CIRTRAN CORP
Form SB-2
July 19, 2004

As filed with the Securities and Exchange Commission on July 19, 2004
Registration Statement No. 333-_________

U.S. SECURITIES AND EXCHANGE
COMMISSION WASHINGTON,
D.C. 20549

FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CIRTRAN CORPORATION
(Name of issuer in its charter)

Nevada	3672	68-0121636
(State of incorporation)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

4125 SOUTH 6000 WEST
WEST VALLEY CITY, UTAH 84128
(801) 963-5112
(Address and telephone number of registrant's principal executive offices and principal place of business)

IEHAB HAWATMEH
4125 SOUTH 6000 WEST
WEST VALLEY CITY, UTAH 84128
(801) 963-5112
(Name, Address and telephone number of agent for service)

Copies to:

JEFFREY M. JONES, ESQ.
C. PARKINSON LLOYD, ESQ.
DURHAM JONES & PINEGAR
111 EAST BROADWAY, SUITE 900
SALT LAKE CITY, UTAH 84111
(801) 415-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [x] If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following boxes and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following boxes and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be Registered	Amount To be Registered (1)	Proposed Maximum Aggregate Price Per Share	Proposed Maximum Aggregate Offering Price
Common Stock, $0.001 par value per share	250,000,000 shares (2)	$0.05(3)	$ 12,500,000 (3)
Totals	250,000,000 shares		$ 12,500,000

(1) All shares offered for resale by the Selling Shareholders.

(2) Consisting of (i) up to 249,900,000 shares of common stock issuable to the SEDA Investor under the Standby Equity Distribution Agreement; and (ii) 100,000 shares issued to the Placement Agent in connection with the Placement Agent Agreement and the Standby Equity Distribution Agreement.

(3) The fee was estimated pursuant to Rule 457(c) under the Act on the basis of the average of the bid and asked price of CirTran's common stock as reported on the OTC Bulletin Board on July 15, 2004.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

CIRTRAN CORPORATION
A Nevada Corporation

250,000,000 Shares of Common Stock
$0.001 per share

This prospectus relates to the resale of up to 250,000,000 shares (the "Shares") of common stock of CirTran Corporation, a Nevada corporation. Two of our shareholders, Cornell Capital Partners, LP (the "SEDA Investor"), and Newbridge Securities Corporation (the "Placement Agent", and together with the SEDA, the "Selling Shareholders") are offering all of the Shares covered by this prospectus. The Selling Shareholders will receive all of the proceeds from the sale of the Shares and we will receive none of those proceeds. The SEDA Investor is an underwriter of the Shares.

Investment in the Shares involves a high degree of risk. You should consider carefully the risk factors beginning on page 5 of this prospectus before purchasing any of the Shares offered by this prospectus.

CirTran Corporation common stock is quoted on the OTC Bulletin Board and trades under the symbol "CIRT". The last reported sale price of our common stock on the OTC Bulletin Board on July 9, 2004, was approximately $.06 per share. Nevertheless, the Selling Shareholders do not have to sell the Shares in transactions reported on the OTC Bulletin Board, and may offer their Shares through any type of public or private transactions.

CirTran currently has a concurrent offering of its shares that will have a dilutive effect on any purchaser of shares under this prospectus and the registration statement of which it is a part. A registration statement on Form SB-2 (SEC File Number 333-104668) covers sales by the SEDA Investor and two other selling shareholder of shares issued in connection with a prior equity line of credit agreement, described more fully in the section "Liquidity and Capital Resources - Equity Line of Credit Agreement" below on page 26. The shares issuable in connection with the equity line of credit agreement are not covered by this prospectus or the registration statement of which it is a part.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

July __, 2004

CIRTRAN HAS NOT REGISTERED THE SHARES FOR SALE BY THE SELLING SHAREHOLDERS UNDER THE SECURITIES LAWS OF ANY STATE. BROKERS OR DEALERS EFFECTING TRANSACTIONS IN THE SHARES SHOULD CONFIRM THAT THE SHARES HAVE BEEN REGISTERED UNDER THE SECURITIES LAWS OF THE STATE OR STATES IN WHICH SALES OF THE SHARES OCCUR AS OF THE TIME OF SUCH SALES, OR THAT THERE IS AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES LAWS OF SUCH STATES.

THIS PROSPECTUS IS NOT AN OFFER TO SELL ANY SECURITIES OTHER THAN THE SHARES. THIS PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH AN OFFER IS UNLAWFUL.

CIRTRAN HAS NOT AUTHORIZED ANYONE, INCLUDING ANY SALESPERSON OR BROKER, TO GIVE ORAL OR WRITTEN INFORMATION ABOUT THIS OFFERING, CIRTRAN, OR THE SHARES THAT IS DIFFERENT FROM THE INFORMATION INCLUDED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. YOU SHOULD NOT ASSUME THAT THE INFORMATION IN THIS PROSPECTUS, OR ANY SUPPLEMENT TO THIS PROSPECTUS, IS ACCURATE AT ANY DATE OTHER THAN THE DATE INDICATED ON THE COVER PAGE OF THIS PROSPECTUS OR ANY SUPPLEMENT TO IT. IN THIS PROSPECTUS, REFERENCES TO "CIRTRAN," "THE COMPANY," "WE," "US," AND "OUR," REFER TO CIRTRAN CORPORATION AND ITS SUBSIDIARIES.

TABLE OF CONTENTS

Summary about CirTran Corporation and this offering

CirTran Corporation

CirTran Corporation is a Nevada corporation engaged in providing a mixture of high and medium size volume turnkey manufacturing services for electronics original equipment manufacturers ("OEMs") in the

communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. These services include providing design and new product introduction services, just-in-time delivery on low-volume to medium-volume turnkey and consignment projects, and other value-added manufacturing services. Our manufacturing processes include the following: surface mount technology, ball-grid array assembly and pin-through-hole technology, which are all methods of attaching electronic components to circuit boards; manufacturing and test engineering support and design for manufacturability; and in-circuit and functional test and full-system mechanical assembly. We also design and manufacture Ethernet cards that are used to connect computers through fiber optic networks and market these cards through an international network of distributors, value-added resellers and system integrators.

We incorporated in Nevada in 1987 under the name Vermillion Ventures, Inc., for the purpose of acquiring other operating corporate entities. We were largely inactive until the year 2000, when we effected a reverse split in our common stock, reducing our issued and outstanding shares to 116,004. In July 2000, we issued 10,000,000 shares of common stock to acquire, through our wholly owned subsidiary, CirTran Corporation (Utah), substantially all of the assets and certain liabilities of Circuit Technology, Inc., a Utah corporation. The shares we issued to Circuit Technology in connection with the acquisition represented approximately 98.6% of our issued and outstanding common stock immediately following the acquisition.

Effective August 6, 2001, we effected a 1:15 forward split and stock distribution which increased the number of our issued and outstanding shares of common stock from 10,420,067 to 156,301,005. We also increased our authorized capital from 500,000,000 to 750,000,000 shares of common stock.

Our address is 4125 South 6000 West, West Valley City, Utah 84128, and our phone number is (801) 963- 5112.

