debenture or the prior Cornell Debenture.

Cornell is entitled to convert, at its option, all or part of the principal amount owing under the August Debenture into shares of the Company's common stock at a conversion price equal one hundred percent (100%) of the lowest closing bid price of the Common Stock as listed on the OTC Bulletin Board, as quoted by Bloomberg L.P. for the twenty (20) trading days immediately preceding the Conversion Date Except as otherwise set forth in the August Debenture, Cornell's right to convert principal amounts owing under the August Debenture into shares of the Company's common stock is limited as follows:

(i) Cornell may convert up to $500,000 worth of the principal amount plus accrued interest of the August Debenture in any consecutive 30-day period when the price of the Company's stock is $0.03 per share or less at the time of conversion;

(ii) Cornell may convert any amount of the principal amount plus accrued interest of the August Debenture in any consecutive 30-day period when the price of the Company's stock is greater than $0.03 per share at the time of conversion; and

(iii) Upon the occurrence of an Event of Default (as defined in the Debenture), Cornell may, in its sole discretion, accelerate full repayment of all debentures outstanding and accrued interest thereon or may, notwithstanding any limitations contained in the August Debenture and/or the Purchase Agreement, convert all debentures outstanding and accrued interest thereon in to shares of the Company's Common Stock pursuant to the August Debenture.

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Except in the event of default, Cornell may not convert the August Debenture for a number of shares of common stock that would cause the aggregate number of shares of Common Stock beneficially owned by Cornell and its affiliates to exceed 4.99% of the outstanding shares of the common stock following such conversion.

In connection with the Purchase Agreement, the Company also agreed to grant to Cornell warrants (the "Warrants") to purchase up to an additional 15,000,000 shares of the Company's common stock. The Warrants have an exercise price of $0.06 per share, and expire three years from the date of issuance. The Warrants also provide for cashless exercise if at the time of exercise there is not an effective registration statement or if an event of default has occurred.

In connection with the issuance of the August Debenture, the Company granted Cornell registration rights related to the issuance of the August Debenture and warrants. (See Note 6.)

The Company determined that the features on the August Debenture and the associated warrants fell under derivative accounting treatment. As of September 30, 2006 the carrying value of the August Debenture was $449,478. The carrying value will be accreted each quarter over the life of the Cornell August Debenture until the carrying value equals the face value of $1,500,000. The fair value of the derivative liability relating to the August Debenture, excluding the warrants, as of September 30, 2006 was $1,626,859. The fair value of the warrants was $168,192 as of September 30, 2006.

In connection with the Cornell Debenture, Cornell agreed that it could not convert any amount of principal or interest of the Cornell Debenture in accordance with the terms and conditions of the Lockdown Agreement by and between the Company and Cornell July 20, 2006, until the Company has effectuated an increase in its authorized capital. The Company and Cornell also agreed that in the event that the Company had not effectuated such increase in its authorized capital by October 30, 2006, which was subsequently extended to December 31, 2006, such failure would constitute an event of default on parallel with those set forth in the Purchase Agreement and subject to the same consequences as those listed in the Purchase Agreement.

In connection with the issuance of the August Debenture, fees of $135,000 were withheld from the proceeds, capitalized, and will be amortized over the life of the August Debenture. As such, of the total August Debenture of $1,500,000, the net proceeds to the Company were $1,365,000. The proceeds will be used for general corporate and working capital purposes, at the Company's discretion.

As of September 30, 2006, Cornell had not converted any of the August Debenture into shares of the Company's common stock.

NOTE 9 - STOCKHOLDERS' EQUITY

Common Stock Issuances -- During the nine months ended September 30, 2006, the Company issued 4,000,000 shares of common stock as a settlement of litigation with an investment firm. (See Note 6.)

During the nine months ended September 30, 2006, the Company issued 625,000 shares of common stock to the RCG Group for consulting services.

During the nine months ended September 30, 2006, the Company issued to Highgate 32,245,078 shares of restricted common stock in connection with a conversion by Highgate of $900,000 principal amount of the convertible debenture. (See Note 8.)

As discussed below the Company issued 3,500,000 and 6,500,000 shares of common stock for the exercise of options by counsel and employees, respectively.

May 2006 Private Offering - On May 24, 2006, the Company entered into a private placement agreement whereby the Company sold 14,285,715 shares of its common

stock to ANAHOP, Inc. ("ANAHOP"), an unrelated party for $1,000,000. In addition to the shares, the Company issued warrants to designees of Anahop as follows:

- A warrant to purchase up to 15,000,000 shares, with an exercise price of $0.15 per share, exercisable upon the date of issuance.
- A warrant to purchase up to 5,000,000 shares, with an exercise price of $0.25 per share, exercisable upon the date of issuance.
- A warrant to purchase up to 10,000,000 shares, with an exercise price of $0.50 per share.

The warrants are exercisable as of the date of issuance and through and including the date which is five years following the date on which the Company's common stock is listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock Exchange.

The Company determined that because it did not have sufficient authorized shares of common stock to settle the exercise of the 30,000,000 warrants in shares of its common stock the warrants should be recorded as a derivative liability at a fair value of $683,280. The remaining $44,400 was attributed to the 14,285,115 shares of common stock.

The fair value of the warrants at the date of issuance was determined using the Black Scholes model with the following assumptions: expected dividend yield of zero, volatility of 159%, risk free interest rate of 4.93% and an estimated life of 5 years.

The Company granted piggyback registration rights for the shares underlying the warrants, effective only after the warrants have been exercised. The Company did not grant any registration rights with respect to the 14,285,715 shares of common stock.

June 2006 Private Offering - On June 30, 2006, the Company entered into a second private placement agreement whereby, the Company agreed to sell 28,571,428 shares of its common stock to ANAHOP. The total consideration to be paid for the Shares will be $2,000,000 if all tranches of the sale close.

Pursuant to the Agreement, ANAHOP agreed to pay $300,000 at the time of closing, and an additional $200,000 within 30 days of the closing. The payments of $300,000 and $200,000 are referred to collectively as the "First Tranche Payment." The First Tranche Payments have been received, $300,000 on June 30, 2006 and $200,000 on July 27, 2006.. The Company issued 7,142,857 shares of common stock upon receipt of the First Tranche Payment.

The remaining $1,500,000 is to be paid by ANAHOP as follows:

(i) No later than thirty calendar days following the date on which any class of the company capital stock is first listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock Exchange, ANAHOP agreed to pay an additional $500,000; and

(ii) No later than sixty calendar days following the date on which any class of the company capital stock is first listed for trading on the above listed markets, ANAHOP agreed to pay an additional $1,000,000. (The payments of $500,000 and $1,000,000 are referred to collectively as the "Second Tranche Payment.")

Upon receipt of the Second Tranche Payment, the Company agreed to issue ANAHOP 21,428,571 shares of common stock and to issue warrants to designees of ANAHOP as follows:

- A warrant to purchase up to 30,000,000 shares, with an exercise price of $0.15 per share, exercisable upon the date of issuance.
- A warrant to purchase up to 10,000,000 shares, with an exercise price of $0.25 per share, exercisable upon the date of issuance.
- A warrant to purchase up to 23,000,000 shares, with an exercise price of $0.50 per share, exercisable upon the date of issuance.

The Warrants are exercisable as of the date of issuance and through and including the later of the fifth anniversary of the date of the warrant or the fifth anniversary of the date on which the Company's common stock is first listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock.

The Company granted piggyback registration rights for the shares underlying the warrants, effective only after the warrants have been exercised. The Company did not grant any registration rights with respect to the common shares issued or to be issued in connection with the June 2006 private offering.

Lockdown Agreements - On July 20, 2006, the Company entered into a lockdown agreement with ANAHOP, (the "ANAHOP Agreement"), Albert Hagar, and Fadi Nora, and related to the May and June private placement transactions discussed above. Albert Hagar and Fadi Nora were the designees to whom ANAHOP assigned the 30,000,000 warrants. Pursuant to the ANAHOP Agreement, Hagar and Nora agreed that they would not exercise any of the warrants they received in connection with the May or June private offerings until the Company had taken the steps necessary to increase its authorized capital. Additionally, ANAHOP agreed that it would not make the Second Tranche Payment to purchase the Second Tranche Shares until we had taken the steps necessary to increase our authorized capital. As such, under the ANAHOP Agreement, the Company was able to lock down 21,428,571 shares (the "Second Tranche Shares"), and 93,000,000 shares underlying the warrants issued to Hagar and Nora in the May and June private placements.

NOTE 10 - STOCK OPTIONS AND WARRANTS

Non-Employee Options - During the three months ended March 31, 2006, 2,000,000 of previously issued options were exercised by counsel for proceeds of $200. During the six months ended June 30, 2006, an additional 1,500,000 issued options were granted to and exercised by counsel for proceeds of $150. No non-employee options were issued in the 3rd quarter of 2006.

Employee Options - During the nine month period ended September 30, 2006, 6,500,000 options were exercised for accrued compensation and employee advances of $64,000 and $71,000 respectively.

During the nine months ended September 30, 2006, the Company granted options to purchase 4,000,000 shares of common stock to employees. 2,500,000 of these options were discussed in Note 6. The remaining 1,500,000 options were granted with an exercise price of $0.03 per share, a five year life and vested immediately. The fair value of the 1,500,000 options was $22,030 as determined by the Black Scholes model.

Developer Options - During 2005, the Company granted options to purchase 1,500,000 shares of common stock to developers at exercise prices of $0.06 per share. The options were all one-year options and vested on the dates granted. Two of the developers were employees and together were issued 1,000,000 of the options. The exercise price equaled the fair value of the common shares at the time these options were granted; therefore, the options had no intrinsic value. The fair value of these options of $42,052 was estimated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate

ranging of 4.00%, dividend yield of 0.0%, volatility of 302%, and expected average life of .5 years. These options expired in January 2006.

The remaining 500,000 developer options were issued to a non-employee under the terms described above. Because the developer was a non-employee, cost of goods sold of $21,526 was recorded for the fair value of options issued during the year ended December 31, 2005. These options were valued using the Black-Scholes option pricing model with the following assumptions: risk free interest rate ranging of 4.00%, dividend yield of 0.0%, volatility of 302%, and expected average life of .5 years. None of these options were exercised during 2005. These options expired January, 2006.

