BAYER AKTIENGESELLSCHAFT
Form SC 13G/A
February 14, 2007

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 13G/A

Under the Securities Exchange Act of 1934

(Amendment No. 1)*

BAYER AKTIENGESELLSCHAFT

(Name of Issuer)

ORDINARY SHARES

(Title of Class of Securities)

072730302

(CUSIP Number)

December 31, 2006

Date of Event Which Requires Filing of this Statement

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

¨ Rule 13d-1(b)

x Rule 13d-1(c)

¨ Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SCHEDULE 13G

CUSIP No. 072730302 **Page 2 of 5 Pages**

1 NAMES OF REPORTING PERSONS.

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Allianz SE

FEIN 98-0122343

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a) ¨

(b) ¨

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Federal Republic of Germany

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**5**	SOLE VOTING POWER 6,405,489
	6	SHARED VOTING POWER - 0 -
	7	SOLE DISPOSITIVE POWER 6,405,489
	8	SHARED DISPOSITIVE POWER - 0 -

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

6,405,489

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS) ¨

Not applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.8%

12 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

CO

ITEM 1 (a). **Name of Issuer:**

Bayer Aktiengesellschaft

(b). **Address of Issuer s Principal Executive Offices:**

Bayerwerk, Gebäude W11, Kaiser-Wilhelm-Allee, 51368 Leverkusen, Federal Republic of Germany

ITEM 2. (a). **Name of Person Filing:**

Allianz SE

(b). **Address of Principal Business Office or, if None, Residence:**

Allianz SE, Königinstrasse 28, 80802 Munich, Federal Republic of Germany

(c). **Citizenship:**

See Item 4 on page 2.

(d). **Title of Class of Securities:**

The title of the securities is ordinary shares, which may also include securities held in the form of American Depositary Receipts (the Ordinary Shares).

(e). **CUSIP Number:**

072730302

ITEM 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

(a). ¨ Broker or dealer registered under Section 15 of the Act (15 U.S.C. 78o).

(b). ¨ Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c).

(c). ¨ Insurance company as defined in Section 3(a)(19) of the Act (15 U.S.C. 78c).

(d). ¨ Investment company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

(e). ¨ An investment advisor in accordance with §240.13d-1(b)(1)(ii)(E).

(f). ¨ An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F).

(g). ¨ A parent holding company or control person in accordance with §240.13d-1(b)(1)(ii)(G).

(h). ¨ A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813).

(i). ¨ A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3).

(j). ¨ Group, in accordance with §240.13d-1(b)(1)(ii)(J).

ITEM 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

See Item 9 on page 2.

(b) Percent of class:

See Item 11 on page 2.

(c) Number of shares as to which the person has:

(i) Sole power to vote or direct the vote:

See Item 5 on page 2.

(ii) Shared power to vote or direct the vote:

See Item 6 on page 2.

(iii) Sole power to dispose or direct the disposition of:

See Item 7 on page 2.

(iv) Shared power to dispose or to direct the disposition of:

See Item 8 on page 2.

ITEM 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following x.

ITEM 6. Ownership of More than Five Percent on Behalf of Another Person.

Certain of the Ordinary Shares are held in a fiduciary capacity for third parties. Allianz SE disclaims beneficial ownership of such Ordinary Shares.

ITEM 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

Allianz SE and its subsidiaries hold Ordinary Shares of Bayer AG, each of which holds less than one percent (1%) of the Ordinary Shares of Bayer AG.

ITEM 8. Identification and Classification of the Members of the Group.

Not applicable

ITEM 9. Notice of Dissolution of Group.

Not applicable

ITEM 10. Certifications.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this statement is true, complete and correct.