This offering

We entered into a Standby Equity Distribution Agreement (the "Agreement") dated May 21, 2004, with Cornell Capital Partners, LP (the "SEDA Investor"). Under the Agreement, we have the right, at our sole discretion, to draw up to $20 million on the standby equity facility (the "SEDA Facility") and put to the SEDA Investor shares of our common stock in lieu of repayment of the draws. The number of shares to be issued in connection with each draw is determined by dividing the amount of the draw by the lowest volume-weighted average price of our common stock during the five consecutive trading days after the advance is sought. The maximum advance amount is one million dollars ($1,000,000) per advance, with a minimum of seven trading days between advances. The SEDA Investor intends to sell any shares purchased under the Standby Equity Distribution Agreement at the then-prevailing market price. In addition, the SEDA Investor will retain 5% of each advance as a fee under the Agreement. The term of the Agreement runs over a period of twenty-four months after the effective date of this registration statement or until the full $20 million has been drawn, whichever comes first.

We have engaged Newbridge Securities Corporation ("Newbridge"), an unaffiliated registered broker-dealer, to advise us in connection with the

Agreement. We agreed to pay Newbridge a fee of 100,000 shares of our common stock. This prospectus also covers the resale by Newbridge of these shares of common stock.

In connection with the Agreement, we granted registration rights to the SEDA Investor and to Newbridge, and filed a registration statement on Form SB-2 which covers the resale by the SEDA Investor and Newbridge of shares issued in connection with the Agreement.

As discussed below in the "Risk Factors" section, there is no cap on the number of shares that can be issued under the Agreement. This prospectus and the registration statement of which it is a part covers the resale by the SEDA Investor and Newbridge of up to 250,000,000 shares of our common stock. If we need to issue more than 250,000,000 in connection with the Agreement, we will need to file additional registration statements to cover the resale of those shares.

There is a large number of shares of common stock underlying the Agreement that will be available for future sale, and the sale of these shares will cause dilution to our existing shareholders.

We are limited with respect to how often we can exercise a draw down and the amount of each draw down. For more details on the Agreement, see "The Standby Equity Distribution Agreement" elsewhere in this prospectus.

Brokers or dealers effecting transactions in the shares being registered in this offering should confirm that the shares are registered under applicable state law or that an exemption from registration is available.

The SEDA Investor and Newbridge are the Selling Shareholders who will be selling the shares covered by this prospectus and the registration statement of which it is a part. The Selling Stockholders may sell the shares of common stock in the public market or through privately negotiated transactions or otherwise, as described in the section entitled "Plan of Distribution."

Risk Factors

In addition to the other information in this prospectus, the following risk factors should be considered carefully in evaluating our business before purchasing any of our shares of common stock. A purchase of our common stock is speculative and involves significant and substantial risks. Any person who is not in a position to lose the entire amount of his investment should forego purchasing our common stock.

Risks Related to Our Operations

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

Our expenses are currently greater than our revenues. Our accumulated deficit was $18,719,067 and $18,214,480 at March 31, 2004, and December 31, 2003, respectively. Our net loss from operations for the quarter ended March 31, 2004, and the quarter ended March 31, 2003, were $504,587 and $654,739, respectively. Although our gross profit margin has improved over the last two years, and our level of sales has decreased during the last year, our ability to operate profitably depends on our ability to increase our sales further and achieve sufficient gross profit margins for sustained growth. We can give no assurance that we will be able to increase our sales sufficiently to enable us to operate profitably, which could have a material adverse impact on our business.

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

Our financial statements indicate a trend of an increasingly larger excess of current liabilities over current assets. Our current liabilities exceeded our current assets by the following amounts as of the dates indicated: $7,832,259 as of December 31, 2001; $4,490,623 at December 31 2002; and by $5,529,244 at December 31, 2003. This trend raises substantial doubt about our ability to continue as a going concern. Unless we obtain additional financing through operations, investment capital or otherwise, there is significant doubt we will be able to meet our obligations as they come due and will be unable to execute our long-term business plans.

The "going concern" paragraph in the reports of our independent public accountants for the years ended December 31, 2003, 2002, 2001, 2000, and 1999 raises doubts about our ability to continue as a going concern.

The independent public accountants' reports for our financial statements for the years ended December 31, 2003, 2002, and 2001 include an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. This may have an adverse effect on our ability to obtain financing for our operations and to further develop and market our products.

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

Our sales volume has increased in the first three months of 2004 as compared to the same period of 2003. Our sales volumes for the last four years have changed as indicated by the following levels of net sales for the periods indicated: $1,870,848 for the year ended December 31, 2001; $2,299,668 for the year ended December 31, 2002 and $1,215,245 for the year ended December 31, 2003. On an annualized basis, this trend indicates a 27% decrease in sales from 2000 through the year ended December 31, 2003. Even though our gross profit has improved substantially during the same period, unless we are successful in increasing both sales and net profit margins, there is significant doubt that we will be able to continue as a going concern.

We need to raise additional capital but, due to our current financial situation, we may not be able to do so. If we are unable to raise sufficient capital to finance our operations, we may not be able to continue as a going concern.

As of March 31, 2004, our monthly operating costs and interest expenses averaged approximately $265,000 per month. As income from operations is not sufficient to meet these expenses, we must depend on other sources of capital to fund our operations. We have operated without a line of credit since February 2000, and it is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to pay the debt and secure the debt with assets. Therefore, we likely will have to rely on equity financing to meet our anticipated capital needs. We recently entered into a standby equity distribution agreement to provide financing, but the funds available may not be sufficient to sustain our operations beyond December 2007, assuming our current level of activity. There can be no assurances that we will be successful in obtaining additional capital. If we issue additional shares in connection with debt or equity financing, this will serve to dilute the value of our common stock and existing shareholders' positions. If we are unsuccessful in obtaining additional funding to finance our operations, there is serious doubt that we will be able to continue as a going concern, and we may be forced to seek the protection of the bankruptcy laws.

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

As of March 31, 2004, we have significant short-term debt, including approximately $833,163 in accounts payable, $265,000 in demand notes due certain of our shareholders and related parties, and $3,776,539 in accrued liabilities, over half of which consist of delinquent federal and state payroll taxes (see "Legal Proceedings"). We are currently not able to fully service this debt. We are attempting to negotiate forbearance agreements with many of our creditors and to restructure our short-term debt. There can be no assurance that we will be successful in these efforts.

There is substantial risk, therefore, that the existence and extent of the debt obligations could adversely affect our business, operations and financial condition, and we may be forced to curtail our operations, sell part or all of our assets, or seek protection under bankruptcy laws. Additionally, there is substantial risk that our vendors could bring lawsuits to collect the unpaid amounts. In the event of lawsuits of this type, if we are unable to negotiate settlements or satisfy our obligations, we could be forced into bankruptcy.

We have accrued delinquent payroll tax liabilities that we are currently not able to fully pay, which could result in the Internal Revenue Service's pursuing statutory foreclosure proceedings against us.

We have accrued delinquent payroll tax liabilities of approximately $2.1 million and have not yet come to a final resolution of a payment schedule with respect to most of this amount. Though we are attempting to negotiate settlement with respect to this amount, there can be no assurance that we will be successful in those negotiations or that, if successful, we will be able to service any payment obligations which may result from such settlement. If we are unsuccessful, the Internal Revenue Service could instigate foreclosure proceedings against us pursuant to the Service's rules and regulations.

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

We are involved in numerous legal proceedings, many of which have filed lawsuits and have obtained judgments against us. (See "Legal Proceedings.") We are currently attempting to negotiate with each of these claimants to settle the claims against CirTran, although in many cases, we have not yet reached final settlements. There can be no assurance that we will be successful in those negotiations or that, if successful, we will be able to service any payment obligations which may result from such settlements.