A summary of the stock option activity for the nine months ended September 30, 2006, is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005	16,750,500	$ 0.02
Granted	5,500,000	$ 0.03

Exercised	(10,000,000)	$	0.02
Expired	(1,500,000)	$	0.06
Outstanding at September 30, 2006	10,250,500	$	0.03
Excercisable at September 30, 2006	10,250,500	$	0.02

NOTE 11 -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 & Marketing	Total
September 30, 2006				
Sales to external customers	$ 1,932,088	$ 29,977	$ 5,045,053	$ 7,007,118
Intersegment sales	12,499	-	-	12,499
Segment income (loss)	(3,194,340)	(106,784)	(611,480)	(3,912,604)
Segment assets	9,056,773	173,069	3,689,286	12,919,128
Depreciation and amortization	134,886	423	99,321	234,630
September 30, 2005				
Sales to external customers	$ 2,355,655	$ 110,886	$ 9,054,870	$ 11,521,411
Intersegment sales	39,613	-	-	39,613
Segment loss	(897,947)	(157,307)	1,894,797	839,543
Segment assets	4,286,743	202,626	6,163,292	10,652,661
Depreciation and amortization	166,420	1,633	85,648	253,701

September 30,

Sales	2006	2005
Total sales for reportable segments	$ 7,019,617	$ 11,561,024
Elimination of intersegment sales	(12,499)	(39,613)
Consolidated net sales	$ 7,007,118	$ 11,521,411

	September 30,	
Total Assets	2006	2005
Total assets for reportable segments	$ 12,919,128	$ 10,652,661
Adjustment for intersegment amounts	-	-
Consolidated total assets	$ 12,919,128	$ 10,652,661

NOTE 12 - SUBSEQUENT EVENTS

In November 2006, Highgate converted $100,000 of accrued interest of its convertible debenture into 5,128,205 shares of the Company's common stock at a conversion rate of $0.019 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This discussion should be read in conjunction with Managements' Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-KSB for the year ended December 31, 2005.

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 since that time. This division is an 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. We anticipate that 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. This strategic move into the Asian market has helped to elevate CirTran to an international contract manufacturer status for multiple products in a wide variety of industries, and has allowed us to target large-scale contracts.

CirTran Asia has established a satellite office in Shen Zhen, China, 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.

On December 2, 2005, we announced that we had formed a new division, CirTran Products, which will offer products for sale at retail. The new division will be run from our new Los Angeles office, with Trevor Saliba, our executive vice president for worldwide business development, working to develop sales. We anticipate that consumer products built by our CirTran Asia subsidiary, as well as other products which we plan to acquire, will be available for retail sale in 2006.

The Company is currently under contract with two direct marketing companies to supply them with True Ceramic Pro flat irons ("TCP"). Since June 6, 2006, the date of the ABS bankruptcy settlement, through the date of this Report, CirTran Products received orders of approximately $1,300,000 for the TCP product.

On March 21, 2006, we announced that we had formed a new subsidiary, Diverse Media Group, to provide end-to-end services to the direct response and entertainment industries. The new division will provide product marketing, production, media funding and merchandise manufacturing services. Forming this new division was a necessary step to maximize product manufacturing opportunities for CirTran's proprietary products and to provide marketing services for individual entrepreneurs and inventors. The new division will be headquartered in CirTran's Los Angeles (Century City) offices and be headed by Mr. Saliba. We are presently in development of proprietary programs to be launched in the product marketing division, production services and media funding divisions. We are presently preparing to launch various programs where

Diverse Media Group will operate as the marketer, campaign manager and/or distributor in various product categories including beauty products, entertainment products, software products, and fitness and consumer products.

On October 3, 2006, CirTran announced they have engaged the services of The RCG Group "RCG" to assist in certain financial relations/corporate communications and other consulting services. RCG is being retained to specifically assist the Company in developing and executing an effective financial relations/corporate communications strategy. The primary objective of such program will be to position CirTran to secure and then maintain a listing on the American Stock Exchange or NASDAQ markets as soon as is reasonably possible. Additionally, RCG has been retained to further assist the Company in its endeavor to secure meaningful public, trading market sponsorship from professional investors as well as certain members of the institutional investment community.

Fitness Products

In early June 2004, the Company entered into an exclusive manufacturing agreement with certain Developers, including Charles Ho, the President of CirTran-Asia. Under the terms of the agreement, CirTran, through its wholly-owned subsidiary CirTran-Asia, has the exclusive right to manufacture certain products developed by the Developers or any of their affiliates. Pursuant to the agreement, we could enter into addendum agreements with the developers with respect to particular products to be produced and manufactured. The agreement was to be for an initial term of 36 months, and may be continued after that on a month-to-month basis unless terminated by either party by providing written notice.

On June 7, 2004, we announced that CirTran-Asia had received an initial purchase order on May 26, 2004, from International Edge 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 $5,546,000. 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 through the date of this Report. The units were distributed to Wal-Mart stores throughout Canada.

On September 9, 2004, we announced that on September 6, 2004, CirTran-Asia had been awarded the rights to manufacture the Ab Trainer Club Pro, a new abdominal fitness machine, for Tristar Products, under an exclusive manufacturing agreement. This new product is another type of abdominal fitness machine. Since this announcement, and through the date of this Report, CirTran-Asia had manufactured and shipped units, and received payments of approximately $76,000.

On September 10, 2004, we announced that on September 7, 2004, CirTran-Asia had been awarded the rights to manufacture the AbRoller, another type of an abdominal fitness machine, for Tristar Products, under an exclusive manufacturing agreement. Since this announcement, and through the date of this Report, CirTran-Asia had manufactured and shipped units, and received payments of approximately $2,000,000.

On September 14, 2004, we announced that on September 7, 2004, we had begun manufacturing the Instant Abs product, another type of abdominal fitness machine, for Tristar Products, under an exclusive manufacturing agreement. Since this announcement, and through the date of this Report, CirTran-Asia had

manufactured, and shipped units, and received payments of approximately $750,000.

On September 30, 2004, we announced that on September 23, 2004, CirTran-Asia had been awarded the rights to manufacture the Denise Austin Pilates product, a pilates fitness machine, for Tristar Products, under an exclusive manufacturing agreement. Since this announcement, and through the date of this Report, CirTran-Asia had manufactured and shipped units, and received payments of approximately $85,000.

On April 28, 2005, CirTran-Asia announced that it has been awarded a contract (the "April 2005 Agreement") from Guthy - Renker Corporation ("GRC") to be the exclusive manufacturer of a new fitness machine (the "Fitness Product") for the sold-on-TV direct response industry. Pursuant to the April 2005 Agreement, GRC agreed to purchase all of its requirements of the Fitness Product during the term of the April 2005 Agreement, which is defined as running from the signing of the agreement through the time when the Fitness Product is not being sold in quantity. Since signing the April 2005 Agreement, we have received orders totaling approximately $1,370,000. Since these announcements, CirTran-Asia has manufactured and shipped orders and has received $1,400,000 as payment for such shipments.

New Product

On August 11, 2004, we announced that CirTran-Asia received a purchase order from Emson in New York, on August 10, 2004 relating to the manufacture of a household cooking appliance for hot dogs and sausages. Since these announcements, and through the date of this Report, CirTran-Asia had manufactured and shipped units, and received payments of approximately $1,850,000.

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 six 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 had an initial term of six months, beginning October 1, 2004, and could 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 2006, the parties have agreed to six-month extensions through September 2006. 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.

On January 19, 2005, CirTran Corporation signed an Exclusive Manufacturing Agreement with Advanced Beauty Solutions L.L.C. ("ABS"), a company relating to the manufacture of a hair product in California. In early October 2005, we were notified that ABS had defaulted on its obligation to its financing company. We have stopped shipping under credit and are in the process of exercising our rights permitted by the agreements.

On July 7, 2005, CirTran Corporation signed another Exclusive Manufacturing Agreement with ABS, relating to the manufacture of a hair dryer product in California. We had already begun shipment on previous contracts and were projecting to begin early in 2006.

In October 2005, following the notice of ABS's default, we terminated the agreement for both products based on the default. In January 2006, following efforts to resolve the disputes with ABS, the Company filed a lawsuit against ABS, claiming breach of contract, interference with contractual relationships, unjust enrichment, and fraud, and seeking damages from ABS.

With respect to the flat iron products, through October 2005, CirTran had shipped directly to ABS approximately $4,746,000 worth of the product, and CirTran had received from ABS or its finance company a total amount of approximately $788,000. In November 2005, we repossessed from ABS approximately $2,341,000 worth of the products in the United States, as we were permitted to do pursuant to the agreement.

Since November 2005, we have been pursuing our rights under the agreement and have been offering the flat iron product for sale directly to ABS's customers. In doing so, we sold to ABS's international customers directly approximately $430,000 worth of the flat iron product. The shipments have all been paid in full. These products shipped were not part of the repossessed inventory.

On January 24, 2006, ABS filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Central District of California, San Fernando Valley Division (the "Bankruptcy Court"), Case No. SV 06-10076 GM. On January 30, 2006, a hearing ("Hearing") was held to consider the Emergency Motion for Order Approving the Settlement and Compromise of the Disputed Secured Claims of Inventory Capital Group, Inc. ("ICG"), and Media Funding Corporation ("MFC") (the "Settlement Motion") filed by ABS. The continued Hearing on the Settlement Motion was held on February 16, 2006, at which time the settlement was modified. Prior to a separate hearing held on March 24, 2006, on ABS's Motion for Order: (1) Approving Sale and Assignment of Substantially All Assets of the Estate Free and Clear of Liens; (2) Approving Assumption and Assignment of Leases and Executory Contracts Included in the Sale and Rejection of Leases and Executory Contracts Not Included in the Sale; and (3) Granting Related Relief (the "Sale Motion"), the settlement was further modified. The modifications to the proposed settlement were read into the Bankruptcy Court's record at the Hearing on the Settlement Motion and the March 24, 2006 hearing on the Sale Motion ("Proposed Modifications"). Written notice of the Proposed Modifications was provided to creditors and parties in interests on March 27, 2006, and the Declaration of James C. Bastian, Jr., attesting that no objections to the Proposed Modifications have been received by ABS, was filed with the Bankruptcy Court. As of May 18, 2006, an order approving the settlement and the sale had not been entered by the bankruptcy court.

Subject to and conditioned upon the approval of the settlement by the Bankruptcy Court and Bankruptcy Court approval of and consummation of the sale of substantially all of ABS's assets to the Company pursuant to the Sale Motion, the Company shall have an allowed claim against the ABS's estate in the amount of $2,350,000, of which $750,000 shall be credited to the purchase of substantially all of ABS's assets. Under the settlement, the Company shall be allowed to participate as a general unsecured creditor of ABS's estate in the amount of $1,600,000 on a pari passu basis with the $2,100,000 general unsecured claim of certain insiders of ABS and subject to the prior payment of certain secured, priority, and non-insider claims in the amount of approximately $1,507,011. Subject to final negotiation and execution of a definitive purchase agreement and Bankruptcy Court Approval of the sale, CirTran Corporation agreed to purchase substantially all of ABS's assets in exchange for (i) a cash payment in the amount of $1,125,000, (ii) a reduction of CirTran's allowed claim in the Bankruptcy Case by $750,000, (iii) the assumption of any assumed liabilities, and (iv) the obligation to pay ABS a royalty equal to $3.00 per True Ceramic Pro flat iron unit sold by ABS (the "Royalty Obligation"). The Royalty Obligation shall be capped at $4,135,000. To the extent the amounts paid to ABS on account of the Royalty Obligation equal less than $435,000 on the 2 year anniversary of the Closing, then, within 30 days of such anniversary, the Company, agreed to pay ABS an amount equal to $435,000 less the royalty payments made to date. As part of the settlement, the Company agreed to exchange general releases with, among others, ABS, Jason Dodo (the manager of ABS), Inventory Capital Group ("ICG"), and Media Funding Corporation ("MFC"). The settlement also resolves a related dispute with ICG in which ICG will assign $65,000 of its secured claim against ABS to the Company.

