CIRTRAN CORP
Form 10KSB
April 15, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

(Mark One)

[X] Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2007

[ ] Transition report under section 13 or 15(d) of the Securities Exchange act of 1934

For the transition period from _____________ to ______________

Commission file number 33-13674-LA

CIRTRAN CORPORATION
(Name of small business issuer in its charter)

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

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

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

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

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

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

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

Indicate by check mark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The issuer's revenues for its most recent fiscal year: $12,399,793

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of April 11, 2008, was $9,877,401. As of April 11, 2008, the issuer had outstanding 1,126,108,010 shares of Common Stock, par value $0.001.

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

Documents incorporated by reference: The registrant incorporates information required by Part III of this report by reference to the registrant's definitive proxy statement to be filed pursuant to Regulation 14A for the annual meeting of the shareholders of the issuer scheduled to be held on June 18, 2008.

TABLE OF CONTENTS

PART I

ITEM 1. DESCRIPTION OF BUSINESS

THIS ANNUAL REPORT ON FORM 10-KSB CONTAINS, IN ADDITION TO HISTORICAL INFORMATION, FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS ANTICIPATED BY CIRTRAN AND DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES ARE DISCUSSED BELOW IN THE SECTION ENTITLED "FORWARD-LOOKING STATEMENTS" AND ELSEWHERE IN THIS ANNUAL REPORT. WE DISCLAIM ANY INTENTION OR OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENT, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE. THE FOLLOWING DISCUSSION SHOULD BE READ TOGETHER WITH OUR FINANCIAL STATEMENTS AND RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS DOCUMENT.

CORPORATE BACKGROUND AND OVERVIEW

In 1987, we were incorporated in Nevada under the name Vermillion Ventures, Inc., for the purpose of acquiring other operating corporate entities. We were largely inactive until July 1, 2000, when our wholly-owned subsidiary, CirTran Corporation (Utah) acquired substantially all of the assets and certain liabilities of Circuit Technology, Inc. ("Circuit").

Our predecessor business in Circuit was commenced in 1993 by our president, Iehab Hawatmeh. In 2001, we effected a 1:15 forward split and stock distribution which increased the number of our issued and outstanding shares of common stock. We also increased our authorized capital from 500,000,000 to 750,000,000 shares. In 2007, our shareholders approved a 1:1.2 forward split and an amendment to our Articles of Incorporation that increased the authorized capital of the Company to 1,500,000,000 shares of common stock.

Corporate Overview - We provide a mix of high and medium volume turnkey manufacturing services using surface mount technology ("SMT"), ball-grid array assembly, pin-through-hole and custom injection molded cabling for leading electronics original equipment manufacturers ("OEMs") in the communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our services include pre-manufacturing, manufacturing and post-manufacturing services. 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.

We conduct our business principally through six wholly-owned subsidiaries or divisions: CirTran Corporation ("CirTran USA"), CirTran - Asia, Inc. ("CirTran

Asia"), CirTran Products Corp. ("CirTran Products"), CirTran Media Corp. ("CirTran Media"), CirTran Online Corp. ("CirTran Online"), and CirTran Beverage Corp. ("CirTran Beverage").

CirTran USA

As of December 31, 2007 and 2006, approximately 25 percent and 29 percent of our revenues were generated by low-volume electronics assembly activities, which consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables. We also assemble higher-level subsystems 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 our 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.

Through our subsidiary, Racore Technology Corporation ("Racore"), we provide engineering design services to customers of some of our other subsidiaries, and continue to distribute a small number of Ethernet cards.

CirTran Asia

Through CirTran Asia, we design, engineer, manufacture and supply products in the international electronics, consumer products and general merchandise industries for various marketers, distributors and retailers selling overseas. This subsidiary provides manufacturing services to the direct response and retail consumer markets. Our experience and expertise in manufacturing enables CirTran Asia to enter a project at various phases: engineering and design; product development and prototyping; tooling; and high-volume manufacturing. This presence with Asian suppliers helps us maintain an international contract manufacturer status for multiple products in a wide variety of industries, and has allowed us to target larger-scale contracts.

CirTran Asia maintains an office in Shenzhen, China and has retained dedicated Chinese personnel to oversee Asian operations. We intend to pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses and injection molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, retail, and direct consumer markets.

During 2006, the Company developed several fitness and exercise products, and products in the household and kitchen appliance and health and beauty aids markets that are being manufactured in China. Sales of these products comprised approximately 34 percent and 32 percent of revenues reported in 2007 and 2006, respectively. We anticipate that offshore contract manufacturing will continue to be an emphasis of the Company.

CirTran Products

CirTran Products pursues contract manufacturing relationships in the U.S. consumer products markets, including products in areas such as: home/garden, kitchen, health/beauty, toys, licensed merchandise and apparel for film, television, sports and other entertainment properties. Licensed merchandise and apparel is defined as any item that bears the image, likeness, or logo of a product, or a person such as a well-known celebrity, that is sold or advertised to the public. Licensed merchandise and apparel are sold and marketed in the entertainment and sports franchise industries. Sales of these products comprised 1 percent and 23 percent of total revenues for 2007 and 2006, respectively. We have concentrated our product development efforts into three areas, home and kitchen appliances, beauty products and licensed merchandise. We anticipate that these products will be introduced into the market either under one uniform brand name or under separate trademarked names owned by CirTran Products. We are presently preparing to launch various programs where CirTran Media will operate as the marketer, campaign manager and distributor in various product categories including beauty products, entertainment products, software products, and fitness and consumer products.