There is substantial risk, therefore, that the existence and extent of these liabilities could adversely affect our business, operations and financial condition, and we may be forced to curtail our operations, sell part or all of our assets, or seek protection under bankruptcy laws. Additionally, there is substantial risk that our vendors could

expand their collection efforts to collect the unpaid amounts. If they undertake significant collection efforts, if we are unable to negotiate settlements or satisfy our obligations, we could be forced into bankruptcy.

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

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

We have a limited product offering, and some of our key technologies are still in the product development stage, which could have a material adverse impact on our ability to generate revenues from operations.

We are a full-service contract electronics manufacturer servicing OEMs in the following industries: communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semi-conductor. We conduct our operations through two main divisions: circuit board manufacturing and assembly, and Ethernet card design and manufacture. Presently, there are a limited number of commercially available applications or products incorporating our technologies. For us to be ultimately successful, sales from these product offerings must be substantially greater. An additional element of our business strategy is to achieve revenues through appropriate strategic alliances, co-development arrangements, and license arrangements with third parties. There can be no assurance that these collaboration and license agreements will generate material revenues for our business in the future.

Risks Related to Our Industry

The variability of customer requirements in the electronics industry could adversely affect our results of operations.

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

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

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

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

We may not be able, especially given our lack of financial resources, to effectively respond to the technological requirements of a changing market, including the need for substantial additional capital expenditures

that may be required as a result of these changes. The electronics manufacturing services industry is characterized by rapidly changing technology and continuing process development. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities and successfully anticipate or respond to technological changes on a cost-effective and timely basis. In addition, our industry could in the future encounter competition from new or revised technologies that render existing technology less competitive or obsolete.

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

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

Risks Related to the Offering

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

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

Hypothetical Conversion Price	Shares issuable upon puts aggregating $2,270,000	Shares issuable upon draws of $20,000,000 under SEDA Facility
$0.01	227,000,000	2,000,000,000
$0.02	113,500,000	1,000,000,000
$0.03	75,666,667	666,666,667
$0.04	56,750,000	500,000,000
$0.05	45,400,000	400,000,000
$0.10	22,700,000	200,000,000
$0.15	15,133,333	133,333,333
$0.25	9,080,000	80,000,000
$0.50	4,540,000	40,000,000

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

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

The number of shares issuable under the SEDA Facility is determined, in part, on the market price of our common stock. If the market price of the common stock decreases, the number of shares of common stock issuable in connection with the SEDA Facility will increase and, accordingly, the aggregate amount of draws under the SEDA Facility will decrease. Accordingly, despite our right to draw up to an aggregate of $20,000,000 under the SEDA Facility, we may run out of shares registered under this prospectus and the registration statement of which it is a part to issue to the SEDA Investor in connection with our draws. The following table demonstrates the correlation between share price decline and decreases in aggregate draw amounts available, given the maximum 249,900,000 shares of common stock registered under this prospectus and the registration statement of which it is a part for issuance in connection with draws against the SEDA Facility:

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

Our issuances of shares under the SEDA Facility and the Equity Line likely will result in overall dilution to market value and relative voting power of previously issued common stock, which could result in substantial dilution to the value of shares held by shareholders prior to sales under this prospectus.

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

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

The formula for determining the number of shares of common stock to be issued under the SEDA Facility and the Equity Line are based, in part, on the market price of the common stock and are equal to the lowest closing bid price of our common stock over the five trading days after the advance notice is tendered by us to the SEDA Investor or the put notice is tendered by us to the Equity Line Investor. As a result, the lower the market price of our common stock at and around the time we put shares under the SEDA Facility or the Equity

Line, the more shares

of our common stock the SEDA Investor or the Equity Line Investor will receive. Any increase in the number of shares of our common stock issued upon puts of shares as a result of decreases in the prevailing market price would compound the risks of dilution described in the preceding paragraph.

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

The net proceeds from the Equity Line and the SEDA Facility could potentially exceed our net tangible book deficit of $4,563,087 at March 31, 2004. Accordingly, the Equity Line/SEDA Investor will experience immediate and substantial dilution between approximately $0.0036 to $0.2139 per share, or approximately 35.50% to 85.57% of the estimated average conversion price of $0.01 to $0.25. The dilution at various estimated average conversion prices is as follows:

Estimated Average Conversion Price	Dilution Per Share	Percent Dilutio
$0.01 (1)	$0.0036	35.50
$0.02 (1)	$0.0087	43.65
$0.03 (1)	$0.0150	49.96
$0.04 (1)	$0.0220	55.01
$0.05	$0.0296	59.13
$0.10	$0.0720	71.97
$0.15	$0.1180	78.67
$0.25	$0.2139	85.57

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

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

Downward pressure on the market price of our common stock that likely will result from sales of our common stock by the SEDA Investor issued in connection with a draws under the SEDA Facility, and by the Equity Line Investor of shares issued in connection with the Equity Line, could encourage short sales of common stock by the SEDA Investor and the Equity Line Investor. A "short sale" is defined as the sale of stock by an investor that the investor does not own. Typically, investors who sell short believe that the price of the stock will fall, and anticipate selling at a price higher than the price at which they will buy the stock. Significant amounts of such short selling could place further downward pressure on the market price of our common stock.

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

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

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

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

The selling shareholders may sell common stock at any price or time, which could result in a decrease in the market price of our common stock and a resulting decrease in the value of shares held by existing shareholders.

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

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

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

For example, as of July 9, 2004, we had approximately 400,000,000 shares of our common stock outstanding. Nine and nine-tenths percent of 400,000,000 shares is 40,000,000 shares. As of July 9, 2004, our average daily trading volume was approximately 2,000,000 shares traded per day. A hypothetical draw of $1,000,000 the maximum amount we are entitled to draw under the Agreement, as of July 9, 2004, would result in the issuance of approximately 18,000,000 shares of our common stock. It could take the SEDA Investor longer than the 7 trading days we are required to wait between puts to sell 18,000,000 shares.

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

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

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

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

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

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

- the equity security is listed on Nasdaq or a national securities exchange;

- the issuer of the equity security has been in continuous operation for less than three years, and either has (a) net tangible assets of at least $5,000,000, or (b) average annual revenue of at least $6,000,000; or

- the issuer of the equity security has been in continuous operation for more than three years, and has net tangible assets of at least $2,000,000.

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

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

The price of our common stock is volatile, and an investor may not be able to resell our shares at or above the purchase price.

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

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

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

Use of Proceeds

All of the shares of common stock issued in connection with the SEDA Facility, if and when sold, are being offered and sold by the Selling Shareholders or their pledgees, donnees, transferees, or other successors in interest. We will not receive any proceeds from those sales.

We intend to use the proceeds from our draws on the SEDA Facility for funding the acquisition of raw materials needed for increased production, repayment of a portion of our outstanding indebtedness, and general corporate purposes and working capital.

Determination of Offering Price

The Selling Shareholders may sell our common stock at prices then prevailing or related to the then current market price, or at negotiated prices. The offering price may have no relationship to any established criteria or value, such as book value or earnings per share. Additionally, because we have not generated any profits for several years, the price of our common stock is not based on past earnings, nor is the price of the shares of our common stock indicative of current market value for the assets we own. No valuation or appraisal has been prepared for our business or possible business expansion.

DESCRIPTION OF BUSINESS

We are a full-service contract electronics manufacturer servicing original equipment manufactures ("OEMs") in the following industries: communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semi-conductor. We conduct our operations through two main divisions: circuit board manufacturing and assembly, and Ethernet card design and manufacture.