The Company is currently under contract with two direct marketing companies to supply them with True Ceramic Pro flat irons (TCP). Since June 6, 2006, the date of the ABS bankruptcy settlement, through the date of this Report, CirTran Products received orders of approximately $1,300,000 for the TCP product.

With respect to the hair dryers, as of November 14, 2006, we had not received any orders or shipped any products, either to ABS or its customers.

On December 28, 2005, we signed an Exclusive Manufacturing Agreement (the "Agreement") with Arrowhead Industries, Inc. ("Arrowhead"), pursuant to which we will become the exclusive manufacturer of a tool for assisting with the removal of door hinges called the "Hinge Helper" (the "Product"). Under the Agreement, Arrowhead agreed to buy the Product exclusively from us for the period of the Agreement, which is three years. The Product will be manufactured by us or by sub-manufacturers selected by us

The Agreement provides that Arrowhead will own all right, title, and interest in the Product, and will sell and market the Product under its trademarks, service marks, or trade names.

On January 9, 2006, we issued a press release which referred, in the title, to the Agreement as a "$22 Million Exclusive Manufacturing Agreement." The dollar amount referenced relates to the potential amount of income or revenue which we may receive over the anticipated life of the Agreement.

CirTran announced on January 9, 2006, that Arrowhead Industries, Inc., of Windermere, Florida, had awarded us an exclusive contract to manufacture its patented Hinge Helper (TM) do-it-yourself utility tool for the home. The Hinge Helper will be manufactured by CirTran-Asia, the Company's China-based subsidiary. The exclusive manufacturing contract for the product is for three years. Arrowhead has filmed a Hinge Helper infomercial for TV with an airing date scheduled for the last quarter of 2006.

The Hinge Helper is a unique hand tool designed and developed for use by household customers as well as tradesmen. Recognized by the U.S. Patent Office (#6,308,390 B1), its trademark and patent are owned by and registered to Arrowhead. The specific advantage of the Hinge Helper is its ease-of-use and simplistic design. It can be applied to any residential hinge on wood, metal or composite doors, and is being manufactured with highly-durable materials, enabling it to carry a lifetime guarantee.

The contract is for three years, and Arrowhead agreed to purchase a minimum of ten million units of the Product (the "Minimum Quantity"), subject to the terms and conditions of the Agreement. Arrowhead and CirTran have agreed on the Minimum Quantity in good faith, although the parties acknowledged that in certain circumstances described in the agreement, the agreement may be terminated prior to the sale of the entire Minimum Quantity. Arrowhead agreed to submit purchase orders for the Product from time to time in accordance with the terms of the agreement. Arrowhead agreed to pay CirTran for the Product purchased at the prices ranging from $2.95 to $1.90 per unit, depending on the cumulative number of units of Product which have been purchased by Arrowhead.

Arrowhead will also be entitled to a rebate equal to 10% of the purchase Price paid for Product in the previous Tier. Rebates will be payable only in the form

of a credit memo against future purchases. Rebate credit memos will not be paid in cash and may not be applied against outstanding balances. We will calculate eligibility for the Rebate as soon as practicable following the end of the month in which a new Tier is entered.

We have produced hand made samples, which have been sent to Arrowhead. These were approved and we are awaiting final approval for the production samples that were supplied at the end of March 2006. Once the production samples are approved, we will start production according to the release schedule that should be provided by Arrowhead shortly thereafter. As of May 18, 2006, the product samples have been approved. Arrowhead had released and the Company shipped 1,500 units to test media. We are awaiting final production releases.

Through the date of this Report, Arrowhead continues to test market the product via television and has approached CirTran to help market the product via retailers.

On September 20, 2006, CirTran announced that its wholly owned subsidiary, Diverse Media Group ("DMG"), signed an exclusive marketing and distribution agreement with Maryland-based Natural Product Solutions for its VirMax for Men and Women DS product line. DMG has already overseen production services where it has produced a 120-second spot that debuted in October 2006, airing on national cable networks. As of the date of this Report, we are working on updating the infomercial.

On September 21, 2006, CirTran announced that, DMG signed an exclusive marketing and distribution agreement with Awareness Technologies, Inc., a Los Angeles-based company, for its WebWatcher Computer Monitoring Software. Awareness Technologies has successfully created a unique, completely undetectable software surveillance tool that is being used to help parents monitor and control their children's internet activity in protecting them from potential online predators. The software's secondary platform is being positioned to assist companies and government agencies in monitoring their employees' computer usage in an effort to increase efficiency in the workplace by reducing employees' non-work related activities. DMG will be providing all marketing and distribution channels for Direct Response TV, Radio, Print, Live-Shopping, Retail, and Catalog.

On October 11, 2006, CirTran announced that, DMG had signed a retail distribution and marketing agreement with Wines and Wines, a Miami-based distributor of fine wines and spirits from around the world. Under the terms of the agreement, DMG will use its best efforts to market and distribute all Wines and Wines products exclusively into various distributors and retailers such as Southern Wine and Spirits, Trader Joe's, Beverages and More, Wal-Mart, Sam's Club, Costco, Young's Markets and Vendome nationally, as well as restaurants, liquor stores and entertainment venues exclusively throughout California. Previously, Wines and Wines focused on markets throughout its home state of Florida, where it launched two product brands in 2005, called the Sun of Chile and Covinas brands, which have generated more than $3 million in total revenues since their entrance into the market, being sold at price points ranging from $8.99 to $9.99. Wines and Wines provide a wide selection of premium wines from Chile, Spain, Argentina and South Africa which sell at all price levels.

On November 7, 2006, CirTran announced that, DMG signed an exclusive contract to market and distribute the Solar Style line of solar chargers to major retailers in the U.S. and abroad. Solar Style offers a diverse line of products with multiple connectors, all based on the latest advancements in PV Solar charging to convert sunlight into usable energy for personal electronic devices. Solar Style also includes, or offers as options, AC car battery chargers with many of its products.

On November 15, 2006, CirTran announced that, DMG signed an exclusive licensing, manufacturing and marketing agreement with Beautiful Eyes(R), Inc., of Malibu, California, for a new "hot lashes" product which it will bring to the sold-on-TV and retail marketplaces. Under the terms of the agreement, DMG will have access to the patented technology developed by Beautiful Eyes and its founder, former model Alexandra Roberts, and the designs, technical drawings, manufacturing specifications and know-how, trade secrets and other proprietary information and technology. DMG will develop a new product for sale through TV infomercials and at mass retail, which it will market through its personal and healthcare products division.

Electronics Business and Lines of Products

On June 10, 2005, we announced that Racore Technology Inc., ("Racore"), a subsidiary of CirTran Corporation, received a purchase order from the New York Fire Department, an established city public department on the east coast for fiber optic Ethernet network adapters. Since this announcement, the product has been manufactured and shipped, and a payment of $9,000 has been received. We continue to market and solicit orders on the Racore product line from various commercial and public agency clients.

On June 23, 2005, we announced that CirTran Corporation entered the "sold-on-TV" market by having its CirTran-Asia subsidiary build consumers' electronics products in China, and is now bringing business to the United States, refurbishing popular skill-stop slot machines from Japan for home amusement use in the United States. We continue to receive the imported machines from Rock Bottom Slots, perform the conversion and refurbishment services and ship directly to the customer.

On June 24, 2005, we announced that Racore received a purchase order from Lockheed-Martin, a well-known aerospace manufacturing company for fiber optic token-ring network adapters. Direct sales of new and repeat business from this company have totaled more than $30,000. Since this announcement the product has been manufactured and shipped, and payment has been received. As of the date of this Report, we have shipped an additional $45,000 worth of product to this company.

On July 22, 2005, we announced that Racore received a purchase order from the United States Air Force for OptiCORE network interface cards. Since this announcement, the product has been manufactured and shipped, and payments of $15,000 have been received.

On August 1, 2005, we announced that Racore received a purchase order for fiber optics products from Cherokee City Appraisal District, another city public department located in the southern United States for fiber optic PCI Ethernet network interface cards with VF-45 connectors. Since this announcement, the product has been manufactured and shipped, and a payment of $1,030 has been received.

On August 4, 2005, we announced that Racore received a purchase order from Walt

Disney World, a well-known amusement park in the southeastern United States, for more than $21,000 worth of network interface cards. Since this announcement, the product has been manufactured and shipped, and payment has been received.

On August 9, 2005, we announced that CirTran Corporation completed the first phase of the redevelopment of the next-generation SafetyNet(TM) RadioBridge(TM). Since this announcement, the Company has completed working on the second phase of the contract. On March 14, 2006, we announced that we had received a $250,000 order to build and deliver the first production run of the next generation SafetyNet(TM) RadioBridge(TM) which we redesigned at the request and on behalf of Aegis Assessments, Inc., a Scottsdale, Arizona-based homeland security

contractor. We delivered the new, redesigned units and received payment in full from Aegis in April 2006.

On September 13, 2005, we announced that Racore had been named an "approved vendor" by the City of New York. Racore began its current business relationship with the City of New York in April when it received a request for an evaluation unit of the Racore M8190A Fiber Optic Fast Ethernet Network Adapters with Volition Patch Cords. Racore subsequently received an order placed through one of its value-added resellers. Since this announcement, the product has been manufactured and shipped, and a payment of $4,500 has been received.

On November 14, 2006 we announced that Racore has received, processed and shipped its first order from Lear Siegler Services, Inc., of San Antonio, and that Lear Siegler has opened an account to facilitate ordering and processing add-on business. A major provider of operations, maintenance, modification, overhaul, systems integration, logistics support and training services to government agencies and commercial customers in the U.S. and abroad, Lear Siegler's first order was for 100 Racore 8192 100FX 100 Mbps Fiber Optic PCI Fast Ethernet Network Adapters with ST Fiber Connectors.

On October 11, 2005, we announced that CirTran Corporation was opening a satellite office in Los Angeles in accordance with the Company's internal expansion program. The new 2,500-square foot office will be located on the 17th floor at 1875 Century Park East in the Century City Entertainment and Business District of Los Angeles. Scheduled to open in late November, the office will serve as headquarters for CirTran's business development and strategic planning activities for the Company's multiple business divisions including electronics, consumer products, direct response/retail and "as sold-on-TV" products. Current plans call for CirTran to open additional satellite offices in New York and London in 2006. Since this announcement, we have leased office space in Los Angeles, California.

On December 2, 2005, we announced that we had formed a new division, CirTran Products, which will offer products for sale at retail. The new division will be run from our new Los Angeles office, with Trevor Saliba, our executive vice president for worldwide business development, working to develop sales. We anticipate that consumer products built by our CirTran Asia subsidiary, as well as other products which we plan to acquire, will be available for retail sale in 2006.