CirTran Media

In 2006, we formed Diverse Media Group, now known as CirTran Media, to provide end-to-end services to the direct response and entertainment industries. We are developing marketing production services, and preparing programs in which CirTran Media will operate as the marketer, campaign manager and/or distributor for beauty, entertainment, software, and fitness consumer products. In 2006, we entered into an agreement with Diverse Talent Group, Inc., a California corporation ("DT"), whereby DT agreed to provide outsourced talent agency services in exchange for growth financing. In March 2007, we mutually agreed with DT to terminate the agreement, and assigned to DT the name "Diverse Media Group." Revenues earned by this subsidiary were 6 percent and 16 percent of total revenues during 2007 and 2006, respectively.

Despite the termination of the DT agreement, we anticipate continuing to produce infomercials for the direct marketing industry and for product marketing

campaigns. We also plan to provide product marketing, production, media funding, and merchandising services to the direct response and entertainment industries in concert with the original objectives of this subsidiary.

In 2006, CirTran Media leased a sales office in Bentonville, Arkansas, in close proximity to Wal-Mart's world headquarters. The office is located there to help create and manage an ongoing relationship with Wal-Mart and Sam's Club stores in order to facilitate the distribution of products through Wal-Mart stores.

CirTran Online

During the first quarter of 2007, we started CirTran Online to sell products via the internet, to offer training, software, marketing tools, web design and support, and other e-commerce related services to entrepreneurs, and to telemarket directly to customers. As part of CirTran Online's business plan, we entered into an agreement with Global Marketing Alliance ("GMA"), a Utah limited liability company specializing in providing services to E-bay sellers, conducting internet marketing seminars, and developing and hosting web sites. Revenues derived from the arrangement with GMA comprised 20 percent of total revenue in 2007.

CirTran Beverage

In May 2007, we incorporated CirTran Beverage to arrange for the manufacture, marketing and distribution of Playboy-licensed energy drinks, flavored water beverages, and related merchandise through various distribution channels. We also entered into an agreement with Play Beverages, LLC ("PlayBev"), a related Delaware limited liability company and the licensee under a product licensing agreement with Playboy Enterprises International, Inc. ("Playboy"). Under the terms of the PlayBev agreement, we are to provide the initial development and promotional services to PlayBev, who will collect from us a royalty based on product sales and manufacturing costs once licensed product distribution commences. As part of efforts to finance the initial development and marketing of the Playboy energy drink, the Company, along with other investors, formed After Bev Group LLC ("AfterBev"), a majority-owned subsidiary organized in California.

Two versions of the Playboy energy drink, regular and sugar-free, have been developed. During 2007, PlayBev and the Company conducted focus group taste tests to determine the best flavor and ingredients; publicized the new drink via promotional bus tours, celebrity-attended activities, and magazine ads; and negotiated with production facilities and distribution groups. During the first part of 2008, the Company secured distribution contracts and the drink began selling in New England, Florida, and California. Another promotional bus tour began in Las Vegas at the end of February 2008, and the following month continued into Florida. Limited energy drink sales at the end of 2007 accounted for 2 percent of total 2007 sales, and billings to PlayBev for development and marketing services accounted for 12 percent of our total sales for 2007.

PRIMARY PRODUCTS AND SERVICES

We have five primary product and service areas: fitness and exercise products; household and kitchen appliances / health and beauty aids; electronics products and manufacturing; media/online marketing services; and beverages.

Fitness and Exercise Products

The Company began manufacturing fitness products in 2004. To date, we have manufactured and sold over 12 different fitness products. We manufacture all of our fitness products through our CirTran Asia subsidiary, originally via an exclusive, three-year manufacturing agreement with certain developers and their affiliates that expired by its terms during mid-2007, but which continues on a month-to-month basis. We are currently in the process of negotiating a renewal agreement with one of these developers.

In 2004, we began manufacturing the AbRoller, a type of an abdominal fitness machine, under an exclusive manufacturing agreement. From inception, we have shipped approximately $3.2 million of this product and will be shipping additional units of this product throughout 2008 and possibly thereafter.

In 2005, we entered into an exclusive manufacturing contract with Guthy - Renker Corporation ("GRC") for a new fitness machine. Later, a dispute arose concerning

the terms of the contract, and we engaged in litigation against GRC which was settled subsequent to December 31, 2007. No product was produced under this contract during 2007. See Part I, Item 3, "Legal Proceedings."

In 2006, we entered into an exclusive, five-year manufacturing agreement for the CorEvolution(TM) product. The customer has committed to minimum orders, amounting to $1.2 million in revenues during the first year, $1.8 million during the second year, and $2.4 million during the third year. This product is uniquely designed to strengthen and rehabilitate the lower back and adjacent areas of human body. Since inception through the end of 2007, shipments of this product have exceeded the agreed-upon minimum orders.

In June 2007, we entered into a five-year, exclusive agreement with Full Moon Enterprises of Nevada to license a new product for the sold-on-TV market. A patent application for The Ball Blaster(TM) was filed by the inventor, who granted the Company the worldwide marketing and distribution rights to this product. We will pay a royalty to the licensor for each unit sold. During 2007, we continued our marketing efforts for this product by meeting with potential celebrity spokespersons intended to appear in related infomercials, however as of the date of this report no products have been sold.