Industry Background

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

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

A second trend in the industry has been the increasing shift from pin-through-hole, or PTH, to surface mount technology, or SMT, interconnection technologies. SMT and PTH printed circuit board assemblies are printed circuit boards on which various electronic components, such as integrated circuits, capacitors, microprocessors, and resistors are mounted. These assemblies are key functional elements of many types of electronic products. PTH technology involves the attachment of electronic components to printed circuit boards with leads or pins that are inserted into pre-drilled holes in the boards. The pins are then soldered to the electronic circuits. The drive for increasingly greater functional density has resulted in the emergence of SMT, which eliminates the need for holes and allows components to be placed on both sides of a printed circuit. SMT requires expensive, highly automated assembly equipment and significantly more operational expertise than PTH technology.

We believe the shift to SMT from PTH technology has increased the use of contract manufacturers by OEMs seeking to avoid the significant capital investment required for development and maintenance of SMT expertise.

Electronics Assembly and Manufacture

Approximately 85% of our revenues are generated by our electronics assembly activities, which consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables. We also assemble higher-level sub-systems and systems incorporating printed circuit boards and complex electromechanical components that convert electrical energy to mechanical energy, in some cases manufacturing and packaging products for shipment directly to our customers' distributors. In addition, we provide other manufacturing services, including refurbishment and remanufacturing. We manufacture on a turnkey basis, directly procuring any of the components necessary for production where the OEM customer does not supply all of the components that are required for assembly. We also provide design and new product introduction services, just-in-time delivery on low to medium volume turnkey and consignment projects and projects that require more value-added services, and price-sensitive, high-volume production. Our goal is to offer customers significant competitive advantages that can be obtained from manufacturing outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management and increased purchasing power.

Ethernet Technology

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

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

In June 2001, Racore received a $225,000 order for specially designed Ethernet cards for a federal law enforcement agency. In September 2001, Racore submitted a bid for business with the same agency that, if accepted, would have resulted in a contract valued at over $2.0 million over three years. This bid was ultimately not accepted, but Racore remains committed to actively pursuing government contracts for its Ethernet card technology. These contracts are generally awarded in September of each year, the last month of the government's fiscal year. In February of 2003, Racore received additional orders from GTSI Corp., a leading business to government (B2G) provider of information technology solutions to the Department of Defense and Federal, State and Local Governments worldwide, for another government agency in the amount of $40,000. Racore is continually pursuing contacts with additional government agencies. In August of 2003, Racore received an order from the United States Air Force for over $13,000. Further, Racore expects to receive additional orders through 2003 and into 2004.

Market and Business Strategy

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

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

o To Reduce Investment. The investment required for internal manufacturing has increased significantly as electronic products have become more technologically advanced and are shipped in greater unit volumes. We believe use of manufacturing specialists allows OEMs to gain access to advanced manufacturing capabilities while substantially reducing their overall resource requirements.

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

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

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

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

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

Suppliers; Raw Materials

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

Research and Development

During 2003 and 2002, CirTran Corporation spent approximately $52,200 and $43,272, respectively, on research and development of new products and services. The costs of that research and development were paid for by our customers. In addition, during the same periods, our subsidiary, Racore, spent approximately $45,244 and $45,000, respectively. None of Racore's expenses were paid for by its customers. We remain committed, particularly in the case of Racore, to continuing to develop and enhance our product line as part of our overall business strategy.

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

Through 2004, we anticipate that Racore will introduce several new products that will include not only cost-reduced versions of existing products, but also similar yet unique products that will satisfy market needs which currently have no deliverable or affordable solutions. We believe that these products will allow us to realize reduced development costs, quicker time to market, higher profit margins, greatly reduced support costs, less pressure from competitors, and shorter sales and delivery cycles. We anticipate that these products will allow us to leverage our expertise in the areas of fiber optics, security, and portability.

Sales and Marketing

We are working aggressively to market existing products through current sales channels. We also plan to add major new sales channels to deliver products and services directly to end users, as well as to motivate our distributors, partners, and other third party sales mechanisms. We continue to simplify and improve the sales, order, and delivery process.

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

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

In 2003, 96% of our net sales were derived from pre-existing customers, whereas during the year ended December 31, 2002, over 94% of our net sales were derived from customers that were also customers during 2001. Historically, a small number of customers accounted for a significant portion of our net sales. In 2003 our three largest customers accounted for approximately 60% of our total sales compared to 2002 where our three largest customers accounted for approximately 45% of our total sales. However in 2001 no single customer accounted for more than 10% of our total sales.

During 2001 and 2002, we operated without a line of credit and many of our vendors stopped credit sales of components used by us in the manufacturing of products, thus hampering our ability to attract and retain turnkey customer business. In addition, although our sales in 2002 were higher than 2001, financial constraints experienced in 2001 and 2002 mandated a reduction in our general work force, which experienced a 50% reduction in size. These factors, as well as general economic conditions during the second half of 2002, resulted in a significant decrease in sales during 2002. The year 2003 was devoted to getting prepared for 2004 as is demonstrated by our

back log. Although our sales were down, we spent the last half of the year aggressively pursuing new businesses, pricing new projects, and approaching new turnkey customers. Funds became available from the equity line of credit as of June of 2003, we are in a position to be able to service turnkey customers along with our consigned customers.

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. At December 31, 2003, our backlog was approximately $809,000. At December 31, 2002, our backlog was approximately $450,000. As of July 9, 2004, our backlog had increased to $3,520,000.

In September and October 2001, we issued several press releases relating to:

- Our "partnership with an offshore Malaysian entity . . . expects to commence bidding for multi- million dollar contracts through this entity in the very near future" in our September 19, 2001 press release;

- InterMotive Products and the "two contracts for new products and the vehicle orders that are "projected to blossom into a million dollar contract manufacturing opportunity" for CirTran in our October 10, 2001 press release; and

- The "implementation of . . . [new] software . . . bring CirTran the potential for multi-million dollar revenue relationships" in our October 16, 2001 press release.

We entered into the partnership with the Malaysian entity outlined in the September 19, 2001, press release, to enable us to submit more competitive bids for larger production contracts. The Company also implemented the software referenced in the October 16, 2001, press release to enable us to bid more competitively for larger contracts. Through December 31, 2002, in connection with the relationship with the Malaysian entity, we bid on large-scale contracts ranging from approximately $2 million to $4 million. Although we feel that our relationship with the Malaysian entity will enable us to continue to bid competitively for the larger contracts, to date we have been unsuccessful at being selected as a supplier on any of the larger bids we submitted.

Nevertheless, management feels that the Company's continued involvement in these relationships enables the Company to continue to bid competitively for these larger bids.

In December 2002, CirTran and SVI, an independent electronic manufacturing service company based in Thailand, announced a manufacturing accord. The two companies will work together to support mutual customers from product design to volume manufacturing. Under the agreement, both parties will work jointly as each other's respective vendor and/or partner on pursuing business contracts in the United States utilizing both parties' resources providing the contract manufacturing of electronics.

With respect to the contracts with Intermotive, Inc. ("Intermotive"), referenced in the October 10, 2001, press release, through December 31, 2002, we had entered into purchase orders with Intermotive ranging from approximately

$4,607 to $34,077. The Company's relationship with Intermotive remains productive, and management believes that this relationship should continue to produce revenue for the Company, although there can be no guarantee that Intermotive will continue to order from us or that any future orders will be substantial.