February 14, 2007
Date

ALLIANZ SE

/s/ Harold Michael Langley-Poole
Signature

Harold Michael Langley-Poole
Prokurist
Name/Title

/s/ Dr. Adrian Glaesner
Signature

Dr. Adrian Glaesner
Prokurist
Name/Title

portion of its share of future AfterBev profits and losses. By the end of 2007, after taking into account the two interests it had assigned, the Company had retained a net 14 percent interest in AfterBev's profits and losses, but had retained 52 percent of all voting rights in AfterBev. The Company recorded the receipt of these net funds as increases to its existing minority interest in AfterBev, and the rest as amounts owing as distributable proceeds payable to the two individuals with assigned interests of the Company's original share of AfterBev. At the end of 2007, the Company agreed to convert the amount owing to one of the individuals into a promissory note. In exchange, the individual agreed to relinquish his approximately one-third portion of the Company's remaining share of AfterBev's profits and losses. Instead, the individual received a membership interest in AfterBev. In January 2008, the other assignee, who is one of the Company's directors, similarly agreed to relinquish the distributable proceeds owed to him, in exchange for an interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, the director loaned $834,393 to the Company in the form of unsecured advances. $600,000 of that loan was used to purchase interest in Playbev directly which resulted in a reduction of $600,000 of amounts owed by Playbev to the Company. As of December 31, the Company still owes the director $201,229 in the form of unsecured advance. Global Marketing Alliance We entered into an agreement with Global Market Alliance, LLC ("GMA") and certain of its affiliates, and hired GMA's owner as the Vice President of our subsidiary CirTran Online. Under the terms of the agreement, we outsource to GMA the online marketing and sales activities associated with our CirTran Online products. In return, we provide bookkeeping and management consulting services to GMA, and pay GMA a fee equal to five percent of CirTran Online's net sales. In addition, GMA assigned to us all of its web-hosting and training contracts effective as of January 1, 2007, along with the revenue earned thereon, and we also assumed the related contractual performance obligations. We recognize the revenue collected under the GMA contracts, and remit back to GMA a management fee approximating their actual costs. Transactions involving Officers, Directors, and Stockholders Don L. Buehner was appointed to our Board of Directors as of October 1, 2007. For services to be rendered in 2008, we granted Mr. Buehner an option during 2007 to purchase 2,400,000 shares of our common stock. Prior to his appointment as a director, Mr. Buehner bought the building housing our principal executive offices in Salt Lake City in a sale/leaseback transaction. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. We pay Mr. Buehner a monthly lease payment of $17,083, which is subject to annual adjustments in relation to the Consumer Price Index. We believe that the amount charged and payable to Mr. Buehner under the lease is reasonable and in line with local market conditions. Mr. Buehner retired from our Board of Directors in June 2008. 38 In February 2007, we appointed Fadi Nora to our Board of Directors. For services rendered in 2007 and to be rendered in 2008, we granted Mr. Nora options during 2007 to purchase a total of 4,800,000 shares of common stock. In addition, Mr. Nora is entitled to a quarterly bonus equal to 0.5 percent of any gross sales earned by us directly through his efforts. Mr. Nora also is entitled to a bonus equal to five percent of the amount of any investment proceeds received by us that are directly generated and arranged by him if the following conditions are satisfied: (i) his sole involvement in the process of obtaining the investment proceeds is our introduction to the potential investor, but that he does not participate in the recommendation, structuring, negotiation, documentation, or selling of the investment, (ii) neither we nor the investor are otherwise obligated to pay any commissions, finders fees, or similar compensation to any agent, broker, dealer, underwriter, or finder in connection with the investment, and (iii) the Board in its sole discretion determines that the investment qualifies for this bonus, and that the bonus may be paid with respect to the investment. During 2007, Mr. Nora received $345,750 in compensation associated with sales of portions of our interest in AfterBev. During 2008, Mr. Nora has received no compensation under this arrangement, and at December 31, 2008, the Company owed him $49,850 stemming from investment proceeds received under various financing arrangements during the 2008. In 2007, the Company also entered into a consulting agreement with Mr. Nora, whereby the Company assigned to him approximately one-third of the Company's share in future AfterBev cash distributions. In return, Mr. Nora assisted in the initial AfterBev organization and planning, and continued to assist in subsequent beverage development and distribution activities. The agreement also provided that as the Company sold a portion of its membership interest in AfterBev, Mr. Nora would be owed his proportional assigned share distribution in the proceeds of such a sale. Distributable proceeds due to Mr. Nora at the end of 2007 were $747,290. In January 2008, the relinquish the distributable proceeds owed to him, in exchange for an interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, the director loaned $834,393 to the Company in the form of unsecured advances. $600,000 of that loan was used to purchase interest in Playbev directly which resulted in a reduction of $600,000 of amounts owed by Playbev to the Company. As of December 31, the Company still owes the director $201,229 in the form of unsecured advances. Prior to his appointment with the Company, Mr. Nora was also involved in the ANAHOP private placement of common stock. On April 11, 2008, Mr. Nora disassociated himself from the other principals of ANAHOP, and as part of the asset settlement relinquished ownership to the other principals of 12,857,144 shares of CirTran Corporation common stock, along with all of the warrants previously assigned to him. In May 2007, we issued a 10 percent promissory note to a family member of our president in exchange for $300,000. The note is due on demand after one year. In May 2008 the interest on the promissory note increased to 12 percent per the note agreement. In addition to interest we repaid principal of $8,444 and $146,100 during twelve months ending December 31, 2008 and 2007 respectively. In March 2008, we issued a 12 percent promissory note in the amount of $105,000 to a family member of our president in exchange for $100,000 in cash. The note is due on 12/31/09. During 2008, in addition to interest we repaid principal of $58,196. During 2007, our president advanced us $30,000; this obligation was repaid prior to December 31, 2007. During the year ended December 31, 2008, our president advanced the Company $778,600. Of that amount, $600,000 was used to purchase interest in Playbev directly which resulted in a reduction of $600,000 of amounts owed by Playbev to the Company. As of December 31, 2008 the Company still owed our president $146,100 in the form of unsecured advances. CRITICAL ACCOUNTING ESTIMATES Revenue Recognition - Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment. Returns for defective items are repaired and sent back to the customer. Historically, expenses associated with returns have not been significant and have been recognized as incurred. Shipping and handling fees are included as part of net sales. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of goods sold. 39 We have also recorded revenue using a "Bill and Hold" method of revenue recognition. The SEC in Staff Accounting Bulletin No. 104, imposes several requirements to be met in order to recognize revenue prior to shipment of product. The SEC's criteria are the following: i. The risks of ownership must have passed to the buyer; ii. The customer must have made a fixed commitment to purchase the goods, preferably in written documentation; iii. The buyer, not the seller, must request that the transaction be on a bill and hold basis. The buyer must have a substantial business purpose for ordering the goods on a bill and hold basis; iv. There must be a fixed schedule for delivery of the goods. The date for delivery must be reasonable and must be consistent with the buyer's business purpose (e.g., storage periods are customary in the industry); v. The seller must not have retained any specific performance obligations such that the earning process is not complete; vi. The ordered goods must have been segregated from the seller's inventory and not be subject to being used to fill other orders; and vii. The equipment (product) must be complete and ready for shipment. In effect, we secure a contractual agreement from the customer to purchase a specific quantity of goods, and the goods are produced and segregated from our inventory. Shipment of the product is scheduled for release over a specified period of time. The result is that we maintain the customer's inventory, on site, until all releases have been issued. Agency fees were recognized when they were earned. This occurred only after the talent, represented by us, received payment for the services from the buyer. The buyer remitted funds to a trust checking account after all payroll tax liabilities had been deducted from the gross amount due the talent. The talent was paid the net amount, less our commission (which is approximately 10 percent of the gross amount due the talent), from the trust account. The remainder of funds in the trust account, typically 10 percent, was then distributed us and recognized as revenue. We signed an Assignment and Exclusive Services Agreement with GMA, a related party, whereby revenues and all associated performance obligations under GMA's web-hosting and training contracts were assigned to us. Accordingly, this revenue is recognized in our financial statements when it is collected, along with our revenue of CirTran Online Corporation. We sold our Salt Lake City, Utah building in a sale/leaseback transaction, and reported the gain on the sale as deferred revenue to be recognized over the term of lease pursuant to Statement of Financial Accounting Standards ("SFAS") No. 13, Accounting for Leases. We have entered into a Manufacturing, Marketing and Distribution Agreement with PlayBev, a related party, whereby we are the vendor of record in providing initial development, promotional, marketing, and distribution services marketing and distribution services. Accordingly, all amounts billed to PlayBev in connection with the development and marketing of its new energy drink have been included in revenue. Impairment of Long-Lived Assets - We review our long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. At each balance sheet date, we evaluate whether events and circumstances have occurred that indicate possible impairment. We use an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable. As of December 31, 2008, it was determined that the Company's investment in Diverse Talent Group was impaired, and the company recorded a loss on investment in the amount of $1,068,000. Long-lived asset costs are amortized over the estimated useful life of the asset, which is typically 5 to 7 years. Amortization expense was $423,026 and $422,376 for the years ended December 31, 2008 and 2007, respectively. 40 Financial Instruments with Derivative Features - We do not hold or issue derivative instruments for trading purposes. However, we have financial instruments that are considered derivatives, or contain embedded features subject to derivative accounting. Embedded derivatives are valued separate from the host instrument and are recognized as derivative liabilities in our balance sheet. We measure these instruments at their estimated fair value, and recognize changes in their estimated fair value in results of operations during the period of change. We have estimated the fair value of these embedded derivatives using the Black-Scholes model. The fair value of the derivative instruments are measured each quarter. Registration Payment Arrangements - On January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue No. 00-19-2, Accounting for Registration Payment Arrangements ("EITF 00-19-2"). Under EITF 00-19-2, and SFAS No. 5, Accounting for Contingencies, a registration payment arrangement is an arrangement where (a) we have agreed to file a registration statement for certain securities with the SEC and have the registration statement declared effective within a certain time period; and/or (b) we will endeavor to keep a registration statement effective for a specified period of time; and (c) transfer of consideration is required if we fail to meet those requirements. When we issue an instrument coupled with these registration payment requirements, we estimate the amount of consideration likely to be paid under the agreement, and offset such amount against the proceeds of the instrument issued. The estimate is then reevaluated at the end of each reporting period, and any changes recognized as a registration penalty in the results of operations. We have instruments that contain registration payment arrangements. The effect of implementing this EITF has not had a material effect on the financial statements because we consider the probability of payment under the terms of the agreements to be remote. Stock-Based Compensation - The Company has outstanding stock options to directors and employees, which are described more fully in Note 16 to the financial statements. The Company accounts for its stock options in accordance with Statements of Financial Standards 123R, Share-Based Payment (SFAS 123R). SFAS 13R requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. SFAS 123R also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period). Stock-based employee compensation incurred for the years ended December 31, 2008 and 2007 was 93,351 and 462,648, respectively. ITEM 7. FINANCIAL STATEMENTS Our financial statements appear at the end of this report, beginning with the Index to Financial Statements on page F-1. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE None. ITEM 9A(T). 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 / Chief Financial Officer, as appropriate, to allow for timely decisions regarding disclosure. 41 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, 2008. Based on this evaluation, our Chief Executive Officer / Chief Financial Officer concluded that our disclosure controls and procedures were not effective of December 31, 2008 with regards to the accounting and valuation of derivative liabilities and the impairment of long lived assets. Changes in Internal Control over Financial Reporting During the twelve months ended December 31, 2008 there were changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The major change was the loss of our Chief Financial Officer just prior to the year end. 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. Management's Report on Internal Control over Financial Reporting Management of the Company is responsible for establishing and maintaining adequate internal control of over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of those internal controls as of December 31, 2008, using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Internal Control - Integrated Framework as a basis for our assessment. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. A material weakness in internal controls is a deficiency in internal control, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. Based on our evaluation of internal control over financial reporting, our management concluded that our internal control over financial reporting was not effective as of December 31, 2008 because of the matters discussed above. This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report. 42 ITEM 9B. OTHER INFORMATION The Company has previously reported all information required to be disclosed under this Item 9B during the fourth quarter of 2008 in a report on Form 8-K. PART III ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT Directors and Executive Officers The following table sets forth certain information concerning the executive officers and directors of CirTran as of April 10, 2009: Name Age Position Iehab J. Hawatmeh 42 President, Chief Executive Officer, Director, Chairman of the Board, Chief Financial Officer Fadi Nora 48 Director Shaher Hawatmeh 43 Chief Operating Officer since June 2004 Iehab J. Hawatmeh founded our predecessor company in 1993 and has been our Chairman, President and CEO since July 2000. Mr. Hawatmeh oversees all daily operation including technical, operational and sales functions for the Company. Mr. Hawatmeh is currently functioning in a dual role as Chief Financial Officer. Prior to his involvement with the Company, Mr. Hawatmeh was the Processing Engineering Manager for Tandy Corporation overseeing that company's contract manufacturing printed circuit board assembly division. In addition, he was responsible for developing and implementing Tandy's facility Quality Control and Processing Plan model. Mr. Hawatmeh received a Master's of Business Administration from University of Phoenix and a Bachelor's of Science in Electrical and Computer Engineering from Brigham Young University. Fadi Nora is a self-employed investment consultant. He was formerly a director of ANAHOP, Inc., a private financing company, and was a consultant for several projects and investment opportunities, including CirTran Corporation, NFE records, Focus Media Group, and other projects. He has been a member of our Board since February 2007. Prior to his affiliation with ANAHOP, Mr. Nora worked with Prudential Insurance services and its affiliated securities brokerage firm Pru-Bach, as District Sales Manager. Mr. Nora received a B.S. in Business Administration from St. Joseph University, Beirut, Lebanon, in 1982, and an MBA - Masters of Management from the Azusa Pacific University School of Business in 1997. He also received a degree in financial planning from the University of California at Los Angeles. Shaher Hawatmeh, Chief Operating Officer, joined our predecessor company in 1993 as its Controller shortly after its founding. He has served in his present capacity since June 2004. Mr. Hawatmeh directly oversees all daily manufacturing production, customer service, budgeting and forecasting for the Company. Following the Company's acquisition of Pro Cable Manufacturing in 1996, Mr. Hawatmeh directly managed the entire Company, supervising all operations for approximately two years and overseeing the integration of this new division into the Company. Prior to joining CirTran, Mr. Hawatmeh worked for the Utah State Tax Commission. Mr. Hawatmeh earned a Master's of Business Administration with an emphasis in Finance from the University of Phoenix and a Bachelor's of Science in Business Administration and a Minor in Accounting. Shaher Hawatmeh is the brother of our President, CEO and Chairman, Iehab Hawatmeh. 43 Donald L. Buehner has been an entrepreneur and a leader of several businesses since the 1960s, particularly in the lighting industry. He started Traco Ltd., a manufacturer of masonry materials, and until recently served as chairman of LiteTouch, Inc., a manufacturer and distributor of residential and commercial lighting control systems. He is also currently the owner of DB Finance, a finance company that discounts commercial paper, provides factoring services, and acquires and leases commercial properties. Mr. Buehner served as a member of our Board of Directors until he retired from the Board of Directors following the Annual Meeting of Shareholders held on June 18, 2008. Board of Directors The Board is elected by and is accountable to the shareholders of the Company. The Board establishes policy and provides strategic direction, oversight, and control of the Company. The Board met five times during 2007 and met three times during 2008. All directors attended at least 75% of the meetings. Committees of the Board of Directors As of the date of this Report, the Company did not have separately-designated Audit, Compensation, Governance or Nominating Committees. The Company's full Board acts in these capacities. The Board has determined that the Company does not have at present an audit committee financial expert as defined under Securities and Exchange Commission rules. As of the date of this Report, there have been no changes to the procedures by which security holders may recommend nominees to our Board of Directors. Compliance with Section 16(a) of the Exchange Act Section 16(a) of the Securities Exchange Act of 1934 requires CirTran's officers, directors, and persons who beneficially own more than 10% of the Company's common stock to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater-than-ten-percent shareholders are also required by the SEC to furnish us with copies of all Section 16(a) forms that they file. Based solely upon a review of these forms that were furnished to the Company, and based on representations made by certain persons who were subject to this obligation that such filings were not required to be made, the Company believes that all reports that were required to be filed by these individuals and persons under Section 16(a) were filed on time in fiscal year 2008. Code of Ethics The Company expects that all of its directors, officers and employees will maintain a high level of integrity in their dealings with and on behalf of the Company and will act in the best interests of the Company. The Company has adopted a Code of Business Conduct and Ethics ("Code of Ethics") which provides principles of conduct and ethics for the Company's directors, officers and employees. This Code of Ethics complies with the requirements of the Sarbanes-Oxley Act of 2002. This Code of Ethics is available on the Company's website at www.cirtran.com under "Investor Relations--Corporate Governance" and is also available in print to any stockholder who requests a copy by writing to our corporate secretary at 4125 South 6000 West, West Valley City, Utah 84128. Director Independence As of the date of this Report, the Company's common stock was traded on the OTC Bulletin Board (the "Bulletin Board"). The Bulletin Board does not impose standards relating to director independence, or provide definitions of independence. The Company presently has no fully independent directors. Shareholder Communications with Directors If the Company receives correspondence from a shareholder that is addressed to the Board, we forward it to every director or to the individual director to whom it is addressed. Shareholders who wish to communicate with the directors may do so by sending their correspondence to the director or directors at the Company's headquarters at 4125 South 6000 West, West Valley City, Utah 84128. 44 ITEM 11. EXECUTIVE COMPENSATION Compensation Discussion and Analysis We are required to provide information regarding the compensation program in place for our Chief Executive Officer, Chief Financial Officer, and the three other most highly-compensated executive officers. We have also voluntarily elected to include information concerning additional executive officers. In this Annual Report, we refer to our CEO, CFO, and the other highly-compensated executive officers named herein as our "Named Executive Officers." This section includes information regarding, among other things, the overall objectives of our compensation program and each element of compensation that we provide to these and other executives of the Company. This section should be read in conjunction with the detailed tables and narrative descriptions contained in this Report. As of the date of this Report, the Company did not have a compensation committee; the Company's Board was responsible for determining the Company's compensation policies. Compensation Objectives The Company's compensation program encompasses several factors to determine the compensation of the Named Executive Officers. The following are the main objectives of the compensation program for the Named Executive Officers: o Retain qualified officers o Provide overall corporate direction for the officers and also to provide direction that is specific to the officers' respective areas of authority. The level of compensation amongst the officer group, in relation to one another, is also considered in order to maintain a high level of satisfaction within the leadership group. We consider the relationship that the officers maintain to be one of the most important elements of the leadership group. o Provide a performance incentive o Reward the officers in the following areas: o Achievement of specific goals, budgets, and objectives; o Professional education and development; o Creativity, innovative ideas, and analysis of new programs and projects; o New program implementation; o Results-oriented determination and organization; o Positive and supportive direction for company personnel; and o Community involvement. As of the date of this Report, there were four principal elements of Named Executive Officer compensation. The Board determines the portion of compensation allocated to each element for each individual Named Executive Officer. The discussions of compensation practices and policies are of historical practices and policies. Our Board is expected to continue these policies and practices, but will reevaluate the practices and policies as it considers advisable. The primary elements of the compensation program include: o Base salary; o Performance bonus and commissions; o Stock options and stock awards o Employee benefits in the form of: o Health and dental insurance; o Life insurance; o Paid parking and auto reimbursement; and o Other de minimis benefits. Base salary Base salary is intended to provide competitive compensation for job performance and to attract and retain qualified individuals. The base salary level is determined by considering several factors inherent in the market place such as: the size of the company; the prevailing salary levels for the particular office or position; prevailing salary levels in a given geographic locale; and the qualifications and experience of the officer. 45 Performance bonus and commissions Bonuses are in large part based on company performance. An earnings before interest, taxes, depreciation, and amortization ("EBITDA") formula and sales growth are the determining factors used to calculate the performance bonus for the Chief Executive Officer and Chief Operating Officer. These two officers are also paid a commission based on a percentage that sales revenue increases as compared to the prior year. In addition, the Chief Executive Officer and Chief Operating Officer are eligible to receive a bonus equal to a certain percentage of, respectively, the value of an acquisition, and the amount of investment proceeds, that the Company achieves during the preceding year attributable solely to their specific efforts. The Chief Financial Officer receives a performance bonus based on performance, as determined by the Board, in addition to any bonus required under an employment contract. Policy decisions to waive or modify performance goals have not been a significant factor to date. Stock options and stock awards Stock ownership is provided to enable Named Executive Officers and directors to participate in the success of the Company. The direct or potential ownership of stock will also provide the incentive to expand the involvement of the Named Executive Officer to include, and therefore be mindful of, the perspective of stockholders of the Company. Employee benefits Several of the employee benefits for the Named Executive Officers are selected to provide security for the Named Executive Officers. Most notably, insurance coverage for health, life, and liability are intended to provide a level of protection to that will enable the Named Executive Officers to function without having the distraction of having to manage undue risk. The health insurance also provides access to preventative medical care which will help the officers function at a high energy level, manage job related stress, and contribute to the overall well being, all of which contribute to an enhanced job performance. Other de minimis benefits Other de minimis employee benefits such as cell phones, parking, and auto usage reimbursements are directly related to job functions but contain a personal use element which is considered to be a goodwill gesture that contributes to enhanced job performance. As discussed above, the Board determines the portion of compensation allocated to each element for each individual Named Executive Officer. As a general rule, salary is competitively based, while giving consideration to employee retention, qualifications, performance, and general market conditions. Typically, stock options are based on the current market value of the option and how that will contribute to the overall compensation of the Named Executive Officer. Consideration is also given to the fact that the option has the potential for an appreciated future value. As such, the future value may be the most significant factor of the option, but it is also more difficult to quantify as a benefit to the Named Executive Officer. Accordingly, in determining the compensation program for the Company, as well as setting the compensation for each Named Executive Officer, the Board attempts to attract the interest of the Named Executive Officer within in the constraints of a compensation package that is fair and equitable to all parties involved. The following table summarizes all compensation paid to the Named Executive Officers in each of the last two fiscal years. 46 Summary Compensation Table Change in Pension Value Non-Equity and Incentive Nonqualified All Plan Deferred Other Stock Option Compen- Compensation Compen- Name and Principal Salary Bonus Awards Awards sation Earnings sation Total Position Year $ $ $ $ (2) $ $ $ (3) $ (a) (b) (c) (d) (e) (f) (g) (h) (i) (j) ------------------ ------ ------- ------ ------- ------- ------- ----------- ------- ------- Iehab J. Hawatmeh, President and Chief 2007 295,000 11,338 - 103,531 - - 20,603 430,472 Executive Officer 2008 295,000 - - - - - 21,666 316,666 Shaher Hawatmeh, Chief Operating 2007 210,000 2,268 - 82,825 - - 20,603 315,696 Officer 2008 210,000 - - - - - 21,456 231,456 David L. Harmon, Chief Financial 2007 13,462 2,083 - - - - - 15,545 Officer (1) 2008 171,634 25,000 - - - - 12,282 208,916 Trevor Saliba Chief Marketing 2007 87,358 5,057 - 40,285 - - 329,462 462,162 Officer (1) 2008 - - 21,000 - - - - 21,000 Charles Ho, President, 2007 - 289,346 - - - - - 289,346 CirTran-Asia (1) 2008 - 54,757 - - - - - 54,757 (1) Mr. Harmon's employment commenced on November 26, 2007, and he resigned December 11, 2008. Mr. Ho's employment commenced on June 15, 2004, and terminated at the three-year conclusion of his employment contract on June 15, 2007. Mr. Ho has continued working with the Company as an independent consultant. Mr. Saliba left the Company in 2007. (2) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes, excluding the effect of estimated forfeitures, for the fiscal years ended December 31, 2007 and 2008, in accordance with SFAS No. 123(R). Assumptions used in the calculation of these amounts are included in Note 16 to the Company's audited financial statements for the years ended December 31, 2007 and 2008, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2009. Amounts for Iehab J. Hawatmeh and Shaher Hawatmeh each include amounts related to two separate grants of options, one at the beginning and one at the end of 2007. The former grant was intended to relate to services to be rendered during 2007, and the latter was intended to relate to services to be rendered during 2008. (3) Amounts for Mr. Iehab Hawatmeh and Shaher Hawatmeh include $9,000 each for car allowance, and $11,237 each for payments of medical insurance premiums. The amount for Mr. Saliba includes $101,462 in commissions, and $228,000 in severance payments. Amounts paid to other officers for 2008, and all amounts for 2007, were less than $10,000. Employment Agreements On July 1, 2004, we entered into an employment agreement with our President and CEO, Iehab Hawatmeh, with an effective date of June 26, 2004 for a term of five years, automatic renewal on a year-to-year basis, base salary of $225,000, bonus of 5% of earnings before interest, taxes, depreciation, and amortization, payable quarterly, as well as any other bonus approved by the Board, and health insurance coverage, cell phone, car allowance, life insurance, and director and officer liability insurance. Mr. Hawatmeh's employment could be terminated for 47 cause, or upon death or disability; a severance penalty applied in the event of termination without cause, in an amount equal to five full years of the then-current annual base compensation, half upon termination and half one year later, together with a continuation of insurance benefits for a period of five years. On January 1, 2007, an amendment to the employment agreement became effective. The amended agreement is for a term of five years and renews automatically on a year-to year basis, provides for base salary of $295,000, plus a quarterly bonus of 5% of earnings before interest, taxes, depreciation, and amortization, as well as an annual bonus payable as soon as practicable after completion of the audit of the Company's annual financial statements equal to 0.5% of gross sales for the most recent fiscal prior year which exceed 120% of gross sales for the previous fiscal year, plus an additional bonus of 1% of the net purchase price of any acquisitions that are generated by the executive, and any other bonus approved by the Board. The amended agreement also provides for a grant of options to purchase 5,000,000 shares of the Company's common stock in accordance with the terms of the Company's Stock Option Plan, with terms and an exercise price at the fair market value of the Company's common stock on the date of grant. The amended agreement provides for benefits including health insurance coverage, car allowance, and life insurance. On July 1, 2004, we also entered into an employment agreement, dated effective June 26, 2004, with Shaher Hawatmeh, to act as Chief Operating Officer. Mr. Hawatmeh is the brother of our President and CEO, Iehab Hawatmeh. The original agreement was for a term of three years, renewing automatically on a year-to-year basis, base salary of $150,000, plus a bonus of 1% of our earnings before interest, taxes, depreciation, and amortization, payable quarterly, as well as any other bonus approved by the Board, and provided for health insurance coverage, cell phone, life insurance, and D&O insurance. Employment could be terminated for cause, or upon death or disability. In the event of termination without cause, a severance payment in an amount equal to one years' salary was to be paid. The agreement also contained prohibitions against competition for a period of one year from the date of termination and prohibitions against solicitation of our employees or customers, or inducing anyone to cease doing business with us for a period of two years after termination. On January 1, 2007, an amendment to the employment agreement became effective, providing for a term of five years, automatic renewal on a year-to year basis, base salary of $210,000, a quarterly bonus of 2.5% of earnings before interest, taxes, depreciation, and amortization, an annual bonus of 0.1% of gross sales which exceed 120% of gross sales for the previous year, and a bonus of 5% of all gross investments made into the Company that are directly generated and arranged by Mr. Hawatmeh. The amended agreement also provides for a grant of options to purchase 4,000,000 shares of the Company's common stock in accordance with the terms of the Company's Stock Option Plan, with terms and an exercise price at the fair market value of the Company's common stock on the date of grant. The amended agreement also provides for health insurance coverage, car allowance and life insurance. On November 26, 2007, we entered into an agreement with David L. Harmon pursuant to which we agreed to pay him a base salary of $175,000. Mr. Harmon is also entitled to receive a bonus of $25,000 per year, payable in four equal installments. Under the agreement, Mr. Harmon also was granted options to purchase 3,000,000 shares of the Company's common stock each year, and was given benefits including health insurance coverage and life insurance. In the event of termination without cause, a severance payment equal to one years' salary was payable. Amounts in the table reflect compensation paid to Mr. Harmon since the date his employment commenced. Mr. Harmon resigned on December 11, 2008. On June 14, 2007, we entered into a severance agreement with Mr. Trevor Saliba, our former Chief Marketing Officer, whereby he was to receive 4,000,000 shares of common stock in the Company, twelve month's salary and health insurance benefits, and an assigned five percent portion of our residual interest in the profits and losses of our partially-owned subsidiary, After Bev Group Inc. In addition, we agreed to settle other various amounts, including those relating to de minimis employee benefits, previously owing to and from Mr. Saliba. See Summary Compensation Table, above. On June 15, 2004, our subsidiary, CirTran-Asia, entered into an employment agreement with Charles Ho to act as President of CirTran-Asia for a term of three years, which term ended on June 15, 2007. The parties did not renew the agreement, and Mr. Ho continues working for us as an independent consultant on a project-by-project basis. The agreement also included options to purchase common stock of the Company for each additional product that Mr. Ho procured pursuant to the agreement between CirTran - Asia, Inc. and Michael Casey Enterprises, LTD., as provided for in the acquisition agreement. Under the employment agreement, CirTran - Asia, Inc. did not provide benefits to Mr. Ho, and his employment could be terminated for cause, or upon death or disability. When the agreement expired, Mr. Ho was obligated not compete with us for a period of one year from the date of termination. Mr. Ho also agreed not to solicit our employees or customers, or attempt to induce anyone to cease doing business with us for a period of two years after the termination. 48 Equity Compensation Plans Securities authorized for issuance under equity compensation plans The following table sets forth information about securities that may be issued under the Company's equity compensation plans as of the date of this