Household and Kitchen Appliances, and Health and Beauty Aids

We began manufacturing household and kitchen appliance products in January 2005. To date, we have manufactured and sold five different household and kitchen appliance products. We manufacture the majority of our household and kitchen appliance products through our CirTran Asia operation.

In 2005, we entered into an exclusive contract to manufacture the Hot Dog Express, intended to be marketed nationally, primarily through infomercials. The contract ran through 2007, and over the life of the contract we shipped approximately $1.9 million of product. We are currently attempting to market the product through large retail channels.

In 2005, we signed an exclusive manufacturing agreement with Advanced Beauty Solutions L.L.C. ("ABS"), regarding the True Ceramic Pro(TM) ("TCP") flat iron hair product. Later in 2005, we were notified that ABS had defaulted on certain obligations to a financing company. We stopped shipping under credit, and exercised rights permitted by the agreement. Following efforts to resolve disputes, we filed a lawsuit against ABS, citing various claims, and sought damages. By then we had shipped approximately $4.7 million worth of TCP units, and were owed approximately $4.0 million. We repossessed from ABS approximately $2.3 million worth of TCP units, and have since been selling TCP units directly to ABS customers as permitted under the bankruptcy proceedings, which also required us to pay royalties to various ABS creditors (see "Legal Proceedings" for more information regarding ABS-related litigation).

Subsequently, we entered into a contract with another direct marketing company to sell TCP units internationally, along with other ancillary hair products, and have generated an additional $2.3 million in sales. During 2007, we also began a direct TV test marketing program, and by the end of 2007 were evaluating the roll-out test phase. During this test and evaluation period we decided to devote additional resources to the TV marketing program, and that TCP shipments would renew during 2008.

In 2006, we signed a three-year, exclusive agreement with Arrowhead Industries, Inc. to manufacture the Hinge Helper, a unique, do-it-yourself home utility hand tool. We produced an initial batch of 1,500 units in conjunction with an anticipated infomercial, but were disappointed at the results of media testing. We signed another four-year licensing agreement in February 2007 to market the product over the internet, through direct marketing, and through retailers; however, significant sales of this product have not yet been achieved as of the date of this report.

Also in 2006, we entered into a distribution agreement with Wines and Wines, and a contract to distribute a line of solar chargers. During 2007, we continued preliminary marketing efforts in connection with these products. However we later determined the products would not meet our earlier expectations, and further development efforts on these products were discontinued by the end of 2007.

In November 2006, we entered into an exclusive agreement with Beautiful Eyes(R), Inc. for a new "hot lashes" product to be sold via infomercials and through

retailers. Through the end of 2007, we worked with the customer, developing the product and submitting samples for approval. By early 2008, the infomercial was completed, and we plan to finish media testing by mid-2008.

In February 2007, we announced completion of an infomercial featuring former heavyweight boxing champion Evander Holyfield and The Real Deal Grill(TM), an indoor/outdoor cooking appliance. Media testing took place in the fall of 2007. Sales of approximately $10,000 resulted, and certain changes were made to the infomercial. We have contracted with another media company for infomercial airings and distribution, and during early 2008 decided to make additional changes to the infomercial to determine if a roll-out was justified. We also completed retail packaging design for this product so we can present it effectively to major retailers.

Also in February 2007, we signed an agreement to manufacture and market a patent-pending, hand-held luggage handle and scale, convenient for travelers to weigh suitcases or packages. During 2007, we worked to develop a final version of the product, and by early 2008 we finished packaging design. We anticipate the product being on retailers' shelves by mid-2008.

In March 2007, we entered into a contract with Easy Life Products Corporation to manufacture and market a new beauty product involving a pencil compact and related accessories. We plan to continue working with the inventor in order to complete the final version of the product.

Electronics Products

Since 1993, we have devoted resources to our traditional electronics business and product lines. We manufacture all of our electronics products through CirTran USA, and provide some engineering services through Racore.

In 2004 we entered into a three-year agreement with Broadata Communications, Inc. ("Broadata"). Under this agreement we have been performing "turn-key" manufacturing services for Broadata, from material procurement to complete finished box-build. The agreement expired in 2007, but has continued on a month-to-month basis.

Media/Online Marketing Services

In October 2005, we opened a satellite office in Los Angeles in accordance with a planned internal expansion program. During 2006, we opened another small office in New York City. In June 2007, the executive in charge of the Los Angeles office was terminated and the office was later closed. A new office has been leased in Los Angeles to house personnel involving CirTran Asia-related product transportation, along with activities connected with our beverage business. In July 2007, we relinquished the executive office space in New York City.

In early 2007, we signed a three-year, Assignment and Exclusive Services Agreement with GMA, founded by Mr. Sovatphone Ouk, and its affiliate companies, Online Profit Academy, LLC, and Online 2 Income, LLC, including Webprostore.com and Myitseasy.com. Based in the Salt Lake area, these companies offer a wide range of services for E-commerce, including eBay sellers. We plan to work closely with the GMA companies to sell products via the internet, and to offer training, software, marketing tools, web design and support, as well as other e-commerce related services to internet entrepreneurs. Through the GMA companies, we also intend to telemarket directly to buyers of our products and services. We also signed a three-year employment agreement with Mr. Ouk to serve as Senior Vice President of our new CirTran Online subsidiary. GMA and its affiliate companies offer a range of complementary capabilities and products for E-commerce, including seminars on how to buy and sell on the World Wide Web. GMA is experienced in building E-commerce websites, and currently hosts sites for internet entrepreneurs.