CirTran Products was established to pursue manufacturing relationships on both a contracted and proprietary basis in the consumer products industry. Proprietary products will be product lines where the intellectual property (logo, trade name etc.) are owned by CirTran Products as well as exclusively manufactured by CirTran Corporation. The marketing efforts may also be managed exclusively by

CirTran, or CirTran may choose to engage third party consultants or partner with an independent marketing firm. CirTran Products also intends to pursue contract manufacturing relationships in the consumer products industry which can include product lines including: home/garden, kitchen, health/beauty, toys, licensed merchandise and apparel for film, television, sports and other entertainment properties. Licensed merchandise and apparel can be defined as any item that bears the image of, likeness, or logo of a product sold or advertised to the public. Licensed merchandise and apparel are sold and marketed in the entertainment (film and television) and sports (sports franchises) industries. As of May 18, 2006, we have concentrated our product development efforts into three areas, home/kitchen appliances, beauty products and licensed merchandise. We anticipate that these products will be introduced into the market under one uniform brand name or under separate trademarked names owned by CirTran Products.

Recent Developments

Lockdown Agreements - On July 20, 2006, the Company entered into a lockdown agreement with Cornell (the "Cornell Agreement") and related to the Cornell Debenture. Pursuant to the Cornell Agreement, Cornell agreed that it would not convert any of the principal or interest on the Cornell Debenture or exercise any of the Warrants granted to Cornell until the Company had taken the steps necessary to increase its authorized capital. As such, the Company was able to lock down 50,000,000 shares underlying the Cornell Debenture and 10,000,000 shares underlying the Cornell Warrants.

On July 20, 2006, the Company entered into a lockdown agreement with ANAHOP, (the "ANAHOP Agreement"), Albert Hagar, and Fadi Nora, and related to the May and June private placement transactions discussed above. Albert Hagar and Fadi Nora were the designees to whom ANAHOP assigned the 30,000,000 warrants. Pursuant to the ANAHOP Agreement, Hagar and Nora agreed that they would not exercise any of the warrants they received in connection with the May or June private offerings until the Company had taken the steps necessary to increase our authorized capital. Additionally, ANAHOP agreed that it would not make the Second Tranche Payment to purchase the Second Tranche Shares until we had taken the steps necessary to increase its authorized capital. As such, under the ANAHOP Agreement, the Company was able to lock down 21,428,571 shares (the "Second Tranche Shares"), and 93,000,000 shares underlying the warrants issued to Hagar and Nora in the May and June private placements.

Media Syndication Global Agreement

On July 3, 2006, the Company finalized a Marketing and Distribution Agreement (the "MD Agreement") with Media Syndication Global, LLC, a Delaware limited liability company ("MSG"). The MD Agreement relates to the marketing and distribution by MSG of a product designed by Advanced Beauty Solutions, LLC ("ABS"), which were purchased by the Company.

Background

In a Current Report filed with the SEC on June 13, 2006, the Company announced that it had closed a transaction (the "Asset Purchase") whereby the Company purchased certain assets of ABS, subject to the approval of the U.S. Bankruptcy Court adjudicating the bankruptcy proceedings of ABS (the "Bankruptcy Court"). On June 7, 2006, the Bankruptcy Court entered an order approving the Asset Purchase.

Pursuant to the order entered by the Bankruptcy Court, the Company was required to give to Tristar Products, Inc. ("Tristar") a first-right opportunity to enter into a world-wide marketing and distribution agreement with the Company. The term of the first-right period ended on July 3, 2006.

Prior to the approval of the Asset Purchase by the Bankruptcy Court, and in anticipation of such approval, the Company had entered into the MD Agreement with MSG, subject to (A) the approval of the Asset Purchase by the Bankruptcy Court; (B) the Company's completion of the purchase of ABS's assets; and (C) the Company's failure to enter into a distribution agreement with Tristar. The Company and MSG entered into the MD Agreement on April 24, 2006, although the effective date of the MD Agreement was the date on which all three conditions listed above were satisfied. Additionally, the MD Agreement provided to MSG the opportunity to perform test marketing of the product, which was successfully completed.

Pursuant to the MD Agreement, the Company granted to MSG the exclusive, world-wide rights to advertise, promote, market, sell, and otherwise distribute the True Ceramic Pro Bionic hair styler (the "Product"), designed by ABS. Additionally, MSG agreed that during the term of the MD Agreement, MSG would purchase 100% of its requirements of the Product, together with any products

that are substantially similar to the Product (a "Similar Product"), from the Company. MSG also agreed that it would not purchase, manufacture, or cause any third party to manufacture any Similar Product during the term of the MD Agreement and for one year following the termination of the MD Agreement, except from the Company.

Under the MD Agreement, MSG is required to purchase an initial minimum quantity of 10,000 units, and yearly quantities of at least 400,000 units. The initial term of the MD Agreement is for three years from the effective date. If MSG has purchased the required minimum quantities during the initial term, the MD Agreement will renew for additional one-year terms.

The MD Agreement may be terminated by either party upon 45 days' notice to the other party upon the breach by the other party of any material terms, covenants, conditions, or obligations under the MD Agreement. However, if the breach upon which such notice of termination is based shall have been fully cured to the reasonable satisfaction of the non-breaching party within such notice period, then such notice of termination shall be deemed rescinded. The Company and MSG agreed that such right of termination was in addition to such other rights and remedies as the terminating party would have under applicable law.

The Company and MSG agreed that all customer lists, price lists, written and unwritten marketing plans, techniques, methods and data, sales and transaction data, and other information designated or deemed either by MSG or the Company as being confidential or a trade secret, shall constitute confidential information of MSG or the Company, respectively ("Confidential Information"). The Company and MSG agreed to hold all Confidential Information in the strictest confidence and shall protect all Confidential Information with the same degree of care that MSG or the Company would exercise with respect to its own proprietary information.

As of the date of this report, MSG had failed to order the minimum requirements required in the agreement to maintain the exclusive marketing rights for the product. The company is currently working with MSG on amending the existing agreement to better enhance the marketing program currently in place and to increase sales.

Significant Accounting Policies

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Financial Statements contained in our Annual Report on form 10-KSB includes a summary of the significant accounting policies and methods used in the preparation of our Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Estimated amounts may differ under different assumptions or conditions, and actual results could differ from the estimates.

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Revenue Recognition

Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment. The Company also recognizes revenue using the Bill & Hold method prescribed by SEC Staff Accounting Bulletin 104. The "Bill & Hold" method provides for revenue recognition when a customer order has been completed but has not shipped as an accommodation to the customer. This method was adopted during the quarter ended September 30, 2006, in response to orders placed by customers in the direct sales market only, whereby the customer order is confirmed but delivery is delayed according to a prescribed delivery schedule. 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.

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 market value of related inventory is based upon those agreements.

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.

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 2 under "Liquidity and Capital Resources - Liquidity and Financing Arrangements," and in "Item 5 - Other Information."

During June 2006 the President of the Company loaned the Company a net amount of $110,837 which was recorded as a note payable to a Shareholder. In August 2006, the Company made a payment to the President which repaid the entire balance $110,837 of the loan.

During December 2005 the President of the Company loaned the Company $95,806 which was recorded as a note payable to a Shareholder. The proceeds of this loan were used to fund on going operations of the Company. In January 2006, the Company made a payment to the President which repaid the entire balance $95,806 of the loan.

Results of Operations - Comparison of the Three and Nine months ended September 30, 2006 and 2005

Sales and Cost of Sales

Net sales decreased to $3,044,853 for the three month period ended September 30, 2006, as compared to $4,291,762 during the same period in 2005, for a decrease of 29.1%. Net sales decreased to $7,007,118 for the nine months period ended September 30, 2006, as compared to $11,521,411 during the same period in 2005,

for a decrease of 39.2%. This decrease was attributed to the loss of sales in the CirTran Asia division due to legal issues with the Ab King Pro and ABS (see discussion below under "Legal Proceedings"). Cost of sales decreased by 11.9%, from $2,620,109 during the three months period ended September 30, 2005, to $2,307,237 during the same period in 2006. Cost of sales decreased by 34.9%, to $4,529,641 during the nine months period ended September 30, 2006, from $6,962,380 during the same period in 2005. The decrease in cost of sales is directly due to the decrease in revenue. Gross margin for the three months ended September 30, 2006 was 24.2% which was comparable to the 39.0% gross margin reported in the same period in 2005. Gross margin for the nine months period ended September 30, 2006, was 35.4%, down from 39.6% for the same period in 2005. The majority of the increase is due to a considerable decrease in the sale of Ab King which has less favorable margins compared to other CirTran-Asia products. The sales in the other divisions have remained consistent.

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at September 30, 2006, was $1,783,446, as compared to $2,271,604 at December 31, 2005. The decrease in inventory was due to the sale of inventory acquired in the bankruptcy settlement with ABS (see discussion below under "Legal Proceedings").

Selling, General and Administrative Expenses

During the three months ended September 30, 2006, selling, general and administrative expenses were $1,062,570 versus $1,036,565 for the same period in 2005, a 2.5% increase. During the nine months ended September 30, 2006, selling, general and administrative expenses were $3,826,899 versus $3,565,707 for the same period in 2005, a 7.3% increase. The increase in the percentage is due to the additional salaries, commissions paid to Diverse Media Group, legal fees paid to support litigating our cases, and consulting fee paid primarily to an outside sales force. The outside sales force is a temporary method of evaluation the performance of potential fulltime sales personnel, and as such a portion of the consulting fees may be reported as salaries and bonuses in future periods.

Other Income and Expenses

Interest expense for three months ended September 30, 2006, was $693,494 as compared to $149,732 for the same period in 2005, an increase of 363.2%. Interest expense for nine months ended September 30, 2006, was $2,330,309 as compared to $412,530 for the same period in 2005, an increase of 464.9%. The increase is due primarily to accretion of notes payable that contain embedded derivative features.

As a result of the above factors, we had a net loss of $2,980,288 for the quarter ended September 30, 2006, as compared to a profit of $575,042 for the quarter ended September 30, 2005. We also reported a net loss of $3,912,604 for the nine months ended September 30, 2006, as compared to a profit of $839,543 for the same period ended September 30, 2005. This net loss is attributed to a substantial decrease in sales and a large negative fluctuation in the valuation of our derivative liability of approximately $175,000, and accretion expense on notes payable of approximately $1,900,000.

Details of the ABS transaction

In connection with the Advance Beauty Solutions, LLC ("ABS") bankruptcy proceedings, the Company acquired all of the assets of ABS for an aggregate purchase price of $2,310,000. The assets purchased included inventory of a product which had been the subject of an agreement between the Company and ABS, the True Ceramic Pro flat iron. Pursuant to the asset purchase agreement, the Company must pay a royalty to the ABS bankruptcy estate in connection with the sale by the Company of the True Ceramic Pro units. The royalty portion of the purchase price is contingent, based on sales of each True Ceramic Pro flat iron unit. The amount of the royalty to be paid is $3 per unit and is limited to total of $4,135,000. The minimum guaranteed royalty payment of $435,000, guaranteed by the Company, is due within two years of the date of the asset purchase agreement. Pursuant to the bankruptcy court's orders, the initial $435,000 amount of royalty payments paid into the ABS estate will be disbursed to other individuals and entities with claims against ABS's estate. After the guaranteed payment of $435,000 has been made, the royalty payments into the estate shall be prorated among five individuals and entities with claims against ABS's bankruptcy estate who have an aggregate claim against the ABS estate of $2,100,000 (constituting approximately 56.7% of the remaining claims against the estate) and the Company, which has an aggregate claim against the ABS estate of $1,600,000 (constituting approximately 43.3% of the remaining claims against the estate). Following the payment of an aggregate of $4,135,000 in royalty payments to the ABS estate, the Company shall have no further royalty obligations to the estate.