Proxy Statement. -- Number of securities remaining available for Number of securities to be future issuance under issued upon exercise of Weighted-average exercise equity compensation plans outstanding options, price of outstanding options, (excluding securities Plan Category warrants, and rights (a) warrants, and rights (b) reflected in column (c) -- Equity compensation plans approved by shareholders 56,160,000 $0.014 40,240,000 Equity compensation plans not approved by shareholders None None None Total 56,160,000 $0.014 40,240,000 -- 49 Outstanding Equity Awards at Fiscal Year-End The following table summarizes information regarding options and other equity awards exercised and the awards owned by the Named Executive Officers that have vested as of December 31, 2008. Option Awards Stock Awards -- Equity Equity Incentive Incentive Number Equity Plan Plan Number Of Incentive Number Market Awards Awards: of Securities Plan of Value of Number of Market or Securities Under Awards: Shares Shares Unearned Payout Value Under Lying Number of or Units or Units Shares of Unearned Lying Unexer- Securities of Stock of Stock Units, or Shares, Unexer- cised Underlying That That Other Units, or cised Options Unexercised Have Have Rights That Other Rights Options (#) Unearned Option Option Not Not Have Not That Have (#) Exer- Unexer- Options Exercise Expiration Vested Vested Vested Not Vested Name cisable cisable (#) Price ($) Date (#) (#) (#) ($) (a) (b) (c) (d) (e) (f) (g) (h) (i) (j) ------------------- ---------- -------- ----------- --------- ---------- --------- --------- ------- ------------- Iehab J. Hawatmeh, 6,000,000 - - $0.013 01-18-12 - - - - President and Chief 6,000,000 - - $0.012 11-21-12 - - - - Executive Officer Shaher Hawatmeh, 4,800,000 - - $0.013 01-18-12 - - - - Chief Operating 4,800,000 - - $0.012 11-21-12 - - - - Officer David L. Harmon, - - - - - - - - - Chief Financial Officer Richard Ferrone, - - - - - - - - - Chief Financial Officer Trevor Saliba, - - - - - - - - - Chief Marketing Officer Charles Ho, - - - - - - - - - President, CirTran-Asia 50 DIRECTOR COMPENSATION The table below summarizes the compensation paid by the Company to Directors for the fiscal year ended December 31, 2008. Change in Pension Value and Fees Non-Equity Nonqualified Earned Incentive Deferred All or Paid Stock Option Plan Compensation Other in Cash Awards Awards Compensation Earnings Compensation Total Name ($) ($) ($) (3) ($) ($) ($) (4) ($) (a) (b) (c) (d) (e) (f) (g) (h) ----------------- ------- ------ ------ ------------ ------------ ----------- ----- Iehab Hawatmeh (1) - - - - - - - Fadi Nora (2) 20,000 - - - - 49,850 69,256 Donald L. Buehner - - - - - 204,996 204,996 (2) (1) Iehab Hawatmeh also served as an executive officer of the Company during 2008. He received compensation for his services as an executive officer, set forth above in the Summary Compensation Table. He did not receive any additional compensation for his services as director of the Company. (2) Mr. Nora was appointed to the Board on February 1, 2007. Mr. Buehner was appointed to the Board on October 1, 2007. Mr. Buehner retired from the Company's Board of Directors following the Company's Meeting of Shareholders on June 18, 2008. (3) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes, excluding the effect of estimated forfeitures, for the fiscal year ended December 31, 2008, in accordance with SFAS No. 123(R). Assumptions used in the calculation of these amounts are included in Note 16 to the Company's audited financial statements included as part of this Annual Report. (4) Mr. Buehner - Prior to becoming a Director later in 2007, Mr. Buehner purchased our Salt Lake City facility in a sale/leaseback transaction. The amount in column (g) comprises monthly rent on the building paid during the year ended December 31, 2008. Mr. Nora - Amounts in column (g) paid to Mr. Nora comprise finders fees earned in connection with the sale to other investors of portions of the Company's membership interest in After Bev Group, LLC. 51 ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS The following table sets forth information regarding the ownership of the Company's common stock by each person who, to the knowledge of the Company, is the beneficial owner of more than 5% of the outstanding shares of common stock, or who is (i) each person who is currently a director, (ii) each Named Executive Officer, (iii) all current directors and Named Executive Officers as a group as of April 10, 2009. Amount and nature of (1) Title (2) Name of beneficial Percent of class beneficial owner ownership of class --- Common Stock Iehab J. Hawatmeh (1) 145,060,960 9.7% Shaher Hawatmeh (2) 9,600,000 0.6% David L. Harmon (3) 3,000,000 0.2% Fadi Nora (4) 87,719,360 5.9% Donald L. Buehner (5) 3,325,000 0.2% All Officers and Directors 248,705,320 16.7% as a Group (5 persons) (1) Includes options to purchase up to 12,000,000 shares that can be exercised anytime at exercise prices ranging between $0.012

to $0.013 per share. (2) Options to purchase up to 9,600,000 shares that can be exercised anytime at exercise prices ranging between $0.012 to $0.013 per share. (3) An option to purchase up to 3,000,000 shares that can be exercised anytime at an exercise price of $0.014 per share. Mr. Harmon resigned from the Company on December 11, 2008. (4) Includes 25,999,500 shares beneficially owned by Mr. Nora's spouse. Also includes options to purchase up to 4,800,000 shares that can be exercised anytime at exercise prices ranging between $0.012 to $0.013 per share. (5) Mr. Buehner retired from the Company in June 2008. The persons named in the table have sole or shared voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable. Beneficial ownership is determined according to the rules of the Securities and Exchange Commission, and generally means that person has beneficial ownership of a security if he or she possesses sole or shared voting or investment power over that security. Each director, officer, or 5% or more shareholder, as the case may be, has furnished us information with respect to beneficial ownership. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on the information each of them has given to us, have sole or shared investment and voting power with respect to their shares, except where community property laws may apply. 52 ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE Play Beverages, LLC During 2006, Playboy entered into a licensing agreement with PlayBev, then an unrelated Delaware limited liability company, whereby PlayBev agreed to internationally market and distribute a new energy drink carrying the Playboy name and related "Rabbit Head" logo symbol. In May 2007, PlayBev entered into an exclusive agreement with the Company to arrange for the manufacture, marketing and distribution of the energy drinks, other Playboy-licensed beverages, and related merchandise through various distribution channels throughout the world. In an effort to finance the initial development and marketing of the new drink, the Company and other investors formed AfterBev, a California limited liability company and partially-owned, consolidated subsidiary of the Company. The Company contributed expertise in exchange for an initial 84 percent membership interest in AfterBev. The other initial AfterBev members contributed $500,000 in exchange for the remaining 16 percent. The Company borrowed an additional $250,000 from an individual, and AfterBev contributed the total $750,000 to PlayBev in exchange for a 51 percent interest in PlayBev's cash distributions. The Company recorded this $750,000 amount as an investment in PlayBev, accounted for under the cost method. PlayBev then remitted these funds to Playboy as part of a guaranteed royalty prepayment. Along with the membership interest granted to the Company, PlayBev agreed to appoint our president and one of our directors to two of PlayBev's three executive management positions. In addition, during 2007, these two affiliates personally purchased membership interests from other PlayBev members which aggregated 11.1 percent. Despite the combined 78.5 percent interest owned by these affiliates and the Company, and the resultant ability to partially influence PlayBev, the operating agreement for PlayBev requires that various major operating and organizational decisions be agreed to by members owning at least 75 percent of the membership interests. The other members of PlayBev are not affiliated with the Company. Accordingly, while PlayBev is a related party, the Company cannot unilaterally control significant operating decisions of PlayBev, and has not accounted for PlayBev's operations as if it was a consolidated subsidiary. PlayBev has no operations. Therefore, under the terms of the exclusive manufacturing and distribution agreement between PlayBev and CirTran Corporation, the Company was appointed the master manufacturer and distributor of the beverages and other products that PlayBev licensed from Playboy. In so doing, the Company assumed all the risk of collecting amounts owed from customers, and contracting with vendors for manufacturing and marketing activities. In addition, PlayBev is owed a royalty from the Company equal to the Company's gross profits from collected beverage sales, less 20 percent of the Company's related cost of goods sold, and 6 percent of the Company's collected gross sales. The Company incurred $782,296 and $93,104 in royalty expenses due to PlayBev during the years ended December 31, 2008 and 2007, respectively. The Company also agreed to provide services to PlayBev for initial development, marketing, and promotion of the new beverage. These services are to be billed to PlayBev and recorded as an account receivable from PlayBev. The Company initially agreed to carry up to a maximum of $1,000,000 as a receivable due from PlayBev in connection with these billed services. On March 19, 2008 the Company agreed to increase the maximum amount it would carry as a receivable due from PlayBev, in connection with these billed services, from $1,000,000 to $3,000,000. As of March 19, 2008 the Company also began charging interest on the outstanding amounts owing at a rate of 7 percent per annum. PlayBev has agreed to repay the receivable and accrued interest out of the royalties due PlayBev. The Company has billed PlayBev for marketing and development services totaling $5,044,741 and $1,532,071 for the years ending December 31, 2008 and 2007, respectively, which have been included in revenues for our marketing and media segment. As of December 31, 2008, the interest accrued on the balance owing from PlayBev totaled $217,431. The net amount due the Company from PlayBev for marketing and development services, after netting the royalty owed to PlayBev, totaled $4,718,843 at December 31, 2008. On August 23, 2008, PlayBev's members agreed to amend its operating agreement to change the required membership vote on major managerial and organizational decisions from 75 percent to 95 percent. Additionally, an unrelated executive manager of PlayBev resigned, leaving the remaining two executive management positions occupied by the Company president and one of the Company's directors. In addition, during 2008, the two affiliates personally purchased membership interests from PlayBev directly and from other Playbev members an additional 11.22 percent which aggregated 22.35 percent. Despite the combined 73.35 percent interest owned by these affiliates and the Company, and the resultant ability to partially influence PlayBev, the operating agreement for PlayBev was amended on August 23, 2008 which requires that various major operating and organizational decisions be agreed to by members owning at least 95 percent of the membership interests. The other members of PlayBev are not affiliated with the Company. Accordingly, while PlayBev is a related party, the Company cannot unilaterally control significant operating decisions of PlayBev, and has not accounted for PlayBev's operations as if it was a consolidated subsidiary. 53 AfterBev Group, LLC In an effort to finance the initial development and marketing of the new drink, in 2007 the Company with other investors formed AfterBev, a partially-owned, consolidated subsidiary of the Company. The Company contributed its expertise in exchange for a membership interest in AfterBev. Following AfterBev's organization the Company entered into consulting agreements with two individuals, one of whom was a Company director. The agreements provided that the Company assign to each individual approximately one-third of the Company's share in future AfterBev cash distributions, in exchange for their assistance in the initial AfterBev organization and planning, along with their continued assistance in subsequent beverage development and distribution activities. The agreements also provided that as the Company sold a portion of its membership interest in AfterBev, the individuals would each be owed their proportional assigned share distributions in the proceeds of such a sale. The actual payment of the distributions depended on what the Company did with the sale proceeds. If the Company used the proceeds to help finance beverage development and marketing activities, the payment of distributions would be deferred, pending collections from customers once beverage product sales eventually commenced. Otherwise, the proportional assigned share distributions would be due to the two individuals. Throughout the balance of 2007, as energy drink development and marketing activities progressed, the Company raised additional funds by selling portions of its membership interest in AfterBev to other investors, some of whom were Company stockholders. In some cases, the Company sold a portion of its membership interest, including voting rights. In other cases, the Company sold merely a portion of its share of future AfterBev profits and losses. By the end of 2007, after taking into account the two interests it had assigned, the Company had retained a net 14 percent interest in AfterBev's profits and losses, but had retained 52 percent of all voting rights in AfterBev. The Company recorded the receipt of these net funds as increases to its existing minority interest in AfterBev, and the rest as amounts owing as distributable proceeds payable to the two individuals with assigned interests of the Company's original share of AfterBev. At the end of 2007, the Company agreed to convert the amount owing to one of the individuals into a promissory note. In exchange, the individual agreed to relinquish his approximately one-third portion of the Company's remaining share of AfterBev's profits and losses. Instead, the individual received a membership interest in AfterBev. In January 2008, the other assignee, who is one of the Company's directors, similarly agreed to relinquish the distributable proceeds owed to him, in exchange for an interest in AfterBev's profits and losses. Accordingly, he was granted a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and had retained the remaining 1 percent interest in AfterBev's profit and losses. In turn, the director loaned $834,393 to the Company in the form of unsecured advances. Of these proceeds, $600,000 was used to purchase interest in Playbev directly which resulted in a reduction of $600,000 of amounts owed by Playbev to the Company. As of December 31, 2008 the Company still owed the director $201,229 in the form of unsecured advance. Global Marketing Alliance We entered into an agreement with Global Marketing Alliance ("GMA"), a Utah limited liability company and certain of its affiliates, and hired GMA's owner as the Vice President of our subsidiary, CirTran Online Corp. ("CTO"). Under the terms of the agreement, we outsource to GMA the online marketing and sales activities associated with our CTO products. In return, we provide bookkeeping and management consulting services to GMA, and pay GMA a fee equal to five percent of CTO's net sales. In addition, GMA assigned to us all of its web-hosting and training contracts effective as of January 1, 2007, along with the revenue earned thereon, and we also assumed the related contractual performance obligations. Other transactions involving Officers, Directors, and Stockholders Don L. Buehner was appointed to our Board of Directors as of October 1, 2007. For services to be rendered in 2008, we granted Mr. Buehner an option during 2007 to purchase 2,400,000 shares of our common stock. Prior to his appointment as a director, Mr. Buehner bought the building housing our principal executive offices in Salt Lake City in a sale/leaseback transaction. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. We pay Mr. Buehner a monthly lease payment of $17,083, which is subject to annual adjustments in relation to the Consumer Price Index. Lease payments during 2008 and 2007 to Mr. Buehner totaled $205,000 and $136,664, respectively.. We believe that the amount charged and payable to Mr. Buehner under the lease is reasonable and in line with local market conditions. As discussed above, Mr. Buehner retired from the Board on June 18, 2008. 54 In February 2007, we appointed Fadi Nora to our Board of Directors. Prior to his appointment with us, Mr. Nora was also an investor in the Company (see the discussion below related to ANAHOP). For services rendered in 2007 and to be rendered in 2008, we granted Mr. Nora options during 2007 to purchase a total of 4,800,000 shares of common stock. In addition, Mr. Nora is entitled to a quarterly bonus equal to 0.5 percent of any gross sales earned by us directly through his efforts. Mr. Nora also is entitled to a bonus equal to five percent of the amount of any investment proceeds received by us that are directly generated and arranged by him if the following conditions are satisfied: (i) his sole involvement in the process of obtaining the investment proceeds is our introduction to the potential investor, but that he does not participate in the recommendation, structuring, negotiation, documentation, or selling of the investment, (ii) neither we nor the investor are otherwise obligated to pay any commissions, finders fees, or similar compensation to any agent, broker, dealer, underwriter, or finder in connection with the investment, and (iii) the Board in its sole discretion determines that the investment qualifies for this bonus, and that the bonus may be paid with respect to the investment. During 2007, Mr. Nora received $345,750 in compensation associated with sales of portions of our interest in AfterBev. In May 2007, we also entered into a consulting agreement with Mr. Nora, whereby we assigned to him approximately one-third of our share in future AfterBev cash distributions. In return, Mr. Nora assisted in the initial AfterBev organization and planning, and continued to assist in subsequent beverage development and distribution activities. The agreement also provided that as we sold a portion of our membership interest in AfterBev, Mr. Nora would be owed his proportional assigned share distribution in the proceeds of such a sale. Distributable proceeds due to Mr. Nora totaled $1,192,290 during 2007, of which $445,000 was paid leaving $747,290 owing at December 31, 2007. Prior to his appointment with us, Mr. Nora was also an investor in the Company. In May 2007, we issued a 10 percent promissory note to a family member of our president in exchange for $300,000. The note is due on demand after one year. In May 2008 the interest on the promissory note increased to 12 percent per the note agreement. In addition to interest we repaid principal of $8,444 and $61,109 during the twelve months ending December 31, 2008 and 2007, respectively. In March 2008, we issued a 12 percent promissory note in the amount of $105,000 to a family member of our president in exchange for $100,000 in cash. The note is due on 12/31/09. During 2008, in addition to interest we repaid principal of $58,196. During 2007, our president advanced us $30,000; this obligation was repaid prior to December 31, 2007. During the year ended December 31 2008 our president advanced the Company $778,600. Of that amount, $600,000 of that loan was used to purchase interest in Playbev directly which resulted in a reduction of $600,000 of amounts owed by Playbev to the Company. As of December 31, 2008 the Company still owed our president $146,100 in the form of unsecured advance Transactions involving ANAHOP, Inc. In May 2006, we closed a private placement of shares of the Company's common stock and warrants (the "May Private Offering"). Pursuant to a securities purchase agreement we issued 14,285,715 shares of common stock (the "May Shares") to ANAHOP, Inc. ("ANAHOP"), a California company partially owned by Fadi Nora. The consideration paid for the May Shares was $1,000,000. In addition to the Shares, the Company issued warrants (the "Warrants") to designees of ANAHOP to purchase up to an additional 36,000,000 shares of common stock. Of this amount, Mr. Nora was designated to receive Warrants to purchase 10,000,000 shares of common stock. In June 2006, the Company closed a second private placement of shares of its common stock and warrants (the "June Private Offering"). Pursuant to a securities purchase agreement (the "Agreement"), the Company agreed to issue up to 28,571,428 shares of common stock (the "June Shares") to ANAHOP. The total consideration to be paid for the June Shares will be $2,000,000 if all tranches of the sale close. 55 Pursuant to the Agreement, ANAHOP agreed to pay $500,000 (the "First Tranche Payment"). Upon the receipt of the First Tranche Payment, the Company 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 ANAHOP as follows: (i) No later than thirty calendar days following the date on which any class of the Company's 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 the Company's 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 the Company of the Second Tranche Payment, the Company 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. On April 11, 2008, Mr. Nora disassociated himself from the other principals of ANAHOP, and as part of the asset settlement, relinquished ownership of 12,857,144 shares of CirTran Corporation common stock and all of the warrants previously assigned to him. 56 ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES Audit Fees for Fiscal 2008 and 2007 The aggregate fees billed to the Company by Hansen Barnett & Maxwell, P.C., the Company's Independent Registered Public Accounting Firm and Auditor, for the fiscal years ended December 31, 2007 and 2008, are as follows: 2008 2007 -------- -------- Audit Fees (1) $112,988 $105,123 Audit-Related Fees - - Tax Fees (2) $17,228 $10,322 All Other Fees - - (1) Audit Fees consist of the audit of our annual financial statements included in the Company's Annual Report on Form 10-K for its 2007 and 2008 fiscal years and Annual Report to Shareholders, review of interim financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. (2) Tax Fees consist of fees for tax consultation and tax compliance services. The Board of Directors, acting in the absence of a designated Audit Committee, has considered whether the provision of non-audit services is compatible with maintaining the independence of Hansen Barnett & Maxwell, P.C., and has concluded that the provision of such services is compatible with maintaining the independence of the Company's auditors. 57 ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K. Exhibit No. Document 3.1 Articles of Incorporation (previously filed as Exhibit No. 2 to our Current Report on Form 8-K, filed with the Commission on July 17, 2000, and incorporated herein by reference). 3.2 Bylaws (previously filed as Exhibit No. 3 to our Current Report on Form 8-K, filed with the Commission on July 17, 2000, and incorporated herein by reference). 10.1 Securities Purchase Agreement between CirTran Corporation and Highgate House Funds, Ltd., dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference). 10.2 Form of 5 percent Convertible Debenture, due December 31, 2007, issued by CirTran Corporation (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference). 10.3 Investor Registration Rights Agreement between CirTran Corporation and Highgate House Funds, Ltd., dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference). 10.4 Security Agreement between CirTran Corporation and Highgate House Funds, Ltd., dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference). 10.5 Escrow Agreement between CirTran Corporation, Highgate House Funds, Ltd., and David Gonzalez dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference). 10.6 Settlement Agreement and Mutual Release between CirTran Corporation and Howard Salamon d/b/a/ Salamon Brothers, dated as of February 10, 2006 10.7 Settlement Agreement by and among Sunborne XII, LLC, CirTran Corporation, and others named therein, dated as of January 26, 2006 10.8 Employment Agreement with Richard Ferrone (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on May 15, 2006, and incorporated here in by reference). 10.9 Marketing and Distribution Agree between CirTran Corporation and Harrington Business Development, Inc., dated as of October 24, 2005 (previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB filed with the Commission on May 19, 2006, and incorporated here in by reference). 10.10 Amendment to Marketing and Distribution Agree between CirTran Corporation and Harrington Business Development, Inc., dated as of March 31, 2006 (previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB filed with the Commission on May 19, 2006, and incorporated here in by reference). 10.11 Amendment No. 1 to Investor Registration Rights