Beverages

During 2007, we developed two versions of the Playboy-labeled energy drink: regular and sugar-free. Other products considered under the PlayBev agreement are flavored water beverages and related merchandise. During 2007, we also initiated a promotional marketing program, whereby contacts were made with several celebrities who helped publicize the new energy drinks. Additionally, we ran a college-town bus tour throughout the Southwest United States, and the geographic area of the Southeast Football Conference. Ads were placed in college-oriented editions of magazines, and we developed collateral materials

used to support the product in the college marketplace. A focus group taste test was conducted by Alder-Weiner Research, and the results proved favorable with regards to flavor and ingredients. Approximately $205,000 in preliminary beverage sales was collected during the fall of 2007.

During the fourth quarter of 2007 and first part of 2008, the Company secured distribution contracts for the Playboy energy drink and began selling the product in New England, Florida, and California. Another promotional bus tour began in Las Vegas at the end of February 2008, and the following month continued into Florida.

INDUSTRY BACKGROUND

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

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

New Age Beverages. The Playboy energy drink and other products we are developing are part of a growing market segment of the beverage industry known as the "new age" or alternative beverage industry. The alternative beverage category combines non-carbonated ready-to-drink iced teas, lemonades, juice cocktails, single serve juices and fruit beverages, ready-to-drink dairy and coffee drinks, energy drinks, sports drinks, and single-serve still water (flavored, unflavored and enhanced) with "new age" beverages, including sodas that are considered natural, sparkling juices and flavored sparkling beverages. The alternative beverage category is the fastest growing segment of the beverage marketplace, according to Beverage Marketing Corporation. According to Beverage Marketing Corporation, wholesale sales in 2007 for the alternative beverage category of the market are estimated at $25.5 billion representing a growth rate of approximately 11.4% over the estimated wholesale sales in 2006 of approximately $22.9 billion.

As we launch our Playboy energy drink and other licensed products, we will compete with other beverage companies not only for consumer acceptance but also for shelf space in retail outlets and for marketing focus by our distributors, all of whom also distribute other beverage brands. Our energy drink products compete with all non-alcoholic beverages; most of the competing products are marketed by companies with substantially greater financial resources than ours. We also compete with regional beverage producers and "private label" soft drink suppliers. We believe that the leading energy drinks are Red Bull and Monster.

MARKET AND BUSINESS STRATEGY

We maintain capabilities domestically and internationally through multiple channels in product manufacturing, marketing, and distribution. More specifically, we can provide solutions in areas such as campaign management, direct-response media, retail and wholesale distribution, web-based marketing, along with print/catalog and live shopping marketing channels.

We have concentrated our focus on promoting our three operating business segments, i.e., Contract Manufacturing, Electronics Assembly, and Marketing and Media. We have currently classified operations relating to our beverage development, marketing, and distribution business within the Marketing and Media segment, but anticipate the beverage-related business becoming its own segment as it becomes more significant in relation to overall operations.

Contract Manufacturing

Based on the trends observed in the contract manufacturing industry, one of our goals is to benefit from the increased market acceptance of, and reliance upon, the use of manufacturing specialists by many OEMs, marketing firms, distributors, and national retailers. We believe the trend towards outsourcing manufacturing will continue. OEMs utilize manufacturing specialists for many reasons, including reducing the time it takes to bring new products to market, reducing the initial investment required and to access leading manufacturing technology, the ability to better focus resources in other value-added areas, and to improve inventory management and purchasing power. 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 - an idea we call "Concept to Consumer."

We have hired qualified personnel to support new ventures, and in 2006 we opened a dedicated office in Bentonville, Arkansas to directly service the Wal-Mart market. As additional product lines are added, we plan to increase our marketing staff.

Electronics Assembly

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

Marketing and Media

We currently provide product marketing services to the direct response and retail markets for both proprietary and non-proprietary products. This segment provides campaign management and marketing services for both the Direct Response and Retail markets. We provide media services to support our own product marketing efforts, and will begin offering to customers marketing service in channels involving television, radio, print media, and the internet. We have identified a qualified boutique media firm to subcontract this work to in order to better focus resources, and to conserve on potential set up and staffing costs.

We feel that our beverage business, currently classified in the Marketing and Media segment, could have a substantial impact on our business moving forward. The New Age Beverage industry is still on the move. According to Beverage Digest, caffeinated energy drinks have become the fastest-growing sector of the $93 billion domestic beverage industry. Sales of energy drinks grew 700 percent over the past five years, and continue to grow at an annual rate of 72 percent, according to beverage industry consultants. This industry is growing due to current attention to new brands, non-coffee drinkers, and people interested in health and fitness. By directing products to specific groups such as extreme sports enthusiasts, energy drinks target consumers made up primarily of male teenagers and young people in the 20's age bracket.

SUPPLIERS, SUBCONTRACTORS, AND RAW MATERIALS

Our sources of components for our electronics assembly business are either manufacturers or distributors of electronic components. These components include passive components, such as resistors, capacitors and diodes, and active components, such as integrated circuits and semi-conductors. Our suppliers include Texas Instruments, Fairchild, Harris and Motorola. Distributors from whom we obtain materials include Avnet, Future Electronics, Digi-key and Force Electronics. Although from time to time 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.