Purchase of Assets

In connection with agreements between the Company and ABS, the Company had an approved claim against the ABS estate of $2,350,000. The Company and ABS agreed upon, and the bankruptcy court approved, the purchase by the Company of assets of ABS. The aggregate purchase price paid was $2,310,000, consisting of the following: $1,125,000 in cash, which was paid at the time of the finalization of the purchase of the assets; a reduction of the Company's approved claim against the ABS estate in the amount of $750,000; and a guaranteed royalty payment to the ABS estate of $435,000. The cash portion of the purchase price funded with the proceeds of sales of the Company's restricted stock and from operations. The Company's approved claim was reduced by $750,000, which went from being an account receivable to being part of the carrying value of the assets purchased, leaving an approved claim against the ABS estate of $1,600,000. The guaranteed royalty payment of $435,000 is discussed above.

A summary of the ABS asset purchase transaction is as follows:

Cash	$ 1,125,000
Reduction of ABS Accounts Receivable	750,000
Guaranteed Royalty Payment	435,000
Total Purchase Price	$ 2,310,000

A summary of the treatment of the account receivable at December 31, 2005 from ABS is as follows:

Assets Purchased w/ Accts. Rec.	$ 750,000
Note Receivable from Bankruptcy Estate	1,600,000
Total Allocation of Accounts Receivable Balance	$ 2,350,000

Funds for the payment of the ABS asset purchase consisted of $1,000,000 that the Company raised through a private placement of 14,285,715 shares of the Company's common stock, and $125,000 which was obtained from Company operations. The shares in the private offering were purchased by and issued to ANAHOP, Inc. The

Company disclosed the sale of the shares and accompanying warrants in a Current Report on Form 8-K filed with the SEC on May 30, 2006.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses preceeding this quarter, and our accumulated deficit has increased to $23,239,914 at September 30, 2006, compared to $19,327,310 at December 31, 2005. Our net loss for the quarter ending September 30, 2006, was $2,980,288, compared to net income of $575,042 for the quarter ended September 30, 2005. Our net loss was $3,912,604 for the nine months ended September 30, 2006, as compared to a profit of $839,543 for the nine months ended September 30, 2005. Our current liabilities exceeded our current assets by $5,899,947 as of September 30, 2006, compared to $1,142,874 as of December 31, 2005. The change was mostly attributable to the change in the convertible debentures. For the nine months ended September 30, 2006 and 2005, we had negative cash flows from operations of $1,631,660 and $1,255,396 respectively.

Cash

We had cash on hand of $717,357 at September 30, 2006, and $1,427,865 at December 31, 2005.

Cash used in operating activities was $1,631,660 for the nine months ended September 30, 2006. Cash received from customers of $8,131,448 was not sufficient to offset cash paid to vendors, suppliers, and employees of $8,574,483. The non-cash charges were for depreciation and amortization of $246,142 and accretion expense of $1,924,996. Because the Company has negative cash flows from operations, it must rely on sources of cash other than customers to support its operations. It is anticipated that various methods of equity financing will be required to support operations until cash flows from operations are positive.

Cash used in investing activities during the nine months ended September 30, 2006 consisted of the purchase of assets from Advanced Beauty Solutions (ABS) of $1,125,000 along with equipment and furniture purchases of $262,100. Intangible assets of $556,163 were also acquired and consist of capitalized direct cost associated with the settlement of the ABS law suit, the acquisition of $50,000 of patent costs and $37,500 of infomercial costs. Forty thousand dollars was also advanced to Diverse Talent Group under the terms of a line of credit agreement.

Cash provided by financing during the first nine months ended September 30, 2006 was $3,137,213. This was primarily from $1,500,000 received from ANAHOP, Inc. through the sale of the Company's common stock in the quarter ended June 30, 2006. In the quarter ended September 30, 2006, an additional $1,500,000 was received from Cornell for the sale of a 5% convertible debenture, discussed below.

Net cash used by financing activities was $232,798 during the nine months ended September 30, 2006 and was primarily related to payments on notes payable to stockholders of $206,643.

Accounts Receivable

At September 30, 2006, we had receivables of $2,233,651, net of a reserve for doubtful accounts of $2,617, as compared to $3,358,981 at December 31, 2005, net of a reserve of $158,374.

This decrease was primarily attributed to the settlement of ABS and decreased sales in the last two months of the second quarter as compared to the last two months in 2005. Receivables at December 31, 2005, included the unpaid balance from ABS. (See ABS history beginning on page 26).

The Company has implemented an aggressive process to collect past due accounts over the past two years. Individual accounts are continually monitored for collectibilty. As part of monitoring individual customer accounts, the Company evaluates the adequacy of its allowance for doubtful accounts.

Accounts Payable

Accounts payable were $1,021,576 at September 30, 2006, as compared to $1,239,519 at December 31, 2005. The decrease is related to a drop in sales and paying vendors in a timely manner.

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 $23,239,914 and a total stockholders' equity of $567,550 at September 30, 2006. As of September 30, 2006, our monthly operating costs and interest expenses averaged approximately $1,100,000 per month.

With the settlement of ABS bankruptcy, the Company now has the rights to market the True Ceramic Pro Flat iron. As a result, the item is being sold under contract and has generated significant sales of approximately $1,300,000 during the quarter ended September 30, 2006. We anticipate continued sales of this product into the foreseeable future.

In conjunction with our efforts to improve our results of operations, discussed above, we are also actively seeking infusions of capital from investors. 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.

All proceeds from the sale of company stock to ANAHOP have been received as per the terms of the agreement. The contract provides for additional future payments from ANAHOP at such time when the Company has achieved a listing on a national stock exchange.

Convertible Debentures

Highgate - On May 26, 2005, the Company entered into an agreement with Highgate Funds, Ltd. ("Highgate") to issue to Highgate a $3,750,000, 5% Secured Convertible Debenture (the "Debenture"). The Debenture is due December 2007 and is secured by all of the Company's property.

Accrued interest is payable at the time of maturity or conversion. The Company may, at its option, elect to pay accrued interest in cash or shares of the Company's common stock. If paid in stock, the conversion price shall be the closing bid price of the common stock on either the date the interest payment is due or the date on which the interest payment is made. The balance of accrued

interest owed at September 30, 2006 and December 31, 2005, was $227,966 and $111,986, respectively.

At any time, Highgate may elect to convert principal amounts owing on the Debenture into shares of the Company's common stock at a conversion price equal to the lesser of $0.10 per share, or an amount equal to the lowest closing bid price of the Company's common stock for the twenty trading days immediately preceding the conversion date. The Company has the right to redeem a portion or the entire Debenture then outstanding by paying 105% of the principal amount redeemed plus accrued interest thereon.

Highgate's right to convert principal amounts into shares of the Company's common stock is limited as follows:

(i) Highgate may convert up to $250,000 worth of the principal amount plus accrued interest of the Debenture in any consecutive 30-day period when the market price of the Company's stock is $0.10 per share or less at the time of conversion;

(ii) Highgate may convert up to $500,000 worth of the principal amount plus accrued interest of the Debenture in any consecutive 30-day period when the price of the Company's stock is greater than $0.10 per share at the time of conversion; provided, however, that Highgate may convert in excess of the foregoing amounts if the Company and Highgate mutually agree; and

(iii) Upon the occurrence of an event of default, Highgate may, in its sole discretion, accelerate full repayment of all debentures outstanding and accrued interest thereon or may convert the Debentures and accrued interest thereon into shares of the Company's common stock.

Except in the event of default, Highgate may not convert the Debenture for a number of shares that would result in Highgate owning more than 4.99% of the Company's outstanding common stock.

In connection with the issuance of the Highgate Debenture, the Company granted Highgate registration rights related to the issuance of the debenture.

The Company determined that the features of the Debenture fell under derivative accounting treatment. As of September 30, 2006 the carrying value of the Debenture was $1,544,347. The carrying value will be accreted each quarter over the life of the Debenture until the carrying value equals the unconverted face value of $2,850,000 (see below). The fair value of the derivative liability as of September 30, 2006 was $2,221,058.

In connection with the issuance of the Debenture, $2,265,000 of the proceeds were paid to Cornell to repay promissory notes. Fees of $256,433 were withheld from the proceeds, were capitalized, and are being amortized over the life of the note. As such, of the total Debenture of $3,750,000, the net proceeds to the Company were $1,228,567. The proceeds were used for general corporate and working capital purposes, at the Company's discretion.

In January 2006, Highgate converted $750,000 of its convertible debenture into 24,193,548 shares of the Company's common stock at a conversion rate of $0.031 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

In September 2006, Highgate converted $150,000 of its convertible debenture into 8,051,530 shares of the Company's common stock at a conversion rate of $0.01863 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

In November 2006, Highgate converted $100,000 of accrued interest of its convertible debenture into 5,128,205 shares of the Company's common stock at a conversion rate of $0.019 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

Cornell - On December 30, 2005, the Company entered into an agreement with

Cornell Capital Partners, L.P. ("Cornell") to issue to Cornell a $1,500,000, 5% Secured Convertible Debenture (the "Cornell Debenture"). The Cornell Debenture is due July 30, 2008, and is secured by all the Company's property, junior to the Highgate security interest.

Accrued interest is payable at the time of maturity or conversion. The Company may, at its option, elect to pay accrued interest in cash or shares of the Company's common stock. If paid in stock, the conversion price shall be the closing bid price of the common stock on either the date the interest payment is due or the date on which the interest payment is made. The balance of accrued interest owed at September 30, 2006 and December 31, 2005, was $55,890 and zero, respectively.

At any time, Cornell may elect to convert principal amounts owing on the Cornell Debenture into shares of the Company's common stock at a conversion price equal to an amount equal to the lowest closing bid price of the Company's common stock for the twenty trading days immediately preceding the conversion date. The Company has the right to redeem a portion or the entire Cornell Debenture then outstanding by paying 105% of the principal amount redeemed plus accrued interest thereon.

Cornell's right to convert principal amounts into shares of the Company's common stock is limited as follows:

(i) Cornell may convert up to $250,000 worth of the principal amount plus accrued interest of the Cornell Debenture in any consecutive 30-day period when the market price of the Company's stock is $0.10 per share or less at the time of conversion;

(ii) Cornell may convert up to $500,000 worth of the principal amount plus accrued interest of the Cornell Debenture in any consecutive 30-day period when the price of the Company's stock is greater than $0.10 per share at the time of conversion; provided, however, that Cornell may convert in excess of the foregoing amounts if the Company and Cornell mutually agree; and

(iii) Upon the occurrence of an event of default, Cornell Capital Partners, LP may, in its sole discretion, accelerate full repayment of the debenture outstanding and accrued interest thereon or may convert the Debenture and accrued interest thereon into shares of the Company's common stock.