Agreement, between CirTran Corporation and Highgate House Funds, Ltd., dated as of June 15, 2006. 10.12 Amendment No. 1 to Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated as of June 15, 2006. 58 10.13 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). 10.14 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 herein by reference). 10.15 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). 10.16 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). 10.17 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). 10.18 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). 10.19 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). 10.20 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). 10.21 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). 10.22 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). 10.23 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). 10.24 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). 10.25 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). 10.26 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). 59 10.27 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). 10.28 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). 10.29 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). 10.30 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). 10.31 Lockdown Agreement by and between CirTran Corporation and Cornell Capital Partners, LP, dated as of July 20, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form SB-2/A (File No. 333-128549) filed with the Commission on July 27, 2006, and incorporated herein by reference). 10.32 Lockdown Agreement by and among CirTran Corporation and ANAHOP, Inc., Albert Hagar, and Fadi Nora, dated as of July 20, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form SB-2/A (File No. 333-128549) filed with the Commission on July 27, 2006, and incorporated herein by reference). 10.33 Talent Agreement between CirTran Corporation and Holyfield

Management, Inc., dated as of March 8, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form SB-2/A (File No. 333-128549) filed with the Commission on July 27, 2006, and incorporated herein by reference). 10.34 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). 10.35 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). 10.36 Amended Lock Down Agreement by and among the Company and ANAHOP, Inc., Albert Hagar, and Fadi Nora, dated as of November 15, 2006 (filed as an exhibit to the Company's Quarterly Report for the quarter ended September 30, 2006, filed with the Commission on November 20, 2006, and incorporated herein by reference). 10.37 Amended Lock Down Agreement by and between the Company and Cornell Capital Partners, L.P., dated as of October 30, 2006 (filed as an exhibit to the Company's Quarterly Report for the quarter ended September 30, 2006, filed with the Commission on November 20, 2006, and incorporated herein by reference). 10.38 Amendment to Debenture and Registration Rights Agreement between the Company and Cornell Capital Partners, L.P., dated as of October 30, 2006 (filed as an exhibit to the Company's Quarterly Report for the quarter ended September 30, 2006, filed with the Commission on November 20, 2006, and incorporated herein by reference). 60 10.39 Amendment Number 2 to Amended and Restated Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated January 12, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on January 19, 2007, and incorporated here in by reference). 10.40 Amendment Number 4 to Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated January 12, 2007(previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on January 19, 2007, and incorporated here in by reference). 10.41 Licensing and Marketing Agreement with Arrowhead Industries, Inc. dated February 13, 2007 (previously filed as an exhibit to the Company's Annual Report for the year ended December 31, 2006, filed with the Commission on April 17, 2007, and incorporated herein by reference). 10.42 Amendment to Employment Agreement for Iehab Hawatmeh, dated January 1, 2007 (previously filed as an exhibit to the Company's Annual Report for the year ended December 31, 2006, filed with the Commission on April 17, 2007, and incorporated herein by reference) 10.43 Amendment to Employment Agreement for Shaher Hawatmeh, dated January 1, 2007 (previously filed as an exhibit to the Company's Annual Report for the year ended December 31, 2006, filed with the Commission on April 17, 2007, and incorporated herein by reference) 10.44 Amendment to Employment Agreement for Trevor Siliba, dated January 1, 2007 (previously filed as an exhibit to the Company's Annual Report for the year ended December 31, 2006, filed with the Commission on April 17, 2007, and incorporated herein by reference) 10.45 Amendment to Employment Agreement for Richard Ferrone dated February 7, 2007 (previously filed as an exhibit to the Company's Annual Report for the year ended December 31, 2006, filed with the Commission on April 17, 2007, and incorporated herein by reference). 10.46 Assignment and Exclusive Services Agreement with Global Marketing Alliance, LLC, dated April 16, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on April 20, 2007, and incorporated herein by reference). 10.47 Employment Agreement for Mr. Sovatphone Ouk dated April 16, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on April 20, 2007, and incorporated herein by reference). 10.48 Triple Net Lease between CirTran Corporation and Don L. Buehner, dated as of May 4, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on May 10, 2007, and incorporated herein by reference). 10.49 Commercial Real Estate Purchase Contract between Don L. Buehner and PFE Properties, L.L.C., dated as of May 4, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on May 10, 2007, and incorporated herein by reference). 10.50 Exclusive Manufacturing, Marketing, and Distribution Agreement, dated as of May 25, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on June 1, 2007, and incorporated herein by reference). 10.51 Exclusive Manufacturing, Marketing, and Distribution Agreement, with Full Moon Enterprises, Inc. dated as of June 8, 2007, pertaining to the Ball Blaster(TM) (previously filed as an exhibit to the Company's' Quarterly Report on Form 10-QSB filed with the Commission on August 20, 2007, and incorporated herein by reference). 61 10.52 Amended and Restated Exclusive Manufacturing, Marketing, and Distribution Agreement, dated as of August 21, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on September 24, 2007, and incorporated herein by reference). 10.53 Exclusive Sales Distribution/Representative Agreement, dated as of August 23, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on September 24, 2007, and incorporated herein by reference). 10.54 Settlement Agreement between CirTran Corporation and Trevor M. Saliba, dated as of August 15, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on September 24, 2007, and incorporated herein by reference). 10.55 Exclusive Manufacturing, Marketing and Distribution Agreement between CirTran Corporation and Shaka Shoes, Inc., a Hawaii corporation (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 11, 2008, and incorporated herein by reference). 10.56 Amendment Number 3 to Amended and Restated Investor Registration Rights Agreement, between CirTran Corporation and YA Global Investments, L.P. (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 12, 2008, and incorporated herein by reference). 10.57 Amendment Number 6 to Investor Registration Rights Agreement, between CirTran Corporation and YA Global Investments, L.P. (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 12, 2008, and incorporated herein by reference). 10.58 Agreement between and among CirTran Corporation, YA Global Investments, L.P., and Highgate House Funds, LTD (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 12, 2008, and incorporated herein by reference). 10.59 Promissory Note (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on March 5, 2008, and incorporated herein by reference). 10.60 Form of Warrant (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on March 5, 2008, and incorporated herein by reference). 10.61 Subscription Agreement between the Company and Haya Enterprises, LLC (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on March 5, 2008, and incorporated herein by reference). 10.62 Promissory Note (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on April 7, 2008, and incorporated herein by reference). 10.63 Subscription Agreement (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on April 7, 2008, and incorporated herein by reference). 10.64 Promissory Note (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on May 1, 2008, and incorporated herein by reference). 10.65 Agreement between and among CirTran Corporation, YA Global Investments, L.P., and Highgate House Funds, LTD (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on October 15, 2008, and incorporated herein by reference). 62 10.66 International Distribution Agreement between CirTran Corporation and Factor Tequila SA de CV (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on November 3, 2008, and incorporated herein by reference) (Portions of the Agreement have been redacted pursuant to a request for confidential treatment filed with the U.S. Securities and Exchange Commission.) 10.67 International Distribution Agreement between CirTran Beverage Corp. and Tobacco Holding Group Sh.p.k. (Portions of the Agreement have been redacted pursuant to a request for confidential treatment filed with the U.S. Securities and Exchange Commission.) 10.68 Commercial Lease Agreement between CirTran Corporation and Charlton Development Co. LLC. 21 Subsidiaries of the Registrant 31 Certification of President 32 Certification pursuant to 18 U.S.C. Section 1350 - President SIGNATURES In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized. CIRTRAN CORPORATION Date: April 15, 2009 By: /s/ Iehab J. Hawatmeh, Iehab J. Hawatmeh, President, Chief Financial Officer (Principal Executive Officer, Principal Financial Officer) In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Date: April 15, 2009 /s/ Iehab Hawatmeh Iehab J. Hawatmeh, President, Chief Financial Officer, Principal Executive Officer, Principal Financial Officer and Director Date: April 15, 2009 /s/ Fadi Nora Fadi Nora Director 63 INDEX TO CONSOLIDATED FINANCIAL STATEMENTS The following financial statements of CirTran Corporation and related notes thereto and auditors' report thereon are filed as part of this Form 10-K: Page Report of Independent Registered Public Accounting Firm F-2 Consolidated Balance Sheets as of December 31, 2008 and 2007 F-3 Consolidated Statements of Operations for the Years Ended December 31, 2008 and 2007 F-4 Consolidated Statement of Stockholders' Deficit for the Years Ended December 31, 2008 and 2007 F-5 Consolidated Statements of Cash Flows for the Years Ended December 31, 2008 and 2007 F-6 Notes to Consolidated Financial Statements F-8 F-1 HANSEN, BARNETT & MAXWELL, P.C. A Professional Corporation CERTIFIED PUBLIC ACCOUNTANTS 5 Triad Center, Suite 750 Salt Lake City, UT 84180-1128 Phone: (801) 532-2200 Fax: (801) 532-7944 www.hbmcpas.com REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the

Directors and the Stockholders CirTran Corporation We have audited the accompanying consolidated balance sheets of CirTran Corporation and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CirTran Corporation and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has an accumulated deficit, has suffered losses from operations and has negative working capital that raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. /s/ HANSEN, BARNETT & MAXWELL, P.C. Salt Lake City, Utah April 15, 2009 F-2 CIRTRAN CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS December 31, 2008 2007 -- ASSETS Current assets Cash and cash equivalents $ 8,701 $ 82,761 Trade accounts receivable, net of allowance for doubtful accounts of $108,162 and $55,742, respectively 591,441 411,899 Receivable due from related party 4,718,843 1,438,967 Inventory, net of reserve of $1,028,957 and $968,967, respectively 1,451,275 1,938,616 Prepaid deposits 164,556 129,592 Other 305,037 329,836 -- Total current assets 7,239,853 4,331,671 Investment in securities, at cost 752,000 1,820,000 Investment in related party, at cost 750,000 750,000 Deferred offering costs, net 15,662 102,462 Long-term receivable 1,647,895 1,665,000 Property and equipment, net 773,591 986,184 Intellectual property, net 1,871,153 2,089,233 Other assets, net 19,025 19,781 -- Total assets $ 13,069,179 $ 11,764,331 -- LIABILITIES AND STOCKHOLDERS' DEFICIT Current liabilities Checks written in excess of bank balance $ 133,391 $ - Accounts payable 2,215,171 1,501,533 Short term advances payable 747,329 - Distribution payable - 747,290 Accrued liabilities 2,207,580 1,595,704 Deferred revenue 587,052 159,849 Derivative liability 705,477 2,896,969 Convertible debenture 3,162,650 2,983,348 Current maturities of long-term debt 1,494,969 194,904 Note payable to stockholders 230,447 238,891 -- Total current liabilities 11,484,066 10,318,488 -- Refundable customer deposits 1,688,080 - Long-term debt, less current maturities 269,625 1,009,364 -- Total liabilities 13,441,771 11,327,852 Minority interest 2,573,231 1,709,258 Stockholders' deficit Common stock, par value $0.001; authorized 1,500,000,000 shares; issued and outstanding shares: 1,426,262,586 and 1,101,261,449 1,426,257 1,101,256 Additional paid-in capital 28,970,335 27,057,168 Subscription receivable (17,000) (17,000) Accumulated deficit (33,325,415) (29,414,203) -- Total stockholders' deficit (2,945,823) (1,272,779) -- Total liabilities and stockholders' deficit $ 13,069,179 $ 11,764,331 -- The accompanying notes are an integral part of these financial statements. F-3 CIRTRAN CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS For the Years Ended December 31, 2008 2007 -- Net sales $ 13,675,545 $ 12,399,793 Cost of sales