We also utilize subcontractors, particularly in China, to manufacture products that we choose not to produce ourselves in the U.S. due to expertise or economic issues. This strategy has proved effective and allows us to earn better profit margins. In addition, we have arrangements with co-packing bottling companies, along with can manufacturers to provide us with products for energy drink beverage distribution.

RESEARCH AND DEVELOPMENT

During 2007 and 2006, we spent approximately $179,000 and $271,000, respectively, on research and development of new products and services. The costs of that research and development were billed to specific customers. In addition, our wholly-owned subsidiary, Racore, spent approximately $60,000 and $45,000 during each of those respective years developing technologies intended to eventually be used in new products sold through other CirTran subsidiaries. We will continue to provide Racore's technical expertise to develop and enhance our product line when, and if future demand may arise.

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

SALES AND MARKETING

The Company continues to pursue product development and business development professionals with concentrated efforts on the direct response, product and retail distribution businesses, as well as sales executives for the electronics manufacturing division. In 2006, we opened our office in Bentonville, Arkansas, in close proximity to Wal-Mart's world headquarters. The office is managed by an employee who is responsible for developing and managing an ongoing relationship with Wal-Mart / Sam's Club stores.

It is our intention to continue pursuing sales representative relationships as well as internal salaried sales executives. In 2006, the Company opened a dedicated satellite sales/engineering office in Los Angeles to headquarter all business development activities companywide. Among other things, we use that office to produce infomercials for the direct marketing industry, and for product marketing campaigns. From the Los Angeles office we also provide product marketing, production, media funding, and merchandising services to the direct response and entertainment industries.

We are working aggressively to market existing products through current sales channels. We will also seek to add new conduits to deliver products and services directly to end users, as well as motivate our distributors, partners, and other third party sales mechanisms. We continue to simplify and improve the sales, order, and delivery process. We are also pursuing strategic relationships with retail distribution firms to engage with us in a reciprocal relationship where they would act as our retail distribution arm and we would act as their manufacturing arm with both parties giving the other priority and first opportunity to work on the other's products.

Historically, we have had substantial recurring sales from existing customers, though we continue to seek out new customers to generate increased sales. We treat sales and marketing as an integrated process involving direct salespersons and project managers, as well as senior executives. We also use independent sales representatives in certain geographic areas. We have also engaged strategic consulting groups to make strategic introductions to generate new business. This strategy has proven successful, and has already generated multiple manufacturing contracts.

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

In 2007, 54 percent of our net sales were derived from pre-existing customers, whereas during 2006, 64 percent of our net sales were derived from customers that were also customers during the previous year. In 2007, 46 percent of our sales were derived from new business, with the majority of those sales stemming

from sales to PlayBev, revenue derived via the GMA contract, and sales of the CorEvolution product. In 2007, our largest pre-existing customer, Dynojet, accounted for about 14 percent of our net sales. Our second largest customer in 2007 was Worldwide Excellence, which also accounted for approximately 14 percent of net sales. Sales of the CorEvolution product, along with beverage marketing and development services billed to PlayBev by CirTran Beverage, accounted for 13 and 12 percent, respectively, of total net sales in 2007. Throughout 2008, we anticipate these sources to continue providing the majority of our net sales.

Our expansion into China manufacturing has allowed us to increase our sales, manufacturing capacity and output with minimal capital investment required. By using various subcontractors among which are Zhejiang Cuiori Electrical Appliances Co., Ltd., which manufactures the Real Deal Grill, and Wuyi Leisure Products, which manufactures the CorEvolution and AbRoller, we leverage our upfront payments for inventories and tooling to control costs and receive benefits from economics of scale in Asian manufacturing facilities. These expenses can be upwards of $100,000 per product. The Company will, depending on the contract, prepay some factories anywhere from 10 percent to 50 percent of the purchase orders for materials. In exchange for theses financial commitments, the Company receives dedicated manufacturing responsiveness and eliminates the costly expense associated with capitalizing completely proprietary facilities.

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. As of March 28, 2008, our backlog was approximately $2,350,000. The Company also has contracts that require minimum quantity purchase orders over periods terminating between 2009 and 2011; if the full minimum quantity orders are purchased under these current agreements, they would generate approximately $20,000,000 in revenues to the Company. The majority of these blanket quantities orders are contracts from Williams WorldWide Television and CorEvolution. Each contract contains a buy-out clause that varies, depending on the product and amounts of product agreed upon. However, revenue under these contracts are never recognized until ordered products have been shipped. There is no assurance that the parties to these agreements will meet their obligations for the minimum quantity or any level of purchases required under their respective agreements.

Our efforts to enter high-volume manufacturing in the electronics, consumer products and general merchandise industries affected our sales and backlog. In March 2005, the Company received ISO9001:2000 certification from the International Organization for Standardization. Participation in this program is voluntary, although many countries and customers require adherence to the ISO standards. The ISO 9001:2000 designation indicates that the enterprise has established and applies a set standard of policies on quality and manufacturing.