Except in the event of default, Cornell may not convert the Cornell Debenture for a number of shares that would result in Cornell owning more than 4.99% of the Company's outstanding common stock.

The Cornell Debenture was issued with 10,000,000 warrants with an exercise price of $0.09 per share that vest immediately and have a three year life.

In connection with the issuance of the Cornell Debenture, the Company granted Cornell registration rights related to the issuance of the Cornell Debenture and warrants.

The Company determined that the features on the Cornell Debenture and the associated warrants fell under derivative accounting treatment. As of September 30, 2006 the carrying value of the Cornell Debenture was $434,252. The carrying value will be accreted each quarter over the life of the Cornell Debenture until the carrying value equals the face value of $1,500,000. The fair value of the derivative liability relating to the Cornell debenture, excluding the warrants, as of September 30, 2006 was $1,342,864. The fair value of the warrants was $80,452 as of September 30, 2006.

In connection with the issuance of the Cornell Debenture, fees of $130,000 were withheld from the proceeds, capitalized, and will be amortized over the life of the Cornell Debenture. As such, of the total Cornell Debenture of $1,500,000, the net proceeds to the Company were $1,370,000. The proceeds will be used for general corporate and working capital purposes, at the Company's discretion

In connection with the Cornell Debenture, Cornell agreed that it could not convert any amount of principal or interest of the Cornell Debenture in accordance with the terms and conditions of the Lockdown Agreement by and between the Company and Cornell July 20, 2006, until the Company has effectuated an increase in its authorized capital. The Company and Cornell also agreed that in the event that the Company had not effectuated such increase in its authorized capital by October 30, 2006, which was subsequently extended to December 31, 2006, such failure would constitute an event of default on parallel with those set forth in the Purchase Agreement and subject to the same consequences as those listed in the Purchase Agreement.

As of September 30, 2006, Cornell had not converted any of the Cornell Debenture into shares of the Company's common stock.

Cornell - On August 23, 2006, the Company entered into another securities purchase agreement (the "Purchase Agreement") with Cornell, relating to the sale by the Company of a 5% Secured Convertible Debenture, due April 23, 2009, in the aggregate principal amount of $1,500,000 (the "August Debenture").

Accrued interest is payable at the time of maturity or conversion. The Company may, at its option, elect to pay accrued interest in cash or shares of the Company's common stock. If paid in stock, the conversion price shall be the closing bid price of the common stock on either the date the interest payment is due or the date on which the interest payment is made. The balance of accrued interest owed at September 30, 2006 and December 31, 2005 was $7,603 and zero, respectively.

The Company also paid a commitment fee of $120,000 and a structuring fee of $15,000 to Cornell. As such, of the total purchase amount of $1,500,000, the net proceeds to the Company were $1,365,000. The Company used these proceeds for general corporate and working capital purposes, in its discretion.

The August Debenture bears interest at a rate of 5%. Cornell is entitled to convert, at its option, all or part of the principal amount owing under the August Debenture into shares of the Company's common stock at a conversion price equal one hundred percent (100%) of the lowest closing bid price of the Common Stock as listed on the OTC Bulletin Board, as quoted by Bloomberg L.P. for the twenty (20) trading days immediately preceding the Conversion Date Except as otherwise set forth in the August Debenture, Cornell's right to convert principal amounts owing under the August Debenture into shares of the Company's common stock is limited as follows:

(i) Cornell may convert up to $500,000 worth of the principal amount plus accrued interest of the August Debenture in any consecutive 30-day period when the price of the Company's stock is $0.03 per share or less at the time of conversion;

(ii) Cornell may convert any amount of the principal amount plus accrued interest of the August Debenture in any consecutive 30-day period when the price of the Company's stock is greater than $0.03 per share at the time of conversion; and

(iii) Upon the occurrence of an Event of Default (as defined in the Debenture), Cornell may, in its sole discretion, accelerate full repayment of all debentures outstanding and accrued interest thereon or may, notwithstanding any limitations contained in the August Debenture and/or the Purchase Agreement, convert all debentures outstanding and accrued interest thereon in to shares of the Company's Common Stock pursuant to the August Debenture.

Under the terms of the August Debenture, except upon an event of default as defined in the August Debenture, Cornell may not convert the August Debenture for a number of shares of common stock in excess of that number of shares of common stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by Cornell and its affiliates to exceed 4.99% of the outstanding shares of the common stock following such conversion.

Pursuant to the August Debenture, interest is to be paid at the time of maturity or conversion. The Company may, in its option, pay accrued interest in cash or in shares of its common stock. If paid in stock, the conversion price shall be the closing bid price of the common stock on either (i) the date the interest payment is due; or (ii) if the interest payment is not made when due, the date on which the interest payment is made.

Also pursuant to the August Debenture, the Company has the right to redeem, by giving 3 days' written notice to Cornell, a portion or all of the August Debenture then outstanding by paying an amount equal to one hundred five percent (105%) of the amount redeemed plus interest accrued thereon. In the event that the Company redeems only a portion of the outstanding principal amount of the August Debenture, Cornell may convert all or any portion of the unpaid principal or interest of the August Debenture not being redeemed by the Company. Additionally, if after the earlier to occur of (x) fifteen (15) months following the date of the purchase of the August Debenture or (y) twelve (12) months following the date on which the initial registration statement is declared effective, all or any portion of the August Debenture remains outstanding, then the Company, at the request of Cornell, shall redeem such amount outstanding at the rate of five hundred thousand dollars ($500,000) per each 30-day period. Finally, upon the occurrence of an event of default as defined in the August Debenture, Cornell can convert all outstanding principal and accrued interest under this August Debenture irrespective of any of the limitations set forth in the August Debenture and/or the Purchase Agreement, and in such event, all such principal and interest shall become immediately due and payable.

In connection with the August Debenture, Cornell agreed that it could not convert any amount of principal or interest of the August Debenture in accordance with the terms and conditions of the Lockdown Agreement by and between the Company and Cornell dated July 20, 2006, until the Company has effectuated an increase in its authorized capital. The Company and Cornell also agreed that in the event that the Company had not effectuated such increase in its authorized capital by October 30, 2006, which was subsequently extended to December 31, 2006, such failure would constitute an event of default on parallel with those set forth in the Purchase Agreement and subject to the same consequences as those listed in the Purchase Agreement.

In connection with the Purchase Agreement, the Company also agreed to grant to Cornell warrants (the "Warrants") to purchase up to an additional 15,000,000 shares of the Company's common stock. The Warrants have an exercise price of $0.06 per share, and expire three years from the date of issuance. The Warrants also provide for cashless exercise if at the time of exercise there is not an effective registration statement or if an event of default has occurred.

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The Company determined that the features on the August Debenture and the associated warrants fell under derivative accounting treatment. As of September 30, 2006 the carrying value of the August Debenture was $449,478. The carrying value will be accreted each quarter over the life of the Cornell August Debenture until the carrying value equals the face value of $1,500,000. The fair value of the derivative liability relating to the August Debenture, excluding the warrants, as of September 30, 2006 was $1,626,859. The fair value of the warrants was $168,192 as of September 30, 2006.

Additionally, the Company and Cornell entered into an amended and restated investor registration rights agreement (the "Registration Rights Agreement"), which superseded Cornell registration rights agreement between the Company and Cornell entered into in December 2005, in connection with a prior debenture transaction (the "December 2005 Transaction") detailed below. Pursuant to the Registration Rights Agreement, the Company agreed to file, no later than October 15, 2006, a registration statement to register the resale of shares of the Company's common stock issuable to Cornell upon conversion of the Debenture and exercise of the Warrants, as well as the convertible debenture (the "December Debenture") and warrants (the "December Warrants") issued in the December 2005 Transaction, discussed above. The Company agreed to register the resale of up to 231,900,000 shares, consisting of 206,900,000 shares underlying the Debenture and the December Debenture, and 25,000,000 shares underlying the Warrants and the December Warrants. The Company agreed to keep such registration statement effective until all of the shares issuable upon conversion of the Debenture and December Debenture have been sold. In the event that the Company issues more than 206,900,000 shares of its common stock upon conversion of the August Debenture and the December Debenture, it will file additional registration statements as necessary. The agreement was subsequently amended to extend the filing date of the registration to December 31, 2006.

The Company and Cornell also entered into an amended and restated security agreement (the "Security Agreement"), pursuant to which the Company granted a second position security interest in all of its property, including goods; inventory; contract rights and general intangibles; documents, receipts, and chattel paper; accounts and other receivables; products and proceeds; and any interest in any subsidiary, joint venture, or other investment interest to secure the Company's obligation under the August Debenture, the December Debenture, and the related agreements.

The Company and Cornell also entered into an escrow agreement (the "Escrow Agreement") relating to the holding and disbursement of payment of the purchase price of the Debenture and cash payments made by the Company in payment of the obligations owing under the Debenture. The Company and the Investor appointed David Gonzalez as the Escrow Agent under the Escrow Agreement.

The Company had previously entered into financing transactions with Cornell Capital Partners, LP ("Cornell"). In April 2003, the Company had entered into an equity line of credit agreement with Cornell, pursuant to which the Company drew a total of $2,150,000 on the equity line, and issued a total of 57,464,386 shares of common stock to Cornell. In May 2004, the Company entered into a standby equity distribution agreement, but the agreement was terminated before any funds were drawn or any shares were issued. Between June 2003 and January 2005, Cornell loaned to the Company an aggregate of $5,595,000 pursuant to promissory notes issued to Cornell. These notes were paid in full by May 2005.

In December 2005, the Company issued the prior Cornell Debenture to Cornell, with substantially similar terms to that issued on August 23, 2006. The Company also issued the December Warrants to purchase up to 10,000,000 shares of the Company's common stock.

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In May 2005, the Company sold convertible debentures in the aggregate amount of $3,750,000, to Highgate House Funds, Ltd., a Cayman Island exempted company ("Highgate"). Highgate and Cornell have the same general partner, Yorkville Advisors, but have different portfolio managers. Additionally, the escrow agent appointed in connection with the purchase and sale of both the Cornell debenture transactions and the Highgate debenture transaction is David Gonzalez, an officer of Cornell.

As of November 14, 2006, no amount of the August Debenture had been converted and no shares of the Company's common stock had been issued to the Investor. The Company sold the August Debenture 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. Upon future conversions, if any, of the August Debenture into shares of the Company's common stock, the Company intends to issue the shares without registration under the 1933 Act in reliance on Section 4(2) of the 1933 Act, and the rules and regulations promulgated thereunder. As noted above, the Company anticipates that any resales by Cornell of the shares issued upon conversion of the August Debenture will be made pursuant to a registration statement to be filed by the Company.