(11,240,454) (9,172,515) Royalty Expense (827,813) (93,104)
-- Gross profit 1,607,278 3,134,174
-- Operating expenses Selling, general and administrative expenses 5,718,858 7,473,426 Non-cash compensation expense 94,336 462,648
-- Total operating expenses 5,813,194 7,936,074
-- Loss from operations (4,205,916) (4,801,900)
-- Other income (expense) Interest expense (1,903,590) (2,650,047) Interest income 217,431 - Gain on settlement of distribution agreement 250,000 - Gain on settlement of litigation 300,000 1,168,623 Gain on sale/leaseback 81,580 59,792 Gain on forgiveness of debt - 67,637 Impairment of investment in securities (1,068,000) - Gain (loss) on derivative valuation 2,417,283 (1,076,629)
-- Total other expense, net 294,704 (2,430,624)
-- Net loss $ (3,911,212) $ (7,232,524)
-- Basic and diluted loss per common share $ (0.00) $ (0.01) -- Basic and diluted weighted-average common shares outstanding 1,219,326,605 851,411,506
-- The accompanying notes are an integral part of these financial statements. F-4 CIRTRAN CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 Common Stock ------------------------- Additional Number paid-in Subscription Accumulated of shares Amount capital receivable deficit Total
--- Balances at December 31, 2006 656,170,424 $ 656,165 $ 23,210,461 $ (66,000) $ (22,181,679) $ 1,618,947 Settlement with former employee 1,000,000 1,000 6,000 49,000 - 56,000 Shares issued for conversion of debentures and accrued interest 264,518,952 264,519 3,257,632 - - 3,522,151 Options granted to employees, consultants and attorneys - - 531,647 - - 531,647 Exercise of stock options by consultants and attorneys 10,000,000 10,000 (9,000) - - 1,000 Adjustment due to the 1.2-for-1 forward stock split 140,572,073 140,572 (140,572) - - - Shares and warrants issued in private placement 29,000,000 29,000 201,000 - - 230,000 Net loss - - - - (7,232,524) (7,232,524)
--- Balances at December 31, 2007 1,101,261,449 1,101,256 27,057,168 (17,000) (29,414,203) (1,272,779)
--- Settlement with former employee 3,000,000 3,000 18,000 - - 21,000 Shares issued for partial conversion of debentures 175,222,320 175,222 990,147 - - 1,165,369 Options granted to employees, consultants and attorneys - - 94,336 - - 94,336 Warrants granted to consultants and attorneys - - 144,672 - - 144,672 Exercise of stock options by consultants and attorneys 10,000,000 10,000 (9,000) - - 1,000 Shares and warrants issued in private placement 136,778,817 136,779 675,012 - - 811,791 Net loss - - - - (3,911,212) (3,911,212)
--- Balances at December 31, 2008 1,426,262,586 $ 1,426,257 $ 28,970,335 $ (17,000) $ (33,325,415) $ (2,945,823)
--- The accompanying notes are an integral part of these financial statements. F-5 CIRTRAN CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2008 2007 -- Cash flows from operating activities Net loss $ (3,911,212) $ (7,232,524) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization 644,952 654,864 Accretion expense 1,163,983 2,120,077 Provision for (recovery of) doubtful accounts 52,419 41,561 Provision for obsolete inventory 320,685 102,614 Gain on forgiveness of debt - (67,637) Gain on sale - leaseback (81,581) (59,792) Gain on settlement - (1,168,623) Impairment of investment in securities 1,068,000 - Non-cash compensation expense 93,351 462,648 Loan costs and interest withheld from loan proceeds 86,799 193,642 Options issued to attorneys and consultants for services 146,657 70,000 Change in valuation of derivative (2,417,283) 1,076,629 Settlement costs with former employees - 56,000 Changes in assets and liabilities: Trade accounts receivable (231,962) (910,331) Related party receivable (4,479,876) - Inventories 166,657 (81,216) Prepaid expenses and deposits (34,963) (53,715) Other current assets 25,555 (116,623) Accounts payable 791,646 346,243 Accrued liabilities 886,147 337,112 Deferred revenue 427,204 (31,547)

-- Net cash used in operating activities (5,282,822) (4,260,618) -- Cash flows from investing activities Intangibles purchased with cash (204,946) (110,202) Proceeds from the sale of building - 2,500,000 Amounts advanced to Diverse Talent Group, Inc. - (59,633) Investment in Play Beverages, LLC - (500,000) Royalties received in estate settlement 17,105 - Purchase of property and equipment (9,333) (117,085) -- Net cash provided by (used in) investing activities (197,174) 1,713,080 -- Cash flows from financing activities Proceeds from notes payable to stockholders 1,100,000 200,000 Payments on notes payable to stockholder (171,640) - Proceeds from notes payable to related party - 300,000 Payments on notes payable to related party - (261,109) Checks written in excess of bank balances 133,391 - Proceeds from stock issued in private placement 204,000 230,000 Principal payments on long-term debt (75,000) (1,272,642) Capital contribution by initial members of AfterBev - 500,000 Proceeds from sale of portion of interest in AfterBev - 3,663,000 Payments of AfterBev distributions to assignees - (875,000) Proceeds from long term deposits 1,688,080 Net borrowings in connection with short- term advances 2,527,105 - -- Net cash provided by financing activities 5,405,936 2,484,249 -- Net decrease in cash and cash equivalents (74,060) (63,289) Cash and cash equivalents at beginning of year 82,761 146,050 -- Cash and cash equivalents at end of year $ 8,701 $ 82,761 -- The accompanying notes are an integral part of these financial statements. F-6 CIRTRAN CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) For the Years Ended December 31, 2008 2007 -- Supplemental disclosure of cash flow information: Cash paid during the period for interest $ 37,473 $ 85,803 Noncash investing and financing activities: Common stock issued in connection with the 1.2-for-1 forward split $ - $ 140,572 Additional investment in Play Beverages, LLC - 250,000 Convert amount due to minority interest holder into a note payable - 806,452 Stock issued in payment of notes payable and accrued interest 1,165,369 1,979,864 Exchange AfterBev membership interest for distribution payable 863,973 - Common stock issued in exchange for advance payable and accrued interest 628,790 - Relate-party receivable reduction from notes payable 1,200,000 The accompanying notes are an integral part of these financial statements. F-7 NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES Nature of Operations - CirTran Corporation and its consolidated subsidiaries (the "Company") provide turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole, and custom injection molded cabling for leading electronics original equipment manufacturers ("OEMs") in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. The Company also designs, develops, manufactures, and markets a full line of local area network products, with emphasis on token ring and Ethernet connectivity. In 2007, the Company began marketing and distributing an energy drink using the Playboy brand under a license agreement with Playboy Enterprises International, Inc. ("Playboy"). In early 2004, the Company incorporated CirTran Asia ("CTA") as a wholly owned subsidiary. Through CirTran Asia, we design, engineer, manufacture and supply products in the international electronics, consumer products and general merchandise industries for various marketers, distributors and retailers selling overseas. This subsidiary provides manufacturing services to the direct response and retail consumer markets. Our experience and expertise in manufacturing enables CirTran Asia to enter a project at various phases: engineering and design; product development and prototyping; tooling; and high-volume manufacturing. This presence with Asian suppliers helps us maintain an international contract manufacturer status for multiple products in a wide variety of industries, and has allowed us to target larger-scale contracts. CirTran Asia maintains an office in Shenzhen, China and has retained dedicated Chinese personnel to oversee Asian operations. We intend to 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. During the last three years, the Company developed several fitness and exercise products, and products in the household and kitchen appliance and health and beauty aids markets that are being manufactured in China. We anticipate that offshore contract manufacturing will continue to be an emphasis of the Company. In December 2005, the Company incorporated CirTran Products Corp. ("CTP"), a Utah corporation, as a wholly owned subsidiary. CTP was formed to offer products for sale at wholesale and retail. This division is run from the Company's Los Angeles office. During 2006, CTP began wholesaling the True Ceramic Pro Flat Iron, under the terms of an exclusive marketing agreement with two direct marketing companies. The product was produced in China and shipped directly to the customer. The Company also sells its own proprietary and branded products through CTP. In March 2006, the Company formed CirTran Media Corp. ("CMC"), formerly known as Diverse Media Group, to provide end-to-end services to the direct response and entertainment industries. The Company is developing marketing production services, and preparing programs where CMC will operate as the marketer, campaign manager and/or distributor for beauty, entertainment, software, and fitness consumer products. In May 2006, CMC entered into an agreement with Diverse Talent Group, Inc., a California corporation ("DTG"), whereby DTG would provide outsourced talent agency services in exchange for growth financing provided by the Company. In March 2007, the Company terminated the agreement, and assigned to DTG the name "Diverse Media Group." In terminating the agreement with DTG, now known as Diverse Media Group, Inc. ("DMG"), the Company received 9 million shares of DMG common stock, to be held in escrow for one year and subject to certain other restrictions. During the first quarter of 2007, the Company formed CirTran Online Corp. ("CTO"), to sell products via the internet, to offer training, software, marketing tools, web design and support, and other e-commerce related services to entrepreneurs, and to telemarket directly to customers. As part of CTO's business plan, the Company entered into an agreement with Global Marketing Alliance, LLC, a Utah limited liability company and related party, along with certain of its affiliates ("GMA") that specialize in providing services to E-bay sellers, conducting internet marketing seminars, and developing and hosting web sites. In connection with this agreement, the Company also hired the owner of GMA to be CTO's Vice President. In May 2007, the Company incorporated CirTran Beverage Corp. ("CBC"), to arrange for the manufacture, marketing and distribution of Playboy-licensed energy drinks, flavored water beverages, and related merchandise through various distribution channels. CBC entered into an agreement with Play Beverages, LLC ("PlayBev"), a related Delaware limited liability company and the holder of the product licensing agreement with Playboy Enterprises International, Inc. ("Playboy"). Under the terms of the agreement with PlayBev, the Company is to provide the initial development and promotional services for PlayBev who collects from the Company a royalty based on the Company's product sales and manufacturing costs. As part of efforts to finance the initial development and marketing of the energy drink, the Company, along with other investors, formed After Bev Group LLC ("AfterBev"), a majority-owned subsidiary of the Company organized in California. F-8 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 Corp., CirTran Media Corp., CirTran Online Corp., CirTran Beverage Corp., and discontinued PFE Properties, LLC. The consolidated financial statements also include the accounts of After Beverage Group LLC, a majority-owned subsidiary. At December 31, 2008, the Company had a four percent share of AfterBev's profits and losses, but maintained a 52 percent voting control interest. AfterBev has a 51 percent share of the eventual cash distributions of Play Beverages, LLC ("PlayBev"), and the president and one of the directors of the Company own membership interests in PlayBev totaling 22.35 percent. As of September 30, 2008, the members of PlayBev had amended PlayBev's operating agreement to require a 95 percent membership vote on major managerial and organizational decisions. None of the other members of PlayBev are affiliated with the Company. Accordingly, while the Company's president and one of its directors own membership interests and currently hold the executive management positions in PlayBev, the Company or its affiliates nevertheless cannot exercise unilateral control over significant decisions, and the Company has accounted for its investment in PlayBev under the cost method of accounting. Revenue Recognition - Revenue is recognized when products are shipped. Title passes to the customer or independent sales representative at the time of shipment. Returns for defective items are repaired and sent back to the customer. Historically, expenses associated with returns have not been significant and have been recognized as incurred. Shipping and handling fees are included as part of net sales. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of goods sold. The Company has also recorded revenue using a "Bill and Hold" method of revenue recognition. The Securities & Exchange Commission ("SEC") in Staff Accounting Bulletin No. 104 imposes several requirements to be met in order to recognize revenue prior to shipment of product. The Commission's criteria are the following: i. The risks of ownership must have passed to the buyer; ii. The customer must have made a fixed commitment to purchase the goods, preferably in written documentation; iii. The buyer, not the seller, must request that the transaction be on a bill and hold basis. The buyer must have a substantial business purpose for ordering the goods on a bill and hold basis; iv.