MATERIAL CONTRACTS AND RELATIONSHIPS

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

Broadata Agreement

In 2004, we entered into a stock purchase agreement with Broadata Communications, Inc., a California corporation ("Broadata") under which we purchased 400,000 shares of Broadata Series B Preferred Stock (the "Broadata Preferred Shares") for an aggregate purchase price of $300,000. The Broadata Preferred Shares are convertible, at our option, into an equivalent number of shares of Broadata common stock, subject to adjustment. The Broadata Preferred Shares are not redeemable by Broadata. As a holder of the Broadata Preferred Shares, we have the right to vote the number of shares of Broadata common stock into which the Broadata Preferred Shares are convertible at the time of the vote. Separate from the acquisition of the Broadata Preferred Shares, we also entered into a Preferred Manufacturing Agreement with Broadata. Under this agreement, we manufacture Broadata's product at an agreed-upon price per component, thus providing "turn-key" manufacturing services from material procurement to complete finished box-build of all of Broadata's products. The initial term of the agreement was for three years, and following the end of this initial term, both parties agreed to continue the relationship on a month-to-month basis.

Evolve Agreement

In 2006, we entered into an Exclusive Manufacturing and Supply Agreement (the "Evolve Agreement") with Evolve Projects, LLC ("Evolve"), an Ohio-based limited liability company.

The term of the Evolve Agreement (the "Term") is for five years from execution, and may be continued on a month-to-month basis thereafter. The Evolve Agreement relates to the manufacturing and production of the CorEvolution. Under the Evolve Agreement, Evolve committed to minimum orders of at least 20,000 units during the first year, 30,000 units during the second year, and 40,000 units during the third year. During both the first and second year, Evolve ordered units in excess of their committed minimum amounts. There is no minimum order commitment during years four and five. During the Term, Evolve agreed to purchase all of its requirements for the Product on an exclusive basis from us.

The CorEvolution is designed to strengthen and rehabilitate the lower back and adjacent areas of the body. Under the terms of the Evolve Agreement, Evolve owns all right, title, and interest in and to the product, and markets the CorEvolution under its own trademarks, service marks, symbols or trade names.

PlayBev Agreement

In May 2007, we entered into an exclusive, three-year manufacturing, marketing, and distribution agreement (the "PlayBev Agreement") with PlayBev, a related party. In August 2007, we extended the agreement's term to ten years. PlayBev is the licensee under a product licensing agreement with Playboy. The PlayBev Agreement allows us to arrange for the manufacture, marketing and distribution of Playboy-licensed energy drinks, flavored water beverages, and related merchandise through various distribution channels. Under the terms of this agreement, we are to provide the initial development and promotional services to PlayBev and are required to pay a royalty to PlayBev on our product sales and manufacturing costs once licensed product distribution commences.

PlayBev has no operations, so under the terms of the PlayBev Agreement, the Company was appointed the master manufacturer and distributor of the beverages and other products that PlayBev licensed from Playboy. As a result, we have assumed all the risk of collecting amounts owed from customers, and contracting with vendors for manufacturing and marketing activities. The royalty payable to PlayBev is an amount equal to the Company's gross profits from collected beverage sales, less 20 percent of the Company's related cost of goods sold, and 6 percent of the Company's collected gross sales.

The Company also agreed to provide services to PlayBev for initial development, marketing, and promotion of the new beverages. These services are billed to PlayBev and recorded as an account receivable from PlayBev. The Company agreed to carry up to a maximum of $1,000,000 as a receivable due from PlayBev in connection with these billed services; PlayBev will repay the receivable out of the royalties payable to PlayBev by the Company under the PlayBev Agreement. On March 19, 2008, the Company and PlayBev agreed to increase the maximum amount of the receivable from $1,000,000 to $3,000,000, and to begin charging interest at a rate of 7 percent per annum on the unpaid balance.

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 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.

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

The beverage industry is highly competitive. Our energy drinks compete with others in the marketplace in terms of pricing, packaging, development of new products and flavors and marketing campaigns. These products compete with a wide range of drinks produced by a relatively large number of manufacturers, most of which have substantially greater financial, marketing and distribution resources than we do.

We believe that factors affecting our ability to compete successfully in the beverage industry include taste and flavor of products, strong recognition of the Playboy brand and related branded product advertising, industry and consumer promotions, attractive and different packaging, and pricing. We also compete for distributors; most of our distributors also sell products manufactured by our competitors and we will compete for the attention of these distributors to endeavor to sell our products ahead of those of our competitors, provide stable and reliable distribution and secure adequate shelf space in retail outlets. These and other competitive pressures in the energy beverage category could cause our products to be unable to gain or to lose market share or we could experience price erosion, which could have a material adverse affect on our business and results.

We compete not only for consumer acceptance, but also for maximum marketing efforts by multi-brand licensed bottlers, brokers and distributors, many of which have a principal affiliation with competing companies and brands. Our products compete with all liquid refreshments and with products of much larger and substantially better financed competitors, including the products of numerous nationally and internationally known producers and include products such as Hansen's energy, Diet Red, Monster Energy, Lost Energy, Joker Mad Energy, Ace Energy, Unbound Energy, Rumba energy juice, Red Bull, Rockstar, Full Throttle, No Fear, Amp, Adrenaline Rush, 180, Extreme Energy Shot, Red Devil, Rip It, NOS, Boo Koo, Vitaminenergy, and many other brands. We also compete with companies that are smaller or primarily local in operation. Our products also compete with private label brands such as those carried by grocery store chains, convenience store chains and club stores.

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. We believe we are in substantial compliance with all relevant regulations applicable to our business and operations.

EMPLOYEES

As of April 9, 2008, we employed a total staff of 113 persons in the United States and seven in China. In our Salt Lake headquarters, we employed 108 persons: five in administrative positions, five in engineering and design, 93 in clerical and manufacturing, two in sales, and three in project management. In our Los Angeles sales office, we employed three persons: two in administration and sales, and one clerical assistant. In our Bentonville sales office, we employed two persons: one in administration and sales, and one clerical assistant. In our ShenZhen, China office, we employed two persons in administration and five in engineering. We believe that our relationship with our employees is good.