In the last quarter of 2001 and into 2002, we also took steps to increase our sales volume by adding three new sales representatives, hiring a sales manager, implementing software to access databases containing potential new customers and sales opportunities, and continuing our efforts to improve our competitive position by installing additional surface-mount technology equipment that had previously been at our Colorado location and by seeking ISO (International Organization for Standardization) 9002 certification, which we hope to obtain by the end of 2003. This certification would allow us to ensure to prospective customers that we comply with internationally-recognized quality production standards.

In February 2003, CirTran received Certification Approval under the Joint Certification Program ("JCP")

from the United States/Canada Joint Certification Office, Defense Logistics Information Service. Certification under the JCP establishes the eligibility of a U.S. or Canadian contractor to receive technical data governed, in the U.S. by Department of Defense ("DoD") directive 5230.25 and, in Canada, by the Technical Data Control Regulations ("TDCR"). We feel JCP benefits the U.S. and Canadian defense and high technology industries by facilitating their continued access to unclassified technical data disclosing critical technology in the possession of, or under the control of the U.S. DoD or the Canadian Department of National Defense ("DND"). This is an important recognition for CirTran and is consistent with our efforts to expand our revenue opportunities. Our approved access to technologies in the U.S. DoD and the Canadian DND will allow us to support the commercial activities of the broad range of manufacturers working with both governments.

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

In March 2004, we issued two additional press releases relating to a our potential acquisition of an interest in a manufacturer of digital fiber optic cable equipment. On March 18, 2004, we announced that we had signed a letter of intent to acquire a minority interest in a manufacturer based in southern California, and that in connection with the acquisition, we anticipated that we would enter into an exclusive manufacturing agreement. On March 26, 2004, we announced that we anticipated that we expected to finalize the acquisition of the interest and the exclusive agreement.

Subsequently, on April 13, 2004, we entered into a stock purchase agreement with Broadata Communications, Inc., a California corporation ("Broadata") under which we purchased 400,000 shares of Broadata Series B

Preferred Stock (the "Broadata Preferred Shares") for an aggregate purchase price of $300,000. The Broadata Preferred Shares are convertible, at our option, into an equivalent number of shares of Broadata common stock, subject to adjustment. The Broadata Preferred Shares are not redeemable by Broadata. As a holder of the Broadata Preferred Shares, we have the right to vote the number of shares of Broadata common stock into which the Broadata Preferred Shares are convertible at the time of the vote. In connection with the acquisition of the Broadata Preferred Shares, we also entered into a Preferred Manufacturing Agreement with Broadata. Under this agreement, we will perform exclusive "turn-key" manufacturing services handling most of Broadata's manufacturing operations from material procurement to complete finished box-build of all of Broadata's products. The initial term of the agreement is three years, continuing month to month thereafter unless terminated by either party.

Material Contracts and Relationships

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

Competition

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

We believe that the primary basis of competition in our targeted markets is manufacturing technology,

quality, responsiveness, the provision of value-added services and price. To remain competitive, we must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

Regulation

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

Employees

We employ 69 persons: 5 in administrative positions, 3 in engineering and design, 59 in clerical and manufacturing, and 2 in sales.

Corporate Background

Our core business was commenced by Circuit Technology, Inc. ("Circuit"), in 1993 by our president, Iehab Hawatmeh. Circuit enjoyed increasing sales and growth in the subsequent five years, going from $2.0 million in sales in 1994 to $15.4 million in 1998, leading to the purchase of two additional SMT assembly lines in 1998 and the acquisition of Racore Computer Products, Inc., in 1997. During that period, Circuit hired additional management personnel to assist in managing its growth, and Circuit executed plans to expand its operations by acquiring a second manufacturing facility in Colorado. Circuit subsequently determined in early 1999, however, that certain large contracts that accounted for significant portions of our total revenues provided insufficient profit margins to sustain the growth and resulting increased overhead. Furthermore, internal accounting controls then in place failed to apprise management on a timely basis of our deteriorating financial position. During the last several years, we have experienced significant losses, including $4,179,654 in 2000, $2,933,084 in 2001,$2,149,810 in 2002, and $2,984,178 in 2003.

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

In 1987, Vermillion Ventures, Inc. filed an S-18 registration statement with the United States Securities and Exchange Commission ("SEC") but did not at that time become a registrant under the Securities Exchange Act of 1934 ("1934 Act"). From 1989 until 2000, Vermillion did not make any filings with the SEC under the 1934 Act. In July 2000, we commenced filing regular annual, quarterly, and current reports with the SEC on Forms 10-KSB, 10- QSB, and 8-K, respectively, and have made all filings required of a public company since that time. In February 2001, we filed a Form 8-A with the SEC and became a registrant under the 1934 Act. We may be subject to certain liabilities arising from the failure of Vermillion to file reports with the SEC from 1989 to 1990, but we believe these liabilities are minimal because there was no public market for the common shares of Vermillion from 1989 until the third quarter of 1990 (when our shares began to be traded on the Pink Sheets).

On August 6, 2001, we effected a 1:15 forward split and stock distribution which increased the number of our issued and outstanding shares of common stock from 10,420,067 to 156,301,005. We also increased our authorized capital from 500,000,000 to 750,000,000 shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

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

Significant Accounting Policies

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

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

Revenue Recognition

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

Inventories

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

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

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

Checks Written in Excess of Cash in Bank

Historically, banks have temporarily lent funds to us by paying out more funds than were in our accounts under existing lines of credit with those banks. Subsequent to May 2000, when Abacas purchased our line of credit

obligation, the Company no longer had lines of credit with banks, and those loans were no longer available or made to us. The Company acquired an equity line of credit effective as of June of 2003, described more fully under "Liquidity and Financing Arrangements."

Under our cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes. These overdrafts are included as a current liability in the balance sheets.

Related Party Transactions

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

Results of Operations - Comparison of Periods Ended March 31, 2004 and 2003

Sales and Cost of Sales

Net sales increased to $645,612 for the three-month period ended March 31, 2004, as compared to $269,774 during the same period in 2003 for an increase of 139.3%. The first quarter sales increase can be attributed to a several factors, including the strengthening of the overall market economy. Industry wide, we are seeing more OEMs release larger order commitments with extended time tables. The second significant factor directly related to CirTran is our marketing approach. Most contract manufacturers approach customers on a job-by-job basis. CirTran approaches customers on a partner basis. We have developed a program where we can be more effective when we control the material procurement, purchasing, and final assembly, providing the customer a final quality product delivered on time and at a lower market cost. Cost of sales increased by 133.6%, from $185,716 during the three-month period ended March 31, 2003, to $433,759 during the same period in 2004. Our gross profit margin for the three-month period ended March 31, 2004, was 32.8%, up from 31.2% for the same period in 2003. The increase is negligible.

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at March 31, 2004, was $1,483,153, as compared to $1,247,248 at December 31, 2003. The increase in inventory is required to facilitate the increase in turnkey sales.

Selling, General and Administrative Expenses

During the quarter ended March 31, 2004, selling, general and administrative expenses were $680,068 versus $555,554 for the same period in 2003, a 22.4% increase. The increase is substantially the result of increased legal fees, additional equity line fees and an increase in our selling expenses. Selling, general and administrative expenses as a percentage of sales as of March 31, 2004 were 110.6% as compared to 205.9% during the same period in 2003. This decrease is due in part to an increase in sales and better management.