The Company does not anticipate that it will use any of the proceeds of the sale of the August Debenture to Cornell to repay the Debenture sold to Highgate or the prior Cornell Debenture

Lockdown Agreements

On July 20, 2006, we entered into two lockdown agreements with existing security holders.

The first agreement (the "Cornell Agreement") was with Cornell and related to the Cornell Debenture. Pursuant to the Cornell Agreement, Cornell agreed that it would not convert any of the principal or interest on the Cornell Debenture or exercise any of the Warrants granted to Cornell until the Company had taken the steps necessary to increase its authorized capital. As such, the Company was able to lock down 50,000,000 shares underlying the Cornell Debenture and 10,000,000 shares underlying the Cornell Warrants.

The second agreement (the "ANAHOP Agreement") was with ANAHOP, Albert Hagar, and Fadi Nora, and related to the May and June private placement transactions discussed above. Pursuant to the ANAHOP Agreement, Hagar and Nora agreed that they would not exercise any of the warrants they received in connection with the May or June private offerings until the Company had taken the steps necessary to increase its authorized capital. Additionally, ANAHOP agreed that it would not make the Second Tranche Payment to purchase the Second Tranche Shares until the Company had taken the steps necessary to increase our authorized capital. As such, under the ANAHOP Agreement, the Company were able to lock down 21,428,571 shares (the "Second Tranche Shares"), and 93,000,000 shares underlying the warrants issued to Hagar and Nora in the May and June private placements.

Forward-looking statements

Certain of the statements contained in this Report (other than the historical financial data and other statements of historical fact) are forward-looking statements. These statements include, but are not limited to our expectations with respect to the development of a new offices or divisions; the achievement of certain revenue goals; the receipt of new business and contracts; and our intentions with respect to financing our operations in the future. Additional forward-looking statements may be found in the "Risk Factors" Section of our Annual Report on Form 10-KSB, together with accompanying explanations of the potential risks associated with such statements. You are encouraged to review the "Risk Factors" Section of our Annual Report.

Forward-looking statements made in this Quarterly Report, are made based upon management's good faith expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with such expectations, or that the effect of future developments on CirTran will be those anticipated by management. Forward-looking statements may be identified by the use of words such as "believe," "expect," "plans," "strategy," "prospects," "estimate," "project," "anticipate," "intends" and other words of similar meaning in connection with a discussion of future operating or financial performance.

You are cautioned not to place undue reliance on these forward looking statements, which are current only as of the date of this Report. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Many important factors could cause actual results to differ materially from management's expectations, including those listed in the "Risk Factors" Section of our Annual Report for the year ended December 31, 2005, as well as the following:

* unpredictable difficulties or delays in the development of new products and technologies;

* changes in U.S. or international economic conditions, such as inflation, interest rate fluctuations, foreign exchange rate fluctuations or recessions in CirTran's markets;

* pricing changes to our supplies or products or those of our competitors, and other competitive pressures on pricing and sales;

* difficulties in obtaining or retaining the management, engineering, and other human resource competencies that we need to achieve our business objectives;

* collection of customer balances due on account;

* the impact on CirTran or a subsidiary from the loss of a significant customer or a few customers;

* risks generally relating to our international operations,

including governmental, regulatory or political changes;

* transactions or other events affecting the need for, timing and extent of our capital expenditures; and

* the extent to which we reduce outstanding debt.

Item 3. Evaluation of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, who was also our Chief Financial Officer, as appropriate, to allow for timely decisions regarding disclosure. On May 15, 2006, the Company entered into an agreement with Richard T. Ferrone, CPA, whereby Mr. Ferrone became the Chief Financial Officer of the Company. (See discussion below.)

As disclosed in our Annual Report on Form 10-KSB for the year ended December 31, 2005, as required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation, under the supervision of our Chief Executive Officer/Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2005. In our evaluation, we identified deficiencies that existed in the design or operation of our internal control over financial reporting that we and our independent registered public accounting firm considered to be "material weaknesses." A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial information will not be prevented or detected.

Based on the matters identified above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective. These deficiencies have been disclosed to our Board of Directors.

The deficiencies in our internal control over financial reporting related primarily to the failure to properly measure and disclose equity and debt transactions. The deficiencies were detected in the evaluation process and the transactions have been appropriately recorded and disclosed in this Quarterly Report on Form 10-QSB. We are in the process of improving our internal control over financial reporting in an effort to resolve these deficiencies through improved supervision and training of our accounting staff, but additional effort is needed to fully remedy these deficiencies. Our management and directors will continue to work with our new CFO, our auditors and outside advisors to ensure that our controls and procedures are adequate and effective.

In an effort to resolve the deficiencies in internal control, mentioned above, the Company, in concurrence with the recommendation of our registered independent public accounting firm, embarked upon an executive search for a qualified candidate to fill the position of chief financial officer (CFO). The Company successfully concluded the executive search on May 15, 2006 when it signed a three year contract with Richard T. Ferrone, CPA, as the new CFO of the Company. The addition of an experienced financial executive is a major achievement in addressing and resolving the deficiencies in our financial controls and also provides the Company with the capacity to develop and advance the overall financial capabilities of the Company.

Currently, the Company's financial policies and procedures are being evaluated. As a result, several new internal control procedures have been developed and documented and are being implemented accordingly. The financial policies and procedures evaluation program will be an ongoing process to insure continued adequacy and compliance with prescribed internal control procedures, with the initial development of the program primarily focused on the development of internal control procedures and supporting documentation.

Quarterly Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and 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 quarterly report, has concluded that our disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the applicable time periods. As noted above, the Company is working to remediate the weakness described above, including the hiring a new chief financial officer.

Changes in Internal Control over Financial Reporting. As noted above, we are in the process of improving our internal control over financial reporting in an effort to resolve these deficiencies through improved supervision and training of our accounting staff. Additionally, we have recently hired a new Chief Financial Officer. However, additional effort is needed to fully remedy these deficiencies. Our management and directors will continue to work with our new CFO, our auditors and outside advisors to ensure that our controls and procedures are adequate and effective.

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.

While our disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well designed and administered.

Section 404 Assessment. Section 404 of the Sarbanes-Oxley Act of 2002 requires management's annual review and evaluation of our internal controls, beginning with our Form 10-KSB for the fiscal year ending on December 31, 2007, and an attestation of the effectiveness of these controls by our independent registered public accountants beginning with our Form 10-KSB for the fiscal year ending on December 31, 2008. 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We 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. As of November 14, 2006, the only remaining liability of Circuit Technology is C/S Utilities, discussed below.

C/S Utilities notified the Company that (as successor to Circuit Technology, Inc.) 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 $37,966 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.

CirTran Asia v. Mindstorm, Civil No. 050902290, Third Judicial District Court, Salt Lake County, State of Utah. In February, 2005, CirTran Asia brought suit against Mindstorm Technologies, LLC, for nonpayment for goods provided. On April 22, 2005, the defendant filed its answer and counterclaim, following which

defendant's counsel withdrew from representation. CirTran Asia notified defendant that under governing rules it was required to appoint successor counsel. The defendant failed to do so, and failed to prosecute its claim. CirTran Asia moved for default judgment, which was granted. CirTran Asia submitted a proposed order of default judgment in the amount of $288,529 to the court in September 2005, which has been signed.

CirTran Asia v. Robinson, Civil No. 050915272, Third Judicial District Court, Salt Lake County, State of Utah. On August 30, 2005, CirTran Asia brought suit against Glenn Robinson, one of the principals of Mindstorm Technologies, LLC, for nonpayment for goods provided. Mr. Robinson filed an answer and subsequently filed for personal bankruptcy. CirTran Asia is reviewing its options and intends to vigorously pursue this action. On March 30, 2006, CirTran Asia filed a complaint against Mr. Robinson under Section 523 of the U.S. Bankruptcy Code seeking a determination that any debts owed by Mr. Robinson to CirTran Asia is excepted from any discharge granted to Mr. Robinson. As of the date of this Report, the case was proceeding in discovery.

CirTran Asia, et al. v. International Edge, et al., Civil No. 2:05 CV 413BSJ, U.S. District Court, District of Utah. On May 11, 2005, CirTran Asia, UKING System Industry Co., Ltd., and Charles Ho filed suit against International Edge, Inc., Michael Casey Enterprises, Inc., Michael Casey, David Hayek, and HIPMG, Inc., for breach of contract, breach of the implied covenant of good faith and fair dealing, interference with economic relationships, and fraud in relation to certain licensing issues relating to the Ab King Pro. The defendants counterclaimed, alleging breach of contract, fraud, defamation and related claims, all related to the Ab King Pro, seeking damages in the amount of $10,000,000. CirTran Asia and the other plaintiffs filed their reply to the counterclaim, disputing all of the allegations and claims. International Edge filed a motion to dismiss for lack of jurisdiction, which was denied. The case is presently in the discovery stage. Sales from this product in the year ended December 31, 2004 were approximately $3,510,000, and in the year ended December 31, 2005, were approximately $960,000. CirTran Asia intends to vigorously pursue this action.

CirTran Corporation vs. Advanced Beauty Solutions, LLC, and Jason Dodo, Civil No. 060900332, Third Judicial District Court, Salt Lake County, State of Utah. On January 9, 2006, CirTran Corporation brought suit against Advanced Beauty Solutions ("ABS") and Jason Dodo, asserting claims including breach of contract, breach of the implied covenant of good faith and fair dealing, interference with economic relations, fraud and unjust enrichment.

On January 24, 2006, ABS filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Central District of California, San Fernando Valley Division (the "ABS Bankruptcy Court"), Case No. SV 06-10076 GM. On January 30, 2006, a hearing ("Hearing") was held to consider the Emergency Motion for Order Approving the Settlement and Compromise of the Disputed Secured Claims of Inventory Capital Group, Inc. ("ICG"), and Media Funding Corporation ("MFC") (the "Settlement Motion") filed by ABS. The continued Hearing on the Settlement Motion was held on February 16, 2006, at which time the settlement was modified. Prior to a separate hearing held on March 24, 2006, on ABS's Motion for Order: (1) Approving Sale and Assignment of Substantially All Assets of the Estate Free and Clear of Liens; (2) Approving Assumption and Assignment of Leases and Executory Contracts Included in the Sale and Rejection of Leases and Executory Contracts Not Included in the Sale; and (3) Granting Related Relief (the "Sale Motion"), the settlement was further modified. The modifications to the proposed settlement were read into the ABS Bankruptcy Court's record at the Hearing on the Settlement Motion and the March 24, 2006 hearing on the Sale Motion ("Proposed Modifications"). Written notice of the Proposed Modifications was provided to creditors and parties in interests on March 27, 2006, and the

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Declaration of James C. Bastian, Jr., attesting that no objections to the Proposed Modifications have been received by ABS, was filed with the ABS Bankruptcy Court.

On June 6, 2006, the Company and ABS signed an agreement (the "Asset Purchase Agreement"), subject to the ABS Bankruptcy Court's approval. On June 7, 2006, the ABS Bankruptcy Court entered orders approving the Asset Purchase Agreement and granting the Sale Motion, and approving the settlement and compromise of certain disputed claims against ABS.