RECENT DEVELOPMENTS

In February 2008, we signed an exclusive, three-year agreement with Shaka Shoes, Inc. ("Shaka"), of Kailua Kona, Hawaii, to manufacture and distribute Shaka Gear(TM) shoes and accessories. The agreement gives us the exclusive right to manufacture globally, and distribute in the United States. We will pay Shaka a royalty based on sales volume as determined under the terms of the agreement. The agreement also contains provisions for us to provide Shaka with marketing services and media (primarily infomercial) placements.

In February 2008, we extended the maturity dates and registration filing dates in connection with three debenture agreements involving two of our convertible debentures issued in 2005 to YA Global Investments, LP ("YA Global," formerly known as Cornell Capital Partners, LP), and Highgate House Funds, LTD ("Highgate"). The maturity dates for both debentures were extended to August 31, 2008. YA Global also agreed to extend the deadline for registering the resale of shares of common stock issuable upon conversion of its debentures until January 1, 2009, and similarly agreed to extend the registration deadline in connection with another debenture we issued in 2006.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, and Section 27A of the Securities Act of 1933 that reflect our current expectations about our future results, performance, prospects and opportunities. These forward-looking statements are subject to significant risks, uncertainties, and other factors, including those identified in "Risk Factors" below, which may cause actual results to differ materially from those expressed in, or implied by, any forward-looking statements. The forward-looking statements within this Form 10-KSB may be identified by words such as "believes," "anticipates," "expects," "intends," "may," "would," "will" and other similar expressions. However, these words are not the exclusive means of identifying these statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Except as expressly required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances occurring subsequent to the filing of this Form 10-KSB with the SEC or for any other reason. You should carefully review and consider the various disclosures we make in this Report and our other reports filed with the SEC that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business.

RISK FACTORS

Our business, financial condition, and results of operations could be harmed by any of the following risks, or other risks that have not been identified or which we believe are immaterial or unlikely. Shareholders should carefully consider the risks described below in conjunction with the other information in this report on Form 10-KSB and the information incorporated by reference in this report, including our consolidated financial statements and related notes.

Risks Related to Our Operations

We have a history of operating losses which could have a material adverse impact on our ability to continue operations.

Our net loss for the year ended December 31, 2007, was $7,232,524, which included a gain on forgiveness of debt of $67,637, compared to a net loss for the year ending December 31, 2006 totaling $2,854,369, which was partially offset by a gain on forgiveness of debt in the amount of $6,930. Our ability to operate profitably depends on our ability to increase our sales 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 would have a material adverse impact on our business. Our ability to obtain funding has had a material effect on our operations.

Additionally, there is no guarantee that the fluctuations in the volume of our sales will stabilize or that we will be able to continue to increase our revenues to exceed our expenses.

Our current liabilities exceeded our current assets, which raises doubts that we may continue as a going concern.

At December 31, 2007, our current liabilities exceeded our current assets by $5,986,817, compared to a deficit of $4,863,641 at December 31, 2006. For the years ended December 31, 2007 and 2006, we had negative cash flows from operations of $4,260,618 and $1,729,901, respectively. There can be no guarantee that our current assets will ever exceed our current liabilities. As such, and in light of our recent history, there remains a doubt we will be able to meet

our obligations as they come due and will be able to execute our long-term business plans. If we are unable to meet our obligations as they come due or are unable to execute our long-term business plans, we may be forced to curtail our operations, sell part or all of our assets, or seek protection under bankruptcy laws.

The "going concern" paragraph in the report of our independent registered public accounting firm for the years ended December 31, 2007 and 2006 raises doubts about our ability to continue as a going concern.

The independent registered public accounting firm's report for our financial statements for the years ended December 31, 2007 and 2006 include an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. This may have an adverse effect on our ability to obtain financing for our operations and to further develop and market our products.

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

Our sales volume increased in the year of 2007 as compared to 2006. Our sales volumes for the previous four years have changed as indicated by the following levels of net sales for the periods indicated: $8,862,715 for the year ended December 31, 2004; $12,992,512 for the year ended December 31, 2005; and $8,739,208 for the year ended December 31, 2006. For the year ended December 31, 2007 our sales increased to $12,399,793, or by 42 percent from the year ended December 31, 2006. There is no guarantee that the fluctuations in the volume of our sales will stabilize or that we will be able to continue to increase our sales volume.

We are involved in legal proceedings that may give rise to liabilities, and which increase our costs of doing business and could impair our ability to continue as a going concern.

We are involved in legal proceedings which involve lawsuits filed against us. As discussed in "Legal Proceedings," we are currently attempting to negotiate with these claimants to settle claims against the Company, although in some 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 a risk, therefore, that the existence and extent of these liabilities could adversely affect our business, operations and financial condition. The liabilities and claims could also result in a reduction in our revenues to the extent that claims relate to specific products or licenses. As a result, we may be forced to curtail our operations, sell part or all of our assets, or seek protection under bankruptcy laws. Additionally, there is a risk that our vendors could expand their collection efforts against us. If they undertake significant collection efforts, and if we are unable to negotiate settlements or satisfy our obligations, we could be forced into bankruptcy.