There must be a fixed schedule for delivery of the goods. The date for delivery must be reasonable and must be consistent with the buyer's business purpose (e.g., storage periods are customary in the industry); v. The seller must not have retained any specific performance obligations such that the earning process is not complete; vi. The ordered goods must have been segregated from the seller's inventory and not be subject to being used to fill other orders; and vii. The equipment (product) must be complete and ready for shipment. In effect, the Company secures a contractual agreement from the customer to purchase a specific quantity of goods, and the goods are produced and segregated from the Company's inventory. Shipment of the product is scheduled for release over a specified period of time. The result is that the Company maintains the customer's inventory, on site, until all releases have been issued. Agency fees are recognized when they are earned. This occurred only after the talent, represented by the Company, receives payment for the services from the buyer. The buyer remitts funds to a trust checking account after all payroll tax liabilities have been deducted from the gross amount due the talent. The talent is paid the net amount, less the Company commission (which is approximately 10 percent of the gross amount due the talent), from the trust account. The remainder of funds in the trust account, typically 10 percent, is then distributed to the Company and recognized as revenue. F-9 The Company signed an Assignment and Exclusive Services Agreement with GMA, a related party, whereby revenues and all associated performance obligations under GMA's web-hosting and training contracts were assigned to the Company. Accordingly, this revenue is recognized in the Company's financial statements when it is collected, along with the revenue of CirTran Online Corporation (see also Note 8). The Company sold its building in a sale/leaseback transaction, and reported the gain on the sale as deferred revenue to be recognized over the term of lease pursuant to Statement of Financial Accounting Standards ("SFAS") No. 13, Accounting for Leases (see also Note 4). The Company has entered into a Manufacturing, Marketing and Distribution Agreement with PlayBev, a related party, whereby the Company is the vendor of record in providing initial development, promotional, marketing, and distribution services marketing and distribution services. Accordingly, all amounts billed to PlayBev in connection with the development and marketing of its new energy drink have been included in revenue (see also Note 8). Cash and Cash Equivalents - The Company considers all highly liquid, short-term investments with an original maturity of three months or less to be cash equivalents. Deposits are made to the Company in connection with distribution agreements. The deposits are either refundable or applied to invoices based on either annual minimum sales requirements and or actual sales shipments, as detailed in the individual distribution agreement. Accounts Receivable - Accounts receivable are carried at the original invoice amount, less an estimate made for doubtful accounts based on a review of outstanding amounts. Specific reserves are estimated by management based on certain assumptions and variables, including the customer's financial condition, age of the customer's receivable, and changes in payment histories. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Inventories - Inventories are stated at the lower of average cost or market value. Cost on manufactured inventories includes labor, material and overhead. Overhead cost is based on indirect costs allocated to 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 manufacturing customers that require the customer to purchase inventory items related to their contracts in the event that the contracts are cancelled. Preproduction Design and Development Costs - The Company incurs certain costs associated with the design and development of molds and dies for its contract manufacturing segment. These costs are held as deposits on the balance sheet until the molds or dies are finished and ready for use. At that point, the costs are included as part of production equipment in property and equipment and are amortized over their useful lives. The Company holds title to all molds and dies used in the manufacture of its various products. The Company held $2,010 in deposits at December 31, 2008 and 2007. The capitalized cost, net of accumulated depreciation, associated with molds and dies included in property and equipment at December 31, 2008 and 2007, was $561,467 and $1,134,765, respectively. Investments in Equity Securities Carried at Cost - The aggregate cost of the Company's cost-method investments totaled $1,502,000 at December 31, 2008. Investments with an aggregate cost of $750,000 were not evaluated for impairment because (a) The investment is in a nonpublic entity and the Company is exempt from estimating fair value under FASB Statement No. 126, Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, and (b) the Company did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments. The remaining of the cost-method investments consists of an investment in a company traded on the pink sheets in the talent agency industry. That investment was evaluated for impairment because of an adverse change in the market condition of companies in the talent agency industry and the trading volume and volatility of the investment. As a result of that evaluation, the Company identified an other-than-temporary impairment of the investment and realized a loss of $1,068,000, resulting in a carrying value at December 31, 2008 of $752,000. F-10 Property and Equipment - Depreciation expense is recognized in amounts equal to the cost of depreciable assets over estimated service lives. Leasehold improvements are amortized over the shorter of the life of the lease or the service life of the improvements. The straight-line method of depreciation and amortization is followed for financial reporting purposes. Maintenance, repairs, and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operating results. Depreciation expense for the years ended December 31, 2008 and 2007, was $221,926 and $232,488, respectively. Patents - Legal fees and other direct costs incurred in obtaining patents in the United States and other countries are capitalized. Patent costs are amortized over the estimated useful life of the patent. Impairment of Long-Lived Assets -The Company reviews its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. At each balance sheet date, the Company evaluates whether events and circumstances have occurred that indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable. Long-lived asset costs are amortized over the estimated useful life of the asset, which is typically 5 to 7 years. Amortization expense was $423,026 and $422,376 for the years ended December 31, 2008 and 2007, respectively. Financial Instruments with Derivative Features - The Company does not hold or issue derivative instruments for trading purposes. However, the Company has financial instruments that are considered derivatives, or contain embedded features subject to derivative accounting. Embedded derivatives are valued separate from the host instrument and are recognized as derivative liabilities in the Company's balance sheet. The Company measures these instruments at their estimated fair value, and recognizes changes in their estimated fair value in results of operations during the period of change. The Company has estimated the fair value of these embedded derivatives using the Black-Scholes model. The fair value of the derivative instruments are measured each quarter. Registration Payment Arrangements - On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue No. 00-19-2, Accounting for Registration Payment Arrangements ("EITF 00-19-2"). Under EITF 00-19-2, and SFAS No. 5, Accounting for Contingencies, a registration payment arrangement is an arrangement where (a) the Company has agreed to file a registration statement for certain securities with the SEC and have the registration statement declared effective within a certain time period; and/or (b) the Company will endeavor to keep a registration statement effective for a specified period of time; and (c) transfer of consideration is required if the Company fails to meet those requirements. When the Company issues an instrument coupled with these registration payment requirements, the Company estimates the amount of consideration likely to be paid under the agreement, and offsets such amount against the proceeds of the instrument issued. The estimate is then reevaluated at the end of each reporting period, and any changes are recognized as a registration penalty in the results of operations. As further described in Note 9, the Company has instruments that contain registration payment arrangements. The effect of implementing this EITF has not had a material effect on the financial statements because the Company considers probability of payment under the terms of the agreements to be remote. Advertising Costs - The Company expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2008 and 2007, were $230,130 and $397,066, respectively. F-11 Stock-Based Compensation - The Company has outstanding stock options to directors and employees, which are described more fully in Note 16. The Company accounts for its stock options in accordance with Statements of Financial Standards 123R, Share-Based Payment (SFA 123R). SFAS 123R requires the recognition of the cost of employee services received in exchanged for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. SFAS 123R also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period). Stock-based employee compensation incurred for the years ended December 31, 2008 and 2007, was $94,336 and $462,648, respectively. Income Taxes - The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and the tax bases of assets, liabilities, the carryforward of operating losses and tax credits, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. An allowance against deferred tax assets is recorded when it is more likely than not that such tax benefits will not be realized. Research tax credits are recognized as utilized. Use of Estimates - In preparing the Company's financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Concentrations of Risk - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade accounts receivable. The Company sells substantially to recurring customers, wherein the customer's ability to pay has previously been evaluated. The Company generally does not require collateral. Allowances are maintained for potential credit losses, and such losses have been within management's expectations. At December 31, 2008 and 2007, this allowance was $108,162 and $55,742, respectively. During the year ended December 31, 2008, sales to one customer accounted for 29 percent of net sales. Sales from the largest customer is included as part of the marketing and media segment. Accounts receivable from one customer was 91 percent of total accounts receivable at December 31, 2008, which created a concentration of credit risk. During 2007, sales to four customers accounted for 14 percent, 14 percent, 13 percent, and 12 percent of net sales, respectively. Sales to two of these customers were part of the contract manufacturing segment, one of these customers was part of the electronics assembly segment and the other customer was from the marketing and media segment. Accounts receivable from one customer was 78 percent of total accounts receivable at December 31, 2007, which created a concentration of credit risk. Fair Value of Financial Instruments - The carrying amounts reported in the accompanying consolidated financial statements for cash, accounts receivable, notes payable and accounts payable approximate fair values because of the immediate or short-term maturities of these financial instruments. The carrying amounts of the Company's debt obligations approximate fair value. Loss Per Share - Basic loss per share is calculated by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted loss per share is similarly calculated, except that the weighted-average number of common shares outstanding would include common shares that may be issued subject to existing rights with dilutive potential when applicable. The Company had 2,385,544,000 and 411,079,237 in potentially issuable common shares at December 31, 2008 and 2007, respectively. These potentially issuable common shares were excluded from the calculation of diluted loss per share because the effects would be anti-dilutive. Reclassifications - Certain reclassifications have been made to the financial statements to conform to the current year presentation. F-12 Recent Accounting Pronouncements - In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Company adopted SFAS No. 157 on January 1, 2008. It did not have a material effect on the financial statements. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2, which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, and interim period within those fiscal years. The Company has not yet determined the effect on its consolidated financial statements, if any, upon adoption of FSP FIN 157-2. In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest, and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the effect on our consolidated financial statements, if any, upon adoption of SFAS No. 141(R) or SFAS No. 160. In December 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-1, Accounting for Collaborative Arrangements (EITF 07-1). EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of EITF 07-1. In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect that the adoption of SFAS No. 161 will have a material impact on its consolidated financial statements. In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (FSB FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of FSP FAS 142-3. In May 20008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSB APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants, and specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of FSP APB 14-1. F-13 In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of EITF 07-5. NOTE 2 - REALIZATION OF ASSETS The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company sustained losses of $3,911,212 and $7,232,524 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Company had an accumulated deficit of $33,325,415 and $29,414,203, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of $5,282,822 and $4,260,618 for the years ended December 31, 2008 and 2007, 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 paragraph, 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. (Presently, the Company has no significant number of authorized shares available.) The Company does have several new programs in development. These programs represent a new direction for the Company by expanding its efforts into consumer products contract manufacturing and marketing. These new programs have the potential to carry higher profit margins than electronic manufacturing and as a result, the Company is investing substantial resources into developing these activities. 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 - INVENTORY Inventory consists of the following: December 31, December 31, 2008 2007 -- Raw Materials $ 1,625,322 $ 1,910,029 Work in Process 221,079 398,978 Finished Goods 633,821 598,576 Allowance / Reserve (1,028,957) (968,967) ---------------------------- Totals $ 1,451,265 $ 1,938,616 ============================== During 2008 and 2007, write downs of $320,685 and $102,614, respectively, were recorded to reduce items considered obsolete or slow moving to their market value. NOTE 4 - SALE OF PROPERTY In May 2007, PFE Properties LLC ("PFE"), a Utah limited liability company and wholly owned subsidiary of the Company, sold and the Company leased back the land and building where the Company presently has its headquarters and manufacturing facility. The sales proceeds were $2,500,000. With those proceeds, the Company repaid PFE's mortgage of $1,033,985, along with taxes, fees, and commissions aggregating $199,303. The Company then agreed to lease back the property from the buyer, an individual who later became for a time one of the Company's directors. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. The monthly lease payment is $17,083. The Company recorded a gain on the sale of the property of $810,736, which is being amortized over the life of the lease. The Company recognized $81,581 and $59,792 of the amortization during the years ending December 31, 2008 and 2007, respectively. F-14 NOTE 5 - ADVANCE BEAUTY SOLUTIONS RECEIVABLE In June 2006, the Company and Advance Beauty Solutions ("ABS") signed an agreement to settle certain disputed claims the Company had against ABS. Pursuant to the settlement of ABS's bankruptcy proceedings and the terms of the agreement, the Company obtained an allowed claim against ABS in the amount of $2,350,000. Of this amount, $750,000 was credited to the purchase of substantially all of ABS's assets under the terms of a separate asset purchase agreement (see below). Pursuant to the settlement, the Company was allowed to participate as a general unsecured creditor of ABS in the remaining amount of $1,600,000. ABS also has a $2,100,000 general unsecured claim of certain insiders of ABS. Both of these claims are subject to the prior payment of certain other secured, priority, and non-insider claims in the amount of $1,507,011. The settlement also resolved a related dispute with Inventory Capital Group ("ICG"), in which ICG assigned $65,000 of its secured claim against ABS to the Company. Pursuant to the terms of the asset purchase agreement, in 2006 the Company acquired substantially all of ABS's assets in exchange for a cash payment of $1,125,000, a reduction by $750,000 in the amount owing to the Company, and the obligation to pay to ABS a royalty equal to $3.00 per True Ceramic Pro ("TCP") flat iron unit sold by the Company. The minimum royalty amount the Company will pay is $435,000, and this amount was included with other long-term obligations of the Company (see Note 10). Only after this initial $435,000 is paid can the Company begin sharing in the benefit, as one of ABS's creditors, of the royalty obligation paid to the ABS estate. The realization of the total $1,665,000 receivable due the Company from the ABS estate depends on the Company selling approximately one million TCP units in the future, and gradually offsetting the Company's proportionate share of the resultant royalty obligation against the receivable. NOTE 6 - PROPERTY AND EQUIPMENT Property and equipment and estimated service lives consisted of the following as of December 31, 2008 and 2007: Estimated Service Lives 2008 2007 in Years -- Production equipment $ 4,051,218 $ 4,051,218 5-10 Leasehold improvements 997,714 997,714 7-10 Office equipment 240,472 231,140 5-10 Other 53,208 53,208 3-7 -- Total property and equipment 5,342,612 5,333,280 Less accumulated depreciation (4,569,021) (4,347,096) -- Property and equipment, net $ 773,591 $ 986,184 -- NOTE 7 - INTELLECTUAL PROPERTY Intellectual property and estimated service lives consisted of the following as of December 31, 2008 and 2007: F-15 Estimated Service Lives 2008 2007 in Years -- Infomercial development costs $ 217,786 $ 162,840 7 Patents 38,056 45,660 7 ABS Infomerical 1,186,382 1,186,382 5 Trademark 1,227,673 1,220,068 7 Copyright 115,193 115,193 7 Website Development Costs 150,000 - 5 -- Total intellectual property 2,935,090 2,730,143 Less accumulated amortization (1,063,937) (640,910) -- Intellectual property, net $ 1,871,153 $ 2,089,233 -- The estimated amortization expenses for the next five years are as follows: Year Ending December 31, -- 2009 $ 433,099 2010 433,099 2011 334,439 2012 232,571 2013 117,817 -- Total $ 1,551,025 -- NOTE 8 - RELATED PARTY TRANSACTIONS