Pursuant to the settlement of ABS's bankruptcy proceedings and the Asset Purchase Agreement, the Company has an allowed claim against the ABS's estate in the amount of $2,350,000, of which $750,000 is to be credited to the purchase of substantially all of ABS's assets. Under the settlement, the Company shall be allowed to participate as a general unsecured creditor of ABS's estate in the amount of $1,600,000 on a pari passu basis with the $2,100,000 general unsecured claim of certain insiders of ABS and subject to the prior payment of certain secured, priority, and non-insider claims in the amount of approximately $1,507,011.

Under the Asset Purchase Agreement, the Company agreed to purchase substantially all of ABS's assets in exchange for:

i) a cash payment in the amount of $1,125,000;

ii) a reduction of CirTran's allowed claim in the Bankruptcy Case by $750,000;

iii) the assumption of any assumed liabilities; and

iv) the obligation to pay ABS a royalty equal to $3.00 per True Ceramic Pro flat iron unit sold by ABS (the "Royalty Obligation").

The Assets include personal property; intellectual property; certain executory contracts and unexpired leases; inventory; ABS's rights under certain insurance policies; deposits and prepaid expenses; books and records; goodwill; certain causes of action; permits; customer and supplier lists; and telephone numbers and listings (collectively, the "Assets").

Under the Asset Purchase Agreement, the Royalty Obligation is capped at $4,135,000. To the extent the amounts paid to ABS on account of the Royalty Obligation equal less than $435,000 on the 2 year anniversary of the Closing, then, within 30 days of such anniversary, the Company agreed to pay ABS an amount equal to $435,000 less the royalty payments made to date. As part of the settlement, the Company agreed to exchange general releases with, among others, ABS, Jason Dodo (the manager of ABS), Inventory Capital Group ("ICG"), and Media Funding Corporation ("MFC"). The settlement also resolved a related dispute with ICG in which ICG assigned $65,000 of its secured claim against ABS to the Company.

Pursuant to the court-approved settlement, payments under the Royalty Obligation will be made in the following order:

a) The Royalty Obligation payments will be made exclusively to ICG and MFC (collectively, the "Secured Parties") until (i) the Secured Parties have been paid in full on account of their $1,243,208.44 secured claim, or (ii) the Secured Parties have been paid $100,000 in payments under the Royalty Obligation, whichever comes first.

b) The next $70,000 Royalty Obligation payments will be made to a service provider to ABS (in the amount of $50,000) and to an individual with an allowed claim (in the amount of $20,000).

c) Following the payments to the Secured Parties and others as set forth immediately above, the remaining Royalty Obligation payments will be used for distribution to allowed general unsecured claims not including those of the Company and certain insiders with unpaid notes (the "Insider Noteholders").

d) Following payments as set forth in (a), (b), and (c) above, the Royalty Obligation payments will be shared pro rata among the Insider Noteholders (with a total allowed aggregate claim of $2,100,000), and the Company (with a general unsecured claim in the amount of $1,600,000), until paid in full.

The total claims against ABS's estate that must be paid before the Company begins to share in the Royalty Obligation payments is $435,000.

CirTran v. Guthy-Renker Corporation and Ben Van De Bunt, Civil No. 20060980298, Third Judicial District Court, Salt Lake County, State of Utah. In May 2006, the Company filed suit against Guthy-Renker Corporation and one of its officers, claiming breach of contract, breach of the implied covenant of good faith and fair dealing, interference with economic relationships, misrepresentation, and punitive damages. The suit seeks damages in an amount to be proven at trial. The defendants filed a motion to stay litigation and compel arbitration in the matter. The Company filed its response to the motion. On November 7, 2006, the motion was granted. The Company is evaluating its options and intends to pursue its claims.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In January 2006, Highgate converted $750,000 of its convertible debenture into 24,193,548 shares of the Company's restricted common stock at a conversion rate of $0.031 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's commons stock over the 20 trading days preceding the conversion.

In February 2006, we issued 4,000,000 shares of our restricted common stock and a warrant to purchase an additional 7,000,000 shares with an exercise price of $0.06 per share in settlement of litigation.

In September 2006, Highgate converted $150,000 of its convertible debenture into 8,051,530 shares of the Company's restricted common stock at a conversion rate of $0.01863 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's commons stock over the 20 trading days preceding the conversion.

In November 2006, Highgate converted $100,000 of accrued interest of its convertible debenture into 5,128,205 shares of the Company's common stock at a conversion rate of $0.019 per share, which was the lower of $0.10 or 100% of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion.

On May 24, 2006, we closed a private placement of shares of our common stock and warrants (the "May Private Offering"). Pursuant to a securities purchase agreement (the "Agreement"), we sold Fourteen Million, Two Hundred Eighty-five Thousand, Seven Hundred Fifteen (14,285,715) shares of our Common Stock (the "May Shares") to ANAHOP, Inc., a California corporation ("ANAHOP"). The consideration paid for the May Shares was One Million Dollars ($1,000,000). In addition to the Shares, we issued warrants (the "Warrants") to designees of ANAHOP to purchase up to an additional 30,000,000 shares.

We used the proceeds from the May Private Offering, in part, to finance the cash purchase portion of our acquisition of the assets of ABS, following approval of the Bankruptcy Court.

On June 30, 2006, we closed a second private placement of shares of our common stock and warrants (the "June Private Offering"). Pursuant to a securities purchase agreement (the "Agreement"), we agreed to sell Twenty-Eight Million, Five Hundred Seventy-One Thousand, Four Hundred Twenty-Eight (28,571,428) shares of our Common Stock (the "June Shares") to ANAHOP. The total consideration to be paid for the June Shares will be Two Million Dollars ($2,000,000) if all tranches of the sale close.

Pursuant to the Agreement, ANAHOP agreed to pay Three Hundred Thousand Dollars ($300,000) at the time of closing, and an additional Two Hundred Thousand Dollars ($200,000) within 30 days of the closing. (The payments of $300,000 and $200,000 are referred to collectively as the "First Tranche Payment.") Upon the receipt of the First Tranche Payment, we agreed to issue a certificate or certificates to the Purchaser representing 7,142,857 of the June Shares.

The remaining $1,500,000 is to be paid by the ANAHOP as follows:

(i) No later than thirty calendar days following the date on which any class of our capital stock is first listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock Exchange, ANAHOP agreed to pay an additional $500,000 to the Company; and

(ii) No later than sixty calendar days following the date on which any class of our capital stock is first listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock Exchange, ANAHOP agreed to pay an additional $1,000,000 to the Company. (The payments of $500,000 and $1,000,000 are referred to collectively as the "Second Tranche Payment.")

Upon receipt by us of the Second Tranche Payment, we agreed to issue a certificate or certificates to ANAHOP representing the remaining 21,428,571 June Shares.

Additionally, once the Company has received the Second Tranche Payment, the Company agreed to issue warrants to designees of ANAHOP to purchase up to an additional 63,000,000 shares.

We intend to use the proceeds from the June Private Placement for general corporate purposes and working capital.

In each case the securities were issued in connection with private transactions with accredited investors pursuant to Section 4(2) of the Securities Act of 1933 and the regulations promulgated thereunder.

Item 5. Other Information

Abacas Ventures

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.

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 verbal 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.

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 certain shareholders of Abacas. No registration rights were granted.

As of November 14, 2006, no further loans had been made to the Company from Abacas.

As of December 31, 2001, Iehab Hawatmeh had loaned the Company 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. 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.

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 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.

No Change in Nominating Procedures

No changes have been made to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Item 6. Exhibits

Exhibits:

10.1 Amendment No. 1 to Investor Registration Rights Agreement, between CirTran Corporation and Highgate House Funds, Ltd., dated as of June 15, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.2 Amendment No. 1 to Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated as of June 15, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.3 Assignment and Exclusive Services Agreement, dated as of April 1, 2006, by and among Diverse Talent Group, Inc., Christopher Nassif, and Diverse Media Group Corp. (a wholly owned subsidiary of Cirtran Corporation) (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.4 Employment Agreement between Christopher Nassif and Diverse Media Group Corp., dated as of April 1, 2006 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2006, and incorporated here in by reference).

10.5 Loan Agreement dated as of May 24, 2006, by and among Diverse Talent Group, Inc., Christopher Nassif, and Diverse Media Group Corp (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2006, and incorporated here in by reference).

10.6 Promissory Note, dated May 24, 2006 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2006, and incorporated here in by reference).

10.7 Security Agreement, dated as of May 24, 2006, by and between Diverse Talent Group, Inc., and Diverse Media Group Corp. (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2006, and incorporated here in by reference).

10.8 Fraudulent Transaction Guarantee, dated as of May 24, 2006 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2006, and incorporated here in by reference).

10.9 Securities Purchase Agreement between CirTran Corporation and ANAHOP, Inc., dated as of May 24, 2006 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.10 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.11 Warrant for 5,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.12 Warrant for 5,000,000 shares of CirTran Common Stock, exercisable at $0.25, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.13 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.50, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.14 Asset Purchase Agreement, dated as of June 6, 2006, by and between Advanced Beauty Solutions, LLC, and CirTran Corporation (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on June 13, 2006, and incorporated here in by reference).

10.15 Securities Purchase Agreement between CirTran Corporation and ANAHOP, Inc., dated as of June 30, 2006 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.16 Warrant for 20,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.17 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.18 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.25, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.19 Warrant for 23,000,000 shares of CirTran Common Stock, exercisable at $0.50, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.20 Marketing and Distribution Agreement, dated as of April 24, 2006, by and between Media Syndication Global, LLC, and CirTran Corporation (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 10, 2006, and incorporated here in by reference).

10.21 Lockdown Agreement by and between CirTran Corporation and Cornell Capital Partners, LP, dated as of July 20, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.22 Lockdown Agreement by and among CirTran Corporation and ANAHOP, Inc., Albert Hagar, and Fadi Nora, dated as of July 20, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.23 Talent Agreement between CirTran Corporation and Holyfield Management, Inc., dated as of March 8, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.24	Talent Agreement between CirTran Corporation and Holyfield Management, Inc., dated as of March 8, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).
10.25	Amendment No. 2 to Investor Registration Rights Agreement, between CirTran Corporation and Highgate House Funds, Ltd., dated as of August 10, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).
10.26	Amendment No. 2 to Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated as of August 10, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.27	Amended Lock Down Agreement by and among the Company and ANAHOP, Inc., Albert Hagar, and Fadi Nora, dated as of November 15, 2006.
10.28	Amended Lock Down Agreement by and between the Company and Cornell Capital Partners, L.P., dated as of October 30, 2006.
10.29	Amendment to Debenture and Registration Rights Agreement between the Company and Cornell Capital Partners, L.P., dated as of October 30, 2006.
31.1	Certification
31.2	Certification
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

CIRTRAN CORPORATION

Date: November 20, 2006 By: /s/ Iehab J. Hawatmeh

Iehab J. Hawatmeh
President
(Principal Executive Officer)

Date: November 20, 2006 By: /s/ Richard Ferrone

Richard Ferrone
Chief Financial Officer
(Principal Financial Officer)