Our assets are encumbered by security interests granted to certain holders of our convertible debt; if we fail to meet our obligations under the terms of the instruments creating those security interests, those debt holders may take control of our assets and our business.

In connection with the sale of our convertible debt, we granted a security interest in all of our assets to secure our payment obligations under those securities. If we are unable to meet these obligations, the holders of those securities could execute on the security interest and seize control of our assets.

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

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

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

For the year ended December 31, 2007, sales of products manufactured in the United States accounted for 39 percent of our total net sales, and sales of products manufactured in China accounted for 41 percent of our total net sales. Because of the increasing portion of our products that is manufactured outside the United States, and more particularly, at facilities in close proximity to our CirTran-Asia production facilities in ShenZhen, China, our business is increasingly subject to the risks inherent in doing business internationally. Our international business activities could be affected, limited, or disrupted by a variety of factors, including:

- The imposition of or changes in governmental controls, taxes, tariffs, trade restrictions and regulatory requirements;
- The costs and risks of localizing products for foreign countries;
- Longer accounts receivable payment cycles;
- Changes in the value of local currencies relative to our functional currency;
- Import and export restrictions;
- Loss of tax benefits due to international production;
- General economic and social conditions within foreign countries;

- Differences in international telecommunications standards and regulatory agencies;
- Product requirements different from those of our current customers;
- Fluctuations in the value of foreign currencies and the U.S. dollar;
- Taxation in multiple jurisdictions; and/or;
- Political instability, war or terrorism.

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

We may continue to expand our operations in international markets. Our failure to effectively manage our international operations could harm our business.

Entering new international markets may require significant management attention and expenditures and could adversely affect our operating margins and earnings. To date, we have only recently begun to penetrate international markets. To the extent that we are unable to expand our foreign business ventures in these and other markets, our growth in international markets would be limited, and our business could be harmed.

Risks Associated with Operations in the People's Republic of China ("China" or the "PRC")

The Company's business will be affected by PRC government regulation and the country's economic environment because a significant portion of our products will be produced inChina.

It is anticipated that our products manufactured in China will continue to represent a significant portion of sales in the near future. As a result of our reliance on the China markets, our operating results and financial performance could be affected by any adverse changes in economic, political and social conditions in China.

Economic, political, social and other factors in China may adversely affect our ability to achieve our business objectives of increasing our manufacturing and sourcing activities in China.

Our ability to achieve our business objectives in China may be adversely affected by economic, political, social and religious factors, changes in Chinese law or regulations and the status of China's relations with other countries. In addition, the economy of China may differ favorably or unfavorably from the U.S. economy in such respects as the growth rate of its gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. The Chinese economy differs from the economies of most developed countries in many respects, including:

- the amount of governmental involvement;

- the level of development;
- the growth rate;
- the control of foreign exchange; and
- the allocation of resources.

These differences may adversely affect our ability to manufacture and source products and materials at favorable costs and to otherwise conduct our subsidiary's business or contract with business and trading partners with operations primarily in China. Also, while the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on our business as a foreign entity operating a business or businesses in China. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us or our Chinese subsidiary.

The Chinese government's control over the national economy and economic growth in China could adversely affect our business.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the Chinese government. The continued control of these assets and other aspects of the national economy by the Chinese government could materially and adversely affect our business. The Chinese government also exercises significant control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the Chinese government to slow the pace of growth of the Chinese economy could result in decreased capital expenditures by the public which in turn could reduce demand for goods and services.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on overall economic growth and the level of investments and expenditures in China, including in those related to healthcare, which in turn could lead to a reduction in demand for our products and consequently have a materially adverse effect on our business.

Because the Chinese judiciary, which is relatively inexperienced in enforcing corporate and commercial law, will determine the scope and enforcement under Chinese law of our agreements in China, we may be unable to enforce our rights under those agreements inside and outside of China.

Chinese law will govern some or all of our agreements with Chinese trade or business partners, some of which may be with Chinese governmental agencies. We cannot assure you that we will be able to enforce any of our material agreements or that remedies will be available under those agreements outside of the

People's Republic of China. The Chinese judiciary is relatively inexperienced in enforcing corporate and commercial law, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. The inability to enforce or obtain a remedy under any of our existing or future agreements may have a material adverse impact on our operations.

Exchange controls that exist in the PRC may limit our ability to utilize our cash flow generated in China effectively.

Our subsidiary's business is subject to the PRC's rules and regulations on currency conversion. In the PRC, the State Administration for Foreign Exchange (SAFE) regulates the conversion of Renminbi into foreign currencies. Currently, foreign investment enterprises (FIEs) are required to apply to the SAFE for "Foreign Exchange Registration Certificates for FIEs." FIEs holding such registration certificates, which must be renewed annually, are allowed to open foreign currency accounts, including a "basic account" and "capital account." Currency translation within the scope of the "basic account," such as remittance of foreign currencies for payment of dividends, can be effected without requiring the approval of the SAFE. However, conversion of currency in the "capital account" including capital items such as direct investment, loans and securities, still require approval of the SAFE. We cannot assure you that the PRC regulatory authorities will not impose further restrictions on the convertibility of Chinese currency. Any future restrictions on currency exchanges may limit our ability to use our cash flow for the distribution of dividends to our shareholders or to fund operations we may have outside of the PRC.

Foreign investment policy changes may affect the profitability of our Chinese operations.

On March 16, 2007, China's parliament, the National People's Congress