Interest Expense

Interest expense for quarter ended March 31, 2004, was $81,562 as compared to $110,743 for the same period in 2003, a decrease of 26.4%. This decrease is primarily attributable to an effort to pay off certain debts and settle other debts. As of March 31, 2004, and December 31, 2003, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was $2,114,092 and $2,107,930, respectively.

As a result of the above factors, our overall net loss decreased 22.9% to $504,587 for the quarter ended March 31, 2004, as compared to $654,739 for the quarter ended March 31, 2003. This decrease was in part attributed to a substantial increase in sales with better margins.

Results of Operations - Comparison of Years Ended December 31, 2003 and 2002

Sales and Cost of Sales

Net sales decreased 47.2 % to $1,215,245 for the year ended December 31, 2003 as compared to $2,299,668 for the year ended December 31, 2002. Due to a lack of funds we could not pursue turnkey business. As a result our sales decreased because we had to rely on pre-existing customers and more consigned business. For CirTran Corporation, we had two pre-existing customers that have generated approximately 51% of the sales for 2003.

Cost of sales for the year ended December 31, 2003 was $854,542, as compared to $1,966,851 during the prior year. Those costs as a percentage of net sales were 70.3% during 2003 as compared to 85.5% during 2002. The improvement in the cost of sales was attributed to the higher margin contracts the company completed and additional consigned business, where the customer supplies all materials needed and our costs are for direct labor only.

Additionally, improvement of inventory management and control has positively affected our gross margins. We traditionally tracked inventory by customer rather than by like-inventory item, and, as a result, we often purchased new inventory to produce products for a new customer, when we likely had the necessary inventory on hand under a different customer name. This prior practice led to a reserve for obsolescence and excess inventory, which for the year 2003 was $700,207, as compared to $540,207 in 2002. However, because of the higher margin sales, our cost of sales decreased. We have changed our method of managing and controlling our inventory so that we can identify inventory by a general part number, rather than a customer number, and we have instituted monthly reviews to better update and control our inventory. We believe these improvements have led to better inventory control and will contribute to decreased cost of sales. If we are successful in decreasing our cost of sales further, and if we are able to maintain and increase our levels of sales, we believe we will be successful in generating sufficient gross profit to cover our selling, general and administrative expenses.

The following charts present (i) comparisons of sales, cost of sales and gross profit generated by our two main areas of operations, i.e., electronics assembly and Ethernet technology, during 2002 and 2003; and (ii) comparisons during these two years for each division between sales generated by pre-existing customers and sales generated by new customers.

	Year	Sales	Cost of Sales	G
Electronics Assembly	2003	1,050,090	929,800 (1)	
	2002	1,838,781	1,673,739	
Ethernet Technology	2003	165,155	84,742	
	2002	460,887	293,112	

(1) Includes the writedown of carrying value of inventories of $160,000

	Year	Total Sales	Pre-existing Customers
Electronics Assembly	2003	1,050,090	1,036,418
	2002	1,838,781	1,817,312
Ethernet Technology	2003	165,155	127,040
	2002	460,887	338,927

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at December 31, 2003 was $1,247,428, as compared to $1,550,553 at December 31, 2002. The decrease is due to the increase in the reserve of obsolete and slow moving inventory of $160,000 and increased efforts to use inventory on hand.

Selling, General and Administrative Expenses

During the year ended December 31, 2003, selling, general and administrative expenses were $2,586,868 versus $2,180,226 for 2002, a 18.7% increase. The increase was due to an increase in the legal fees and financing fees for our equity line of credit, along with our efforts to aggressively market our products during a period of economic downturn.

Other Income and Expense

Interest expense for 2003 was $460,344 as compared to $437,074 for 2002, an increase of 5.3%. This increase is primarily attributable to an increase in interest for the accrued liabilities and in delinquent payroll tax liabilities, the penalties on which were previously recorded as part of interest expense. As of December 31, 2003 and 2002, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was $2,107,930 and $2,029,626, respectively.

As of December 31, 2002 there was a gain on the settlement of the sub-lease in Colorado Springs of $152,500, which was the majority of the other income of $159,673 for the year ending December 31, 2002.

As a result of the above factors, our overall net loss increased 38.8% to $2,984,178 for the year ended December 31, 2003, as compared to $2,149,810 for the year ended December 31, 2002.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses, and our accumulated deficit was $18,719,067 at March 31, 2004, and $18,214,480 at December 31, 2003. Our net operating loss for the quarter ending March 31, 2004, was $504,587, compared to $654,739 for the quarter ended March 31, 2003. Our current liabilities exceeded our current assets by $5,112,676 as of March 31, 2004, and $5,529,244 as of December 31, 2003. The decrease was mostly attributable to decreasing account payables, notes payable, and accrued liabilities. For the three months ended March 31, 2004 and 2003, we had negative cash flows from operations of $397,075 and $347,082, respectively.

Cash

We had cash on hand of $88,443 at March 31, 2004, and $54,135 at December 31, 2003.

Net cash used in operating activities was $397,075 for the three months ended March 31, 2004. During three months ended March 31, 2004, net cash used in operations was primarily attributable to $504,587 in net losses from operations, partially offset by increases in accrued liabilities of $235,725, and in an increase to inventories of $235,725. The non-cash charges were for depreciation and amortization of $61,769 and loan costs paid from loan proceeds of $136,500.

Net cash used in investing activities during the three months ended March 31, 2004, consisted of equipment purchases of $19,505.

Net cash provided by financing activities was $450,888 during the three months ended March 31, 2004. Principal sources of cash were proceeds of $451,223 from notes payable to related parties, net proceeds from notes payable of $1,363,500, and proceeds from the exercise of options to purchase common stock of $35,000. These proceeds were offset by principal payments on notes payable to related parties in the amount of $1,185,141.

Accounts Receivable

At March 31, 2004, we had receivables of $278,206, net of a reserve for doubtful accounts of $28,876, as compared to $89,187 at December 31, 2003, net of a reserve of $28,876. This increase was primarily attributed to sales having increased compared to the last two months in 2003.

Accounts Payable

Accounts payable were $833,163 at March 31, 2004, as compared to $1,300,597 at December 31, 2003. This decrease is primarily attributed to conversions of accounts payable to notes payable in relation to settlements made by Abacas Ventures.

Liquidity and Financing Arrangements

We have a history of substantial losses from operations and using rather than providing cash in operations. We had an accumulated deficit of $18,719,067 and a total stockholders' deficit of $4,563,087 at March 31, 2004. As of March 31, 2004, our monthly operating costs and interest expenses averaged approximately $265,000 per month.

Since February 2000, we have operated without a line of credit. Abacas Ventures, Inc., an entity whose shareholders include the Saliba Private Annuity Trust, one of our major shareholders (see "Security Ownership of Certain Beneficial Owners and Management") and a related entity, the Saliba Living Trust, purchased our line of credit of $2,792,609, and this amount was converted into a note payable to Abacas bearing an interest rate of 10%. As of December 31, 2001, a total of $2,405,507, plus $380,927 in accrued interest, was owed to Abacas pursuant to this note payable. During 2002, we entered into agreements with the Saliba Private Annuity Trust and the Saliba Living Trust to exchange 19,987,853 shares of our common stock for $1,499,090 in principal amount of this debt and to issue an additional 6,666,667 shares to these trusts for $500,000 cash which was used for working capital for the Company. During December 2002, an additional $1,020,154 of principal and $479,846 of accrued interest owed to Abacas was converted to 30,000,000 shares of our common stock. We issued no common stock to Abacas during 2003. During 2003 and 2002, the Company received $350,000 and $845,000 of cash proceeds under the terms of a bridge loan from Abacas. The Company made principal payments of $875,000 and $156,268 during 2003 and 2002, respectively, on the bridge loan. At December 31, 2003, the balance owed on the bridge loan was $163,742. See "Certain Relationships and Related Transactions."