Play Beverages, LLC During 2006, Playboy Enterprises International, Inc. ("Playboy"), entered into a licensing agreement with Play Beverages, LLC ("PlayBev"), then an unrelated Delaware limited liability company, whereby PlayBev agreed to internationally market and distribute a new energy drink carrying the Playboy name and "Rabbit Head" logo symbol. In May 2007, PlayBev entered into an exclusive agreement with the Company to arrange for the manufacture, marketing and distribution of the energy drinks, other Playboy-licensed beverages, and related merchandise through various distribution channels throughout the world. In an effort to finance the initial development and marketing of the new drink, the Company with other investors formed After Bev Group LLC ("AfterBev"), a California limited liability company and partially-owned, consolidated subsidiary of the Company. The Company contributed its expertise in exchange for an initial 84 percent membership interest in AfterBev. The other initial AfterBev members contributed $500,000 in exchange for the remaining 16 percent. The Company borrowed an additional $250,000 from an individual, and contributed the total $750,000 to PlayBev in exchange for a 51 percent interest in PlayBev's cash distributions. The Company recorded this $750,000 amount as an investment in PlayBev accounted for under the cost method. PlayBev then remitted these funds to Playboy as part of a guaranteed royalty prepayment. Along with the membership interest granted the Company, PlayBev agreed to appoint the Company's president and one of the Company's directors to two of PlayBev's three executive management positions. In addition, during 2008 and 2007, these two affiliates also purchased membership interests from other PlayBev members which aggregated 22.35 percent and 11.1 percent, respectively. Despite the combined 78.5 percent voting interest owned by these affiliates and the Company, and the resultant ability to partially influence PlayBev, the operating agreement for PlayBev, as amended, requires that various major operating and organizational decisions be agreed to by at least 95 percent of all members. The other members of PlayBev are not affiliated with the Company. Accordingly, while PlayBev is now a related party, the Company cannot unilaterally control significant operating decisions of PlayBev, and therefore has not accounted for PlayBev's operations as if it was a consolidated subsidiary. F-16 PlayBev has no operations, so under the terms of the exclusive manufacturing and distribution agreement the Company was appointed the master manufacturer and distributor of the beverages and other products that PlayBev licensed from Playboy. In so doing, the Company assumed all the risk of collecting amounts owed from customers, and contracting with vendors for manufacturing and marketing activities. In addition, PlayBev is owed a royalty from the Company equal to the Company's gross profits from collected beverage sales, less 20 percent of the Company's related cost of goods sold, and 6 percent of the Company's collected gross sales. The Company also agreed to provide services to PlayBev for initial development, marketing, and promotion of the new beverage. These services are to be billed to PlayBev and recorded as an account receivable from PlayBev. The Company initially agreed to carry up to a maximum of $1,000,000 as a receivable due from PlayBev in connection with these billed services. On March 19, 2008 the Company agreed to increase the maximum amount it would carry as a receivable due from PlayBev, in connection with these billed services, from $1,000,000 to $3,000,000. As of March 19, 2008 the Company also began charging interest on the outstanding amounts owing at a rate of 7 percent per annum. PlayBev has agreed to repay the receivable and accrued interest out of the royalties due PlayBev. The Company has billed PlayBev for marketing and development services totaling $5,044,741 and $1,532,071 for the years ending December 31, 2008 and 2007, respectively, which have been included in revenues for the Company's marketing and media segment. As of December 31, 2008, the interest accrued on the balance owing from PlayBev totaled $217,431. The net amount due the Company from PlayBev for marketing and development services, after netting the royalty owed to PlayBev, totaled $4,718,843 at December 31, 2008. On August 23, 2008, PlayBev's members agreed to amend its operating agreement to change the required membership vote on major managerial and organizational decisions from 75 percent to 95 percent. Additionally, an unrelated executive manager of PlayBev resigned, leaving the remaining two executive management positions occupied by the Company president and one of the Company's directors. In addition, during 2008, the two affiliates personally purchased membership interests from PlayBev directly and from other Playbev members an additional 11.22 percent and 22.35 percent, respectively. Despite the combined 78.5 percent voting interest owned by these affiliates and the Company, and the resultant ability to partially influence PlayBev, the operating agreement for PlayBev was amended on August 23, 2008 which requires that various major operating and organizational decisions be agreed to by members owning at least 95 percent of the membership interests. The other members of PlayBev are not affiliated with the Company. Accordingly, while PlayBev is a related party, the Company cannot unilaterally control significant operating decisions of PlayBev, and has not accounted for PlayBev's operations as if it was a consolidated subsidiary. After Bev Group, LLC Following AfterBev's organization in May 2007, the Company entered into consulting agreements with two individuals, one of whom had loaned the Company $250,000 when the Company invested in PlayBev, and the other one was a Company director. The agreements provided that the Company assign to each individual approximately one-third of the Company's share in future AfterBev cash distributions, in exchange for their assistance in the initial AfterBev organization and planning, along with their continued assistance in subsequent beverage development and distribution activities. The agreements also provided that as the Company sold a portion of its membership interest in AfterBev, the individuals would each be owed their proportional assigned share distributions in the proceeds of such a sale. The actual payment of the distributions depended on what the Company did with the sale proceeds. If the Company used the proceeds to help finance beverage development and marketing activities, the payment of distributions would be deferred, pending collections from customers once beverage product sales eventually commenced. Otherwise, the proportional assigned share distributions would be due to the two individuals. Throughout the balance of 2007, as energy drink development and marketing activities progressed, the Company raised additional funds by selling portions of its membership interest in AfterBev to other investors, some of whom were Company stockholders. In some cases, the Company sold a portion of its membership interest, including voting rights. In other cases, the Company sold merely a portion of its share of future AfterBev profits and losses. By the end of 2007, after taking into account the two interests it had assigned, the Company had retained a net 14 percent interest in AfterBev's profits and losses, but had retained 52 percent of all voting rights in AfterBev. The Company recorded the receipt of these net funds as increases to its existing minority interest in AfterBev, and the rest as amounts owing as distributable proceeds payable to the two individuals with assigned interests of the Company's original share of AfterBev. F-17 At the end of 2007, the Company agreed to convert the amount owing to one of the individuals into a promissory note. In exchange, the individual agreed to relinquish his approximately one-third portion of the Company's remaining share of AfterBev's profits and losses. Instead, the individual received a membership interest in AfterBev. In January 2008, the other assignee, who is one of the Company's directors, similarly agreed to relinquish the distributable proceeds owed to him, in exchange for an interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, the director loaned $834,393 to the Company in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. As of December 31, the Company still owed the director $201,229 in the form of unsecured advance. Global Marketing Alliance The Company entered into an agreement with GMA, and hired GMA's owner as the Vice President of CTO, one of the Company's subsidiaries. Under the terms of the agreement, the Company outsources to GMA the online marketing and sales activities associated with the Company's CTO products. In return, the Company provides bookkeeping and management consulting services to GMA, and pays GMA a fee equal to five percent of CTO's online net sales. In addition, GMA assigned to the Company all of its web-hosting and training contracts effective as of January 1, 2007, along with the revenue earned thereon, and the Company also assumed the related contractual performance obligations. The Company recognizes the revenue collected under the GMA contracts, and remits back to GMA a management fee approximating their actual costs. The Company recognized net revenues from GMA related products and services in the amount of $3,234,588 and $2,438,434 totaled $3,072,859 and $2,159,151 for the years ended December 31, 2008 and 2007, respectively. Transactions involving Officers, Directors, and Stockholders Don L. Buehner was appointed to the Company's Board of Directors during 2007. Prior to his appointment as a director, Mr. Buehner bought the Company's building in a sale/leaseback transaction. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. The Company pays Mr. Buehner a monthly lease payment of $17,083, which is subject to annual adjustments in relation to the Consumer Price Index. As previously reported, Mr. Buehner retired from the Company's Board of Directors following the Company's Annual Meeting of Shareholders on June 18, 2008. In 2007, the Company appointed Fadi Nora to its Board of Directors. In addition to compensation the Company normally pays to non-employee members of the Board, Mr. Nora is entitled to a quarterly bonus equal to 0.5 percent of any gross sales earned by the Company directly through Mr. Nora's efforts. As of December 31, 2008, the Company owed $8,503 under this arrangement. Mr. Nora also is entitled to a bonus equal to five percent of the amount of any investment proceeds received by the Company that are directly generated and arranged by him if the following conditions are satisfied: (i) his sole involvement in the process of obtaining the investment proceeds is the introduction of the Company to the potential investor, but that he does not participate in the recommendation, structuring, negotiation, documentation, or selling of the investment, (ii) neither the Company nor the investor are otherwise obligated to pay any commissions, finders fees, or similar compensation to any agent, broker, dealer, underwriter, or finder in connection with the investment, and (iii) the Board in its sole discretion determines that the investment qualifies for this bonus, and that the bonus may be paid with respect to the investment. During 2008, Mr. Nora has received no compensation under this arrangement, and at December 31, 2008, the Company owed him $49,850 stemming from investment proceeds received under various financing arrangements during the 2008. In 2007, the Company also entered into a consulting agreement with Mr. Nora, whereby the Company assigned to him approximately one-third of the Company's share in future AfterBev cash distributions. In return, Mr. Nora assisted in the initial AfterBev organization and planning, and continued to assist in subsequent beverage development and distribution activities. The agreement also provided that as the Company sold a portion of its membership interest in AfterBev, Mr. Nora would be owed his proportional assigned share distribution in the proceeds of such a sale. Distributable proceeds due to Mr. Nora at the end of 2007 were $747,290. In January 2008, he agreed to relinquish this amount, plus an additional $116,683, in exchange for a 24 percent interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, the director loaned $834,393 to the Company in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. As of December 31, the Company still owed the director $201,229in the form of unsecured advances. F-18 Prior to his appointment with the Company, Mr. Nora was also involved in the ANAHOP private placement of common stock. On April 11, 2008, Mr. Nora disassociated himself from the other principals of ANAHOP, and as part of the asset settlement relinquished ownership to the other principals of 12,857,144 shares of CirTran Corporation common stock, along with all of the warrants previously assigned to him. In 2007, the Company issued a 10 percent promissory note to a family member of the Company's president in exchange for $300,000. The note was due on demand after May 2008. The Company repaid principal and interest totaling $8,444 and $61,109 during the years ended December 31, 2008 and 2007, respectively. The principal amount owing on the notes was $230,447 at December 31, 2008. On March 31, 2008, the Company issued to this same family member, along with four other Company shareholders, promissory notes totaling $315,000. The family member's note was for $105,000. Under the terms of all the notes, the Company received total proceeds of $300,000, and agreed to repay the amount received plus a five percent borrowing fee. The notes were due April 30, 2008, after which they were due on demand, with interest accruing at 12 percent per annum. During the year ended December 31, 2008 the Company paid two of the notes in full for a total of $105,000. In addition, the Company repaid $58,196 in principal to the family member during the year ended December 31, 2008. The principal balance owing on the promissory notes as of December 31, 2008 totals $151,804. During 2007, the Company president advanced the Company $30,000; this obligation was repaid prior to December 31, 2007. During the year ended December 31, 2008 the Company president advanced the Company $778,600. Of the amounts advanced, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. As of December 31, 2008 the Company still owed the Company's president $146,100 in the form of unsecured advances. NOTE 9 - COMMITMENTS AND CONTINGENCIES Guthy-Renker - In 2006, the Company filed a lawsuit against Guthy-Renker ("Guthy"), alleging breach of a 2005 manufacturing and distribution agreement, and seeking unspecified damages in excess of several million dollars. On March 25, 2008, the parties settled the matter, and Guthy paid the Company $300,000 under the settlement agreement to resolve all claims. Litigation and Claims - Various vendors and service providers have notified the Company that they believe they have claims against the Company totaling approximately $1,680,000. 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. Registration rights agreements - In May 2005, in connection with the Company's issuance of a convertible debenture to Highgate House Funds, Ltd. ("Highgate") (see Note 11), 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 were sold. The Company filed the registration statement in September 2005, and the registration statement was declared effective in August 2006. In December 2005, in connection with the Company's issuance of a convertible debenture to YA Global Investments, L.P., formerly known as Cornell Capital Partners, L.P. ("YA Global") (see Note 11), the Company granted to YA Global 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 32,608,696 shares and 10,000,000 warrants, and to keep the registration statement effective until all of the shares issuable upon conversion of the debenture have been sold. F-19 In August 2006, in connection with the Company's issuance of a second convertible debenture to YA Global (See Note 11), the Company granted YA Global 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 74,291,304 shares and 15,000,000 warrants, and to keep such registration statement effective until all of the shares issuable upon conversion of the debenture have been sold. Previously, YA Global has agreed to extensions of the filing deadlines inherent in the terms of the two convertible debentures mentioned above, and in February 2008 agreed to extend the filing deadlines to December 31, 2008. No further extension has been granted. NOTE 10 - NOTES PAYABLE Notes payable consisted of the following at December 31, 2008 and 2007: 2008 2007 -- Court Estate note, due in June 2008 $ 119,904 $ 194,904 10% unsecured note due to a family member of the Company president, interest payable monthly, no stated maturity date, due on demand after May 2008 - 238,891 $1 million note due to an AfterBev member, no stated interest rate, discounted by interest imputed at 12%, no stated maturity date (but see below for payment conditions) 906,271 809,364 Amount advanced by a stockholder which was converted in February 2008 to a 10% unsecured note, interest due quarterly, due February 2011 230,447 200,000 3 year $700,000 promisory note to an investor, 10% stated interest rate, face value discounted and to be accreted over the life of the note. 196,615 - 1 year $75,000 promisory note to an unrelated member of AfterBev, 10% stated interest rate, interest payable quarterly. 75,000 - $315,000 promisory note to and individual, 12% stated interest, with a 5% borrowing fee, due on demand in May 2008. 315,000 - Promisory notes to 3 investors, 12% stated interest, 5% borrowing fee, payable on demand after 30 days. 151,804 - -- 1,995,041 1,443,159 Less current maturities (1,725,416) (433,795) -- Long-term portion of notes payable $ 269,625 $ 1,009,364 -- There are no scheduled principal payments on the $1 million note shown above. However, if the Company sells any portion of its remaining membership interest in AfterBev, 50 percent of the proceeds of such a sale up to $530,000 shall be payable to the note holder as a principal payment. In any event, at least $530,000 of principal is due by December 2009. Using a presumed two-year period as an estimate, the Company imputed interest at its incremental borrowing rate of 12 percent, and discounted the face amount of the note by $193,548 to $806,452. Inasmuch as the note was issued in settlement of negotiations involving the sale of AfterBev membership interests, the discount was recorded as an increase in minority interest. The discount will be recognized ratably into interest expense over the estimated two-year life of the loan. During the year ended December 31, 2008 a total of $96,907 in interest expense was recognized, which decreased the discount and increased the carrying amount of the note. A total of $2,912 in interest expense was recognized during the year ended December 31, 2007. The following is a schedule of future maturities on the notes payable: Year Ending December 31, -- 2009 (including amounts due on demand) $ 1,725,416 2010 233,760 2011 35,865 -- Total $ 1,995,041 -- F-20 NOTE 11 - CONVERTIBLE DEBENTURES Highgate House Funds, Ltd. - In May 2005, the Company entered into an agreement with Highgate to issue a $3,750,000, 5 percent Secured Convertible Debenture (the "Debenture"). The Debenture was originally due December