During 2002, the Company entered into a bridge loan agreement with Abacas. This agreement allows the Company to request funds from Abacas to finance the build-up of inventory relating to specific sales. The loan bears interest at 24% and is payable on demand. There are no required monthly payments. During the three months ended March 31, 2004, and the year ended December 31, 2003, the Company was advanced $451,223 and $350,000, respectively, and made cash payments of $1,185,141 and $875,000, respectively. The total principal amount owed to Abacas between the note payable and the bridge loan was $257,345 and $163,742 as of March 31, 2004, and December 31, 2003, respectively. The total accrued interest owed to Abacas between the note payable and the bridge loan was $252,613 and $230,484 as of March 31, 2004, and December 31, 2003, respectively, and is included in accrued

liabilities.

The balance due to Abacas related to the note payable was paid in full at December 31, 2002. The note accrued interest at 10%. The amounts owed were due on demand with no required monthly payments. This note was collateralized by assets of the Company.

During 2003 and 2002, we converted approximately $34,049 and $316,762, respectively of trade payables into notes and stock. During January 2002, in addition to the above-described transactions with the Saliba trusts, we issued 16,666,666 shares of restricted common stock at a price of $0.075 per share in exchange for the cancellation of $1,250,000 of notes payable to various stockholders. See "Certain Relationships and Related Transactions." We continue to work with vendors in an effort to convert other trade payables into long-term notes and common stock and to cure defaults with lenders with forbearance agreements that we are able to service.

During the three months ended March 31, 2004, and the year ended December 31, 2003, the Company successfully converted trade payables, notes payable, and accrued interest of approximately $827,521 and $2,986, respectively, into notes. Accrued interest of $17,666 associated with the notes payable was not converted to the note payable with Abacas; therefore, a gain on forgiveness of debt was recorded for $17,666 for the three months ended March 31, 2004. The Company intends to continue to pursue this type of debt conversion going forward with other creditors.

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

Despite our efforts to make our debt-load more serviceable, significant amounts of additional cash will be needed to reduce our debt and fund our losses until such time as we are able to become profitable. At December 31, 2003, we were in default of notes payable whose principal amount, not including the amount owing to Abacas Ventures, Inc., exceeded $635,000. In addition, the principal amount of notes that either mature in 2003 or are payable on demand exceed $875,000 which includes $650,000 of notes to the equity line investor. At March 31, 2004, we were in default of notes payable whose principal amount, not including the amount owing to Abacas Ventures, Inc., was approximately $725,000. In addition, the principal amount of notes that either mature in 2004 or are payable on demand was approximately $1,525,000. The total amount per month that we have committed to paying pursuant to various settlements for outstanding debt, litigation and delinquent payroll taxes is currently approximately $38,000, all of which is against accrued liabilities and notes payable. None of these settlements, however, have resulted in the forgiveness of any amounts owed, but have simply resulted in a restructuring in the terms of the various debts.

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

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

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

Equity Line of Credit Agreement

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

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

During the three months ended March 31, 2004, the Company issued 30,075,515 shares of common stock from the escrowed shares under the Equity Line Agreement in lieu of payments of $650,000 on notes payable, leaving an unpaid principal balance on notes payable at March 31, 2004 of $1,500,000. From April 1, 2004, through July 9, 2004, the Company issued 15,428,087 shares of common stock from the escrowed shares under the Equity Line Agreement in lieu of payments of $900,000 on notes payable, and entered into a note payable agreement with the Equity Line Investor in the amount of $1,700,000, leaving an unpaid balance on notes payable at July 9, 2004, of $2,300,000.

Forward-looking statements

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

Selling shareholders

Two of our investors are the Selling Shareholders in connection with this prospectus and the registration statement of which it is a part. None of the Selling Shareholders is affiliated in any way with CirTran or any of our affiliates other than in connection with the Second Equity Line Agreement, and neither the Selling Shareholders nor any of their affiliates have any relationship of any type with us and our affiliates other than the presently established Second Equity Line Agreement relationships between the Selling Shareholders, on the one hand, and CirTran, on the other hand. This prospectus, and the registration statement of which it is a part, cover the shares to be issued to the Selling Shareholders in connection with the Second Equity Line Agreement.

The following table provides information about the actual and potential ownership of shares of our common stock by the Selling Shareholders in connection with the Standby Equity Distribution Agreement as of July 9, 2004, and the number of our shares registered for sale in this prospectus. The number of shares of common stock issuable to the SEDA Investor under the SEDA Facility varies according to the market price at and immediately preceding the put date. Solely for purposes of estimating the number of shares of common stock that would be issuable to the SEDA Investor as set forth in the table below, we have assumed a hypothetical put by us on July 9, 2004, of the full remaining amount of $20,000,000 under the SEDA Facility at a per share price of approximately $0.05. The actual per share price and the number of shares issuable upon actual puts by us could differ substantially. This prospectus and the registration statement of which it is a part covers the resale of up to 250,000,000 shares of our common

stock, of which 249,900,000 are registered in connection with shares issued to the SEDA Investor in lieu of repayment of draws on the SEDA Facility.

Under the terms and conditions of the Standby Equity Distribution Agreement, the SEDA Investor is prohibited from having shares put to it under the SEDA Facility to the extent such put by us would result in that person beneficially owning more than 9.9% of the then outstanding shares of our common stock following such put. This restriction does not prevent the SEDA Investor from receiving and selling put shares and thereafter receiving additional put shares. In this way, the SEDA Investor could sell more than 9.9% of our outstanding common stock in a relatively short time frame while never beneficially owning more than 9.9% of the outstanding CirTran common stock at any one time. For purposes of calculating the number of shares of common stock issuable to the SEDA Investor assuming a put of the full amount under the SEDA

Facility, as set forth below, the effect of such 9.9% limitation has been disregarded. The number of shares issuable to the SEDA Investor as described in the table below therefore may exceed the actual number of shares such Selling Shareholder may be entitled to beneficially own under the SEDA Facility. The following information is not determinative of the Selling Shareholder's beneficial ownership of our common stock pursuant to Rule 13d-3 or any other provision under the Securities Exchange Act of 1934, as amended.

27

Name of Selling Shareholder	Shares of Common Stock Owned by Selling Share-hodler Prior to Offering	Shares of Common Stock Issuable to Selling Shareholder in Connection with Equity Line Transaction	Percentage of Common Stock Issuable to Selling Shareholder in Connection with Equity Line Transaction (1)	Number of Shares of Common Stock Registered Hereunder (2)	Number of Shares of Common Stock Owned After Offering
Cornell Capital Partners, LP	0	400,000,000(3)	49.49%	249,900,000	0 (4
Newbridge Securities Corporation	100,000(5)	0	0.02%	100,000	0 (6

(1) As noted above, the Selling Shareholder is prohibited by the terms of the Standby Equity Distribution Agreement from having shares put to it under the SEDA Facility to the extent that such put of shares by us would result in that person beneficially owning more than 9.9% of the then outstanding shares of our common stock following such put. The percentages set forth are not determinative of the Selling Shareholder's beneficial ownership of our common stock pursuant to Rule 13d-3 or any other provision under the Securities Exchange Act of 1934, as amended.

(2) The registration statement of which this prospectus is a part covers up to 249,900,000 shares of common stock issuable under the SEDA Facility. Because the specific circumstances of the issuances under the SEDA Facility are unascertainable at this time, the precise total number of shares of our common stock offered by the Selling Shareholder cannot be fixed at this time, but cannot exceed 249,900,000 unless we file additional registration statements registering the resale of the additional shares. The amount set forth below represents the number of shares of our common stock that have been issued and that would be issuable, and hence offered in part hereby, assuming a put of the full remaining amount under the SEDA Facility as of July 9, 2004. The actual number of shares of our common stock offered hereby may differ according to the

actual number of shares issued upon such conversions.

(3) Includes:

400,000,000 shares of common stock issuable upon a hypothetical put of the full $20,000,000 available under the SEDA Facility as of July 9, 2004. This prospectus registers only up to 249,900,000 shares of common stock issuable under the SEDA Facility. Accordingly, we may not issue shares in excess of 249,900,000 unless we file additional registration statements registering the resale of the additional shares.

(4) Assumes a hypothetical draw of the full $20,000,000 available under the SEDA Facility as of July 9, 2004, and the issuance of 400,000,000 shares of our common stock, together with the sale by the SEDA Investor of all such shares. There is no assurance that the SEDA Investor will sell any or all of the shares offered hereby. However, the SEDA Investor is contractually prohibited from holding shares, and we are contractually prohibited from putting shares to the SEDA Investor that would cause it to hold shares, in excess of 9.9% of the then-issued and shares of our common stock. This number and percentage may change based on the SEDA's decision to sell or hold the Shares.

(5) Consisting of 100,000 shares issued to Newbridge Securities Corporation as payment for its services as placement agent.

(6) There is no assurance that the Selling Shareholders will sell any or all of the shares offered hereby. If the Selling Shareholders sell all of the shares issued to them in connection with the Second Equity Line, the number of shares held following such sales would be 0 and the percentage of ownership would be 0%.

The following table lists the natural person who has or shares voting or investment control of each of the Selling Shareholders:

Selling Stockholder	Name of Natural Person(s)
Cornell Capital Partners LP	Mark Angelo*
Newbridge Securities Corporation	Guy S. Amico

* Mark Angelo is the President of Yorkville Advisors, which is the general partner of Cornell, and exercises voting and investment control over Yorkville Advisors, which exercises voting and investment control over Cornell.

Plan of Distribution

Once the registration statement of which this prospectus is part becomes effective with the Commission, the Shares covered by this prospectus may be offered and sold from time to time by the Selling Shareholders or their pledgees, donees, transferees or successors in interest. Such sales may be made on the OTC Bulletin Board, in the over-the-counter market or otherwise, at prices and under terms then prevailing or at prices related to the then current market price, or in negotiated transactions. The Shares may be sold by any means permitted under law, including one or more of the following:

o a block trade in which a broker-dealer engaged by a Selling

Shareholder will attempt to sell the Shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

- o purchases by a broker-dealer as principal and resale by such broker-dealer for its account under this prospectus;
- o an over-the-counter distribution in accordance with the rules of the OTC Bulletin Board;
- o ordinary brokerage transactions in which the broker solicits purchasers; and
- o privately negotiated transactions.

In effecting sales, broker-dealers engaged by the Selling Shareholders may arrange for other broker-dealers to participate in the resales.

In connection with distributions of the Shares or otherwise, a Selling Shareholder may enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers may engage in short sales of the Shares covered by this prospectus in the course of hedging the positions they assume with the Selling Shareholder. A Selling Shareholder may also sell the Shares short and redeliver the Shares to close out such short positions. A Selling Shareholder may also enter into option or other transactions with broker-dealers which require the delivery to the broker-dealer of the Shares, which the broker-dealer may resell or otherwise transfer under this prospectus. A Selling Shareholder may also loan or pledge the Shares registered hereunder to a broker-dealer and the broker-dealer may sell the shares so loaned or upon a default the broker-dealer may effect sales of the pledged shares pursuant to this prospectus.

Broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from the Selling Shareholder in amounts to be negotiated in connection with the sale. Such broker-dealers and any other participating broker-dealers are deemed to be "underwriters" within the meaning of the Securities Act, in connection with such sales and any such commission, discount or concession may be deemed to be underwriting discounts or commissions under the Securities Act. The Selling Shareholder is an underwriter with respect to its resales of the Shares.

We have advised the Selling Shareholders that the anti-manipulation rules under the Securities Exchange Act of 1934 may apply to sales of shares in the market and to the activities of the Selling Shareholders and their affiliates. In addition, we will make copies of this prospectus available to the Selling Shareholders and have informed them of the need for delivery of copies of this prospectus to purchasers at or prior to the time of any sale of the Shares offered hereby.

All costs, expenses and fees in connection with the registration of the Shares will be borne by us. Commissions and discounts, if any, attributable to the sales of the Shares will be borne by the appropriate Selling Shareholder. A Selling Shareholder may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the Shares against certain liabilities, including liabilities arising under the Securities Act of 1933. We will not receive any proceeds from the sale of the Shares.

We have agreed with the Selling Shareholders to keep the registration statement of which this prospectus constitutes a part effective for a period of 2 years from the date of the last advance under the Second Equity Line Agreement. Trading of any unsold shares after the expiration of such period will be subject to compliance with all applicable securities laws, including Rule 144.

The Selling Shareholders are not obligated to sell any or all of the Shares covered by this prospectus.

In order to comply with the securities laws of certain states, the Shares will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, the sale and issuance of Shares may be subject to the notice filing requirements of certain states.

Regulation M

We have informed the Selling Shareholders that Regulation M promulgated under the Securities Exchange Act of 1934 may be applicable to them with respect to any purchase or sale of our common stock. In general, Rule 102 under Regulation M prohibits any person connected with a distribution of our common stock from directly or indirectly bidding for, or purchasing for any account in which it has a beneficial interest, any of the Shares or any right to purchase the Shares, for a period of one business day before and after completion of its participation in the distribution.

During any distribution period, Regulation M prohibits the Selling Shareholders and any other persons engaged in the distribution from engaging in any stabilizing bid or purchasing our common stock except for the purpose of preventing or retarding a decline in the open market price of the common stock. None of these persons may effect any stabilizing transaction to facilitate any offering at the market. As the Selling Shareholders will be offering and selling our common stock at the market, Regulation M will prohibit them from effecting any stabilizing transaction in contravention of Regulation M with respect to the Shares.

Legal Proceedings

As of March 31, 2004, the Company had accrued liabilities in the amount of $2,114,092 for delinquent payroll taxes, including interest estimated at $415,244 and penalties estimated at $230,927. Of this amount, approximately $316,828 was due the State of Utah. During the first quarter of 2003, no payments were made to the State of Utah. During the third and fourth quarter of 2003, partial payments were made to the State of Utah. Approximately $1,767,253 was owed to the Internal Revenue Service as of December 31, 2003. The Company, in response to collection notices, filed a due process appeal with the Internal Revenue Service's Appeals Office. The

appeal was resolved by an agreement with the Appeals Office that allowed the Company to file an offer in compromise of all federal tax liabilities owed by the Company based on its ability to pay. The Company filed its offer in compromise with the IRS, which has gone through the initial stages of consideration by the