31, 2007, and is secured by all of the Company's assets. Highgate extended the maturity date of the Debenture to December 31, 2008. As of January 1, 2008 the interest rate increased to 12 percent. No further extension has been granted. 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 our 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 December 31, 2008 was $250,923. 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. We have the right to redeem a portion of the entire Debenture outstanding by paying 105 percent of the principal amount redeemed plus accrued interest thereon. Highgate's right to convert principal amounts of the Debenture into shares of our 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 we 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 percent of the Company's outstanding common stock. The Company also granted Highgate registration rights related to the shares of the Company's common stock issuable upon the conversion of the Debenture. The Company determined that certain conversion features of the Debenture fell under derivative accounting treatment. Since May 2005, the carrying value has been accreted over the life of the debenture until December 31, 2007, the original maturity date. As of that date, the carrying value of the Debenture was $970,136, which was the remaining face value of the debenture. The carrying value of the Debenture as of December 31, 2008, was $620,136. The fair market valuation of the derivative liability of the convertible debenture considers several factors, primarily the bid price on December 31, 2008 and the lowest bid price for the 20 days prior to December 31, 2008. Since the bid price on December 31, 2008 approximated the lowest bid price for the preceding 20 days, the fair market valuation calculated to $0 on December 31, 2008. In connection with the issuance of the Debenture, $2,265,000 of the proceeds was used to repay earlier promissory notes. Fees of $256,433, withheld from the proceeds, were capitalized and were amortized over the life of the note. During 2006, Highgate converted $1,000,000 of Debenture principal and accrued interest into a total of 37,373,283 shares of common stock. During 2007, Highgate converted $1,979,864 of Debenture principal and accrued interest into a total of 264,518,952 shares of common stock. During the year ended December 31, 2008, Highgate converted $350,000 of debenture principal into a total of 36,085,960 shares of common stock. F-21 YA Global December Debenture - In December 2005, the Company entered into an agreement with YA Global to issue a $1,500,000, 5 percent Secured Convertible Debenture (the "December Debenture"). The December Debenture was originally due July 30, 2008, and has a security interest in all the Company's assets, subordinate to the Highgate security interest. YA Global also agreed to extend the maturity date of the December Debenture to December 31, 2008. As of January 1, 2008 the interest rate was increased to 12 percent. No further extension has been granted. 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. At any time, YA Global may elect to convert principal amounts owing on the December 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 December Debenture then outstanding by paying 105 percent of the principal amount redeemed plus accrued interest thereon. The balance of accrued interest owed at December 31, 2008, was $330,904. YA Global's right to convert principal amounts of the December Debenture into shares of the Company's common stock is limited as follows: (i) YA Global may convert up to $250,000 worth of the principal amount plus accrued interest of the December Debenture in any consecutive 30-day period when the market price our stock is $0.10 per share or less at the time of conversion; (ii) YA Global may convert up to $500,000 worth of the principal amount plus accrued interest of the December Debenture in any consecutive 30-day period when the price of the Company's common stock is greater than $0.10 per share at the time of conversion; provided, however, that YA Global may convert in excess of the foregoing amounts if the Company and YA Global mutually agree; and (iii) Upon the occurrence of an event of default, YA Global may, in its sole discretion, accelerate full repayment of the debenture outstanding and accrued interest thereon or may convert the December Debenture and accrued interest thereon into shares of the Company's common stock. Except in the event of default, YA Global may not convert the December Debenture for a number of shares that would result in YA Global owning more than 4.99 percent of the Company's outstanding common stock. The YA Global Debenture was issued with 10,000,000 warrants, with an exercise price of $0.09 per share. The warrants vest immediately and have a three-year life. As a result of the May 2007 1.2-for1 forward stock split, the effective number of vested warrants increased to 12,000,000. On December 31, 2008, all 12,000,000 warrants have expired. The Company also granted YA Global registration rights related to the shares of the Company's common stock issuable upon the conversion of the December Debenture and the exercise of the warrants. As of the date of this Report, no registration statement had been filed. The Company determined that the conversion features on the December Debenture and the associated warrants fell under derivative accounting treatment. The carrying value was accreted over the life of the December Debenture until August 31, 2008, a former maturity date, at which time the value of the December Debenture reached $1,500,000. The fair market valuation of the derivative liability of the convertible debenture considers several factors, primarily the bid price on December 31, 2008 and the lowest bid price for the 20 days prior to December 31, 2008. Since the bid price on December 31, 2008 approximated the lowest bid price for the preceding 20 days, the fair market valuation calculated to $0 on December 31, 2008. In connection with the issuance of the December Debenture, fees of $130,000, withheld from the proceeds, were capitalized and were amortized over the original life of the December Debenture. F-22 As of December 31, 2008, YA Global had not converted any of the December Debenture into shares of the Company's common stock. YA Global August Debenture - In August 2006, the Company entered into another agreement with YA Global relating to the issuance by the Company of another 5 percent Secured Convertible Debenture, due in April 2009, in the 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 December 31, 2008, was $274,694. YA Global 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 100 percent of the lowest closing bid price of the Company's common stock for the twenty trading days immediately preceding the conversion date. YA Global's right to convert principal amounts owing under the August Debenture into shares of our common stock is limited as follows: (i) YA Global 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 common stock is $0.03 per share or less at the time of conversion; (ii) YA Global 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 common 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 August Debenture), YA Global 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. Except in the event of default, YA Global 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 percent of the outstanding shares of the common stock following such conversion. In connection with the August Purchase Agreement, the Company also agreed to grant to YA Global warrants (the "Warrants") to purchase up to an additional 15,000,000 shares of our 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. As a result of the May 2007 1.2-for 1 forward stock split, the effective number of outstanding warrants increased to 18,000,000. In connection with the issuance of the August Debenture, the Company also granted YA Global registration rights related to the common stock issuable upon conversion of the August Debenture and the exercise of the Warrants. As of the date of this report, no registration statement had been filed. The Company determined that the conversion features on the August Debenture and the associated warrants fell under derivative accounting treatment. The carrying value will be accreted each quarter over the life of the August Debenture until the carrying value equals the face value of $1,500,000. During the year ended December 31, 2008 YA Global chose to convert $341,160 of the convertible debenture into 139,136,360 shares of common stock. As of December 31, 2008, the carrying value of the August Debenture was $1,042,514. The fair value of the derivative liability stemming from the August Debenture's conversion feature as of December 31, 2008, was $648,653. In connection with the issuance of the August Debenture, fees of $135,000, withheld from the proceeds, were capitalized and are being amortized over the life of the August Debenture. F-23 The Company currently has issued and outstanding options, warrants, convertible notes and other instruments for the acquisition of the Company's common stock in excess of the available authorized but unissued shares of common stock provided for under the Company's Articles of Incorporation, as amended. As a consequence, in the event that the holders of such instruments requiring the issuance, in the aggregate, of a number of shares of common stock that would, when combined with the previously issued and outstanding common stock of the Company exceed the authorized capital of the Company, seek to exercise their rights to acquire shares under those instruments, the Company will be required to increase the number of authorized shares or effect a reverse split of the outstanding shares in order to provide sufficient shares for issuance under those instruments. NOTE 12 - LEASES On May 4, 2007, the Company entered into a ten-year lease agreement for the Company's existing 40,000 square-foot headquarters and manufacturing facility, located at 4125 South 6000 West in West Valley City, Utah. Monthly payments are $17,083, adjusted annually in accordance with the Consumer Price Index. The workspace includes 10,000 square feet of office space to support administration, sales, and engineering staff. The 30,000 square feet of manufacturing space includes a secured inventory area, shipping and receiving areas, and manufacturing and assembly space. (See Note 4.) The Company's facilities in Shenzhen, China, constitute a sales and business office. The Company has no manufacturing facilities in China. The Company's office in Shenzhen is approximately 1,060 square feet. The term of the lease is for two years, beginning May 28, 2007. Under the terms of the lease on the space, the monthly payment is 12,783 China Yuan Renminbi, which was the equivalent of $1,871 on March 27, 2009. In November 2007, the Company began occupying approximately 1,260 square feet of commercial space in the Century City district of Los Angeles. The three-year lease calls for payments of $3,525 per month. In November 2006, the Company signed a two-year lease on a 1,150 square-foot facility in Bentonville, Arkansas, in close proximity to Wal-Mart's world headquarters. Lease payments during the two-year lease term have been $1,470 per month. The Company entered into a new lease agreement, beginning in November 2008 for a 600 square-foot facility at a new location in Bentonville. Lease payments for the new two year lease are $715 per month. This office is used for sales and promotions. The following is a schedule of future minimum lease payments under the operating leases: Year Ending December 31, -- 2009 257,794 2010 253,615 2011 205,000 2012 205,000 2013 205,000 Thereafter 683,333 -- Total $ 1,809,742 -- The building leases provide for payment of property taxes, insurance, and maintenance costs by the Company. Rental expense for operating leases totaled $293,447 and $231,853 for the years ended December 31, 2008 and 2007, respectively. NOTE 13 - ROYALTY OBLIGATION TO ABS CREDITORS Under the June 2006 agreement with ABS, which is a part of ABS's bankruptcy proceedings, the Company has an obligation to pay a royalty equal to $3.00 per TCP flat iron unit sold by the Company. The maximum amount of royalties the Company must pay is $4,135,000. Regardless of sales, however, the Company agreed to pay at least $435,000 by June 2008, and included that amount in the Company's short-term obligations (See Note 10). Under the terms of the bankruptcy court-approved agreement, royalties are to be paid to various ABS creditors in a specified order and in specified amounts. Only after the Company pays the total $435,000 to other creditors can it then begin to share pro rata in part of the royalties owed by offsetting amounts owed to reduce its long-term receivable (see Note 5). As of December 31, 2008, the Company had paid royalties totaling $315,096. F-24 NOTE 14 - INCOME TAXES The Company has paid no federal or state income taxes. The significant components of the Company's deferred tax assets and liabilities at December 31, 2008 and 2007, were as follows: 2008 2007 -- Deferred income tax assets: Inventory reserve $ 383,801 $ 361,425 Bad debt reserve 40,344 20,792 Vacation reserve 35,580 35,161 Research and development credits 27,285 27,285 Net operating loss carryforward 11,060,727 8,433,772 Depreciation 107,606 95,920 Intellectual property 311,997 211,068 Derivative liability 219,753 712,497 -- Total deferred income tax assets 12,187,093 9,897,920 Valuation allowance (12,187,093) (9,897,920) -- Net deferred income tax asset $ - $ - -- The Company has sustained net operating losses in both periods presented in the accompanying consolidated statements of operations. No deferred tax asset or income tax benefits are reflected in the financial statements for net deductible temporary differences or net operating loss carryforwards, because the likelihood of realization of the related tax benefits cannot be established. Accordingly, a valuation allowance has been recorded to reduce the net deferred tax asset to zero, and consequently there is no income tax provision or benefit presented for the years ended December 31, 2008 and 2007. As of December 31, 2008, the Company had net operating loss carryforwards for tax reporting purposes of approximately $29.6 million. These net operating loss carryforwards, if unused, begin to expire in 2019. Utilization of approximately $1.2 million of the total net operating loss is dependent on the future profitable operation of Racore Technology Corporation, a wholly-owned subsidiary, under the separate return limitation rules and restrictions on utilizing net operating loss carryforwards after a change in ownership. In addition, the realization of tax benefits relating to net operating loss carryforwards is limited due to the settlement related to amounts previously due to the IRS, as discussed below. In November 2004, the Internal Revenue Service accepted the Company's Amended Offer in Compromise (the "Offer") to settle delinquent payroll taxes, interest and penalties. The acceptance of the Offer required the Company to pay $500,000. Additionally, the Offer required the Company to remain current in its payment of taxes for 5 years, and not claim any net operating losses for the years 2001 through 2015, or until the Company pays taxes on future profits in an amount equal to the taxes waived by the offer in compromise of $1,455,767. The following is a reconciliation of the amount of tax benefit that would result from applying the federal statutory rate to pretax loss with the benefit from income taxes for the years ended December 31, 2008 and 2007: F-25 2008 2007 -- Benefit at statutory rate (34%) $ (1,329,812) $ (2,459,058) Non-deductible expenses 60,446 38,988 Change in valuation allowance 2,289,173 2,629,812 State tax benefit, net of federal tax benefit (129,070) (238,673) Return to provision (890,737) 28,931 -- Net benefit from income taxes $ - $ - -- NOTE 15 - STOCKHOLDERS' DEFICIT Common Stock Issuances -- During the year ended December 31, 2008, the Company issued the following shares of restricted common stock: 175,222,320 restricted shares of common stock to Highgate and YA Global upon conversion of $1,165,369 of convertible debt and accrued interest. On each conversion date, the conversion rate was the lower of $0.10 per share, or 100 percent of the lowest closing bid price of the Company's common stock over the 20 trading days preceding the conversion. The average conversion rate was $.004 during 2008. Associated with the conversions was a related decrease in the derivative liability of $474,209. 56,142,857 restricted shares in six separate private placements for a total of $404,000. 3,000,000 restricted shares of common stock to a former employee as part of a final payment of an accrued settlement obligation in the amount of $21,000, which was the fair market value of the shares required to be issued when the settlement was made. 80,635,960 restricted shares were issued in four private placement transactions involving the conversion of $367,900 in advances, which investors had previously loaned to the Company. Also included in these transactions was the conversion of accrued liabilities totaling $39,890. All dollar amounts were based on the fair market value on the day the shares were sold as determined by the closing price bid price. During the year ended December 31, 2007, the Company issued the following shares of restricted common stock: 264,518,952 shares for payment of $1,879,864 of principal and $100,000 of interest on the debenture to Highgate (see Note 12). Associated with the debenture conversion payment was a related decrease in the derivative liability of $1,542,287. 1,000,000 shares, with a fair market value of $0.007 per share when they were issued, as part of a severance package awarded to a former employee. In October and November of 2007, a total of 29,000,000 shares were sold in three separate private placement transactions for $230,000. The proceeds were based on the fair market value on the day the shares were sold. In May 2007, the Company issued an additional 140,572,073 shares to effect a 1.2-for-1 forward stock split. No payment was made to the Company in connection with the forward split. Non-Employee Options - During each of the years ended December 31, 2008 and 2007, options for 10,000,000 shares of common stock were exercised by the Company's outside legal counsel for proceeds of $1,000 and $1,000, respectively. The Company granted options for 10,000,000 shares of common stock to attorneys in each of the years ended December 31, 2008 and 2007 as discussed in Note 16. F-26 NOTE 16 - STOCK OPTIONS AND WARRANTS Stock Option Plans - As of December 31, 2008, there were no more options outstanding from the three Stock Option Plans adopted during 2003 and 2004. As of that same date, options to purchase a total of 56,800,000 shares of common stock had been issued from the 2006 Stock Option Plan, out of which a maximum of 60,000,000 can be issued. As of December 31, 2008, options and share purchase rights to acquire a total of 22,960,000 shares of common stock had been issued from the 2008 Stock Option Plan, also out of which a maximum of 60,000,000 can be issued. The Company's Board of Directors administers the plans, and has discretion in determining the employees, directors, independent contractors, and advisors who receive awards, the type of awards (stock, incentive stock options, non-qualified stock options, or share purchase rights) granted, and the term, vesting, and exercise prices. Employee Options - During the twelve months ended December 31, 2008 and 2007, the Company granted options to purchase 12,960,000 and 49,200,000 shares of common stock to employees, respectively. The fair market value of the options granted in 2008 and 2007 aggregated $105,296 and $462,648, respectively. Option awards to employees are granted with an exercise price equal to the market price of the Company's stock at the date of grant, most granted in the past have vested immediately, and most have had four-year contractual terms. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model, using the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's common stock over the most recent period commensurate with the expected term of the option. Prior to 2007, at times the Company granted options to employees in lieu of salary payments, and the pattern of exercise experience was known. Beginning in 2007, options were granted under different circumstances, and the Company has insufficient historical exercise data to provide a reasonable basis upon which to estimate the expected terms. Accordingly, in such circumstances, the Company in 2007 began using the simplified method for determining the expected term of options granted with exercise prices equal to the stock's fair market value on the grant date. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. A summary of the stock option activity under the Plans as of December 31, 2008 and 2007, and changes during the years ending December 31, 2008 and 2007, are presented below: Weighted- Weighted- Average Average Remaining Aggregate Exercise Contractual Intrisic Shares Price Life Value -- Outstanding at December 31, 2006 10,750,500 $0.026 ====================== Granted 59,200,000 $0.011 Adjusted for forward stock split 6,300,000 $0.140 Exercised (10,000,000) $0.000 ------------ Expired (19,450,500) $0.020 ====================== Outstanding at December 31, 2007 46,800,000 $0.013 4.42 $ 92,640 == Excercisable at December 31, 2007 46,800,000 $0.013 ====================== Granted 12,960,000 $0.018 Exercised - $0.000 Expired (3,600,000) $0.013 ------------========== Outstanding at December 31, 2008 56,160,000 $0.014 3.51 $ - == Excercisable at December 31, 2008 54,360,000 $0.013 3.54 $ - == The weighted-average grant-date fair value of options granted during the years 2008 and 2007 was $.018 and $0.009, respectively. The total intrinsic value of options exercised during the years ended December 2008 and 2007 was $0 and $69,000, respectively. As of December 31, 2008, vested options totaled 54,360,000, leaving 1,800,000 that have yet to completely vest. As a result, as of December 31, 2008 unrecognized compensation costs related to options outstanding that have not yet vested at year-end that would be recognized in subsequent periods totaled $10,960. F-27 Share Purchase Rights - During 2008, the Company granted share purchase rights to its outside legal counsel to acquire 10,000,000 shares of common stock at a price of $0.0001 per share. The purchase rights were granted in order that the attorneys could sell the underlying shares and thus satisfy amounts due for legal services rendered. Additional legal expense of $130,000 was recognized as the fair market value at the time the stock purchase rights were awarded. Fair market value was estimated using the Black-Scholes valuation model, and using assumptions for volatility and estimated term as being close to zero since it was assumed that the rights would be exercised almost immediately. As a result, the valuation of the stock purchase rights was calculated to be virtually the same as the fair value of the underlying common stock on the date of issuance. During 2007, the Company granted options to purchase 10,000,000 to the Company's legal counsel at an exercise price of $ .0001 per share. The options, which were five-year options, vested immediately. The options, which were granted in order that the attorneys could sell the underlying shares and thus satisfy amounts due for legal services rendered, were exercised immediately. Warrants - In connection with the YA Global convertible debenture issued in

December 2005, the Company issued three-year warrants to purchase 10,000,000 shares of the Company's common stock. The warrants had an exercise price of $0.09 per share, and vested immediately, and had a three-year contractual life. In May 2006, the Company closed a private placement of shares of its common stock and warrants in which it issued 14,285,715 shares of the Company's common stock to ANAHOP, Inc., a California corporation, and issued warrants to purchase up to 30,000,000 additional shares of common stock to designees of ANAHOP for a price of $1,000,000. With respect to the shares underlying the warrants, the Company granted piggyback registration rights as follows: (A) once all of the warrants with an exercise price of $0.15 per share have been exercised, the Company agreed to include in its next registration statement the resale of those underlying shares; (B) once all of the warrants with an exercise price of $0.25 per share have been exercised, the Company agreed to include in its next registration statement the resale of those underlying shares; and (C) once all of the warrants with an exercise price of $0.50 per share have been exercised, the Company agreed to include in its next registration statement the resale of those underlying shares. The Company did not grant any registration rights with respect to the original 14,285,715 shares of common stock. In connection with the YA Global convertible debenture issued in August 2006, the Company issued three-year warrants to purchase 15,000,000 shares of the Company's common stock. The warrants had an exercise price of $0.06 per share, and vested immediately. In connection with the private placement with ANAHOP, the Company issued five-year warrants to purchase 30,000,000 shares of common stock at prices ranging from $0.15 to $0.50. All of these warrants were subject to adjustment in the event of a stock split. Accordingly, as a result of the 1:1.20 forward stock split that occurred in 2007, there are warrants outstanding at December 31, 2008, to purchase a total of 66,000,000 shares of common stock in connection with these transactions. The exercise price per share of each of the aforementioned warrants was likewise affected by the stock split, in that each price was reduced by 20 percent. During 2008, in connection with issuing a promissory note, the Company also issued five-year warrants to purchase up to 75,000,000 shares of common stock at exercise prices ranging from $0.02 to $0.50 per share. Also during 2008, in connection with entering into an agreement with an outside consultant, the Company also issued four-year warrants to purchase up to 6,000,000 shares of common stock at an exercise price of $0.0125 per share. The Company accounts for these consultant warrants under the provisions of EITF No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services. The Corporation currently has an insufficient number of authorized shares to enable warrant holders to fully exercise their warrants, assuming all warrants holders desired to do so. Accordingly, the warrants are subject to derivative accounting treatment, and are included in the derivative liability related to the convertible debentures (see Notes 6 and 7). F-28 NOTE 17 -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 four reportable segments: Electronics Assembly, Contract Manufacturing, Marketing and Media and Beverage Distribution. The Electronics Assembly segment manufactures and assembles circuit boards and electronic component cables. The Contract Manufacturing segment manufactures, either directly or through foreign subcontractors, various products under manufacturing and distribution agreements. The Marketing and Media segment provides marketing services to online retailers, along with beverage development and promotional services to Play Beverages, LLC. This segment also included results of operations relating to beverage distribution, sales of which accounted for approximately 11 and 2 percent of total revenue during 2008 and 2007, respectively. The Beverage Distribution segment continues to grow and the distribution channels across the country and internationally continue to gain traction. The Company anticipates this segment to become more significant in relation to overall Company operations. 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 Contract Marketing Beverage Assembly Manufacturing and Media Distribution Total -- December 31, 2008 Sales to external customers $ 1,664,796 $ 1,945,867 $ 8,564,169 $ 1,500,713 $ 13,675,545 Intersegment sales - - - - - Segment income (loss) (2,274,384) (120,158) (1,946,990) 430,320 (3,911,212) Segment assets 4,378,601 1,981,290 6,649,802 59,486 13,069,179 Depreciation and amortization 384,379 258,638 1,935 - 644,952 December 31, 2007 Sales to external customers $ 3,089,303 $ 4,334,868 $ 4,975,622 $ - $ 12,399,793 Intersegment sales 5,310 - - - 5,310 Segment income (loss) (6,626,350) (818,189) 212,015 - (7,232,524) Segment assets 7,574,596 160,504 4,029,231 - 11,764,331 Depreciation and amortization 402,756 250,929 1,179 - 654,864 December 31, Sales 2008 2007

--- Total sales for reportable segments $ 13,675,545 $ 12,405,103 Elimination of intersegment sales - (5,310) --- Consolidated net sales $ 13,675,545 $ 12,399,793 --- December 31, Total Assets 2008 2007 --- Total assets for reportable segments $ 13,069,178 $ 11,764,331 Adjustment for intersegment amounts - - --- Consolidated total assets $ 13,069,178 $ 11,764,331 --- NOTE 18 - GEOGRAPHIC INFORMATION All revenue-producing assets are located in the United States of America or China. Revenues are attributed to the geographic areas based on the location of the customers purchasing the products. The Company's net sales and assets by geographic area are as follows: F-29 Revenues Revenue-producing assets --- 2008 2007 2008 2007 ------------- ------------ ---------- ------------ United States of America $13,659,073 $ 12,379,349 $ 195,780 $ 235,165 China - - 577,811 725,515 Other 16,472 20,444 - - --- $13,675,545 $ 12,399,793 $ 773,591 $ 960,680 --- NOTE 19 - SUBSEQUENT EVENTS On January 8, 2009 the Company signed an international distribution agreement giving rights in Albania to Tobacco Holding Group Sh.p.k. The agreement gives Tobacco Holding Group exclusive rights to distribute Playboy Energy Drink in Albania. The agreement includes a sales quota schedule totaling $15.6 million over the 5-year period. In February 2009, we issued 65,088,757 of restricted shares of common stock to YA Global Investments, L.P. under the conversion terms of the YA Global August Debenture, for an amount of $110,000. F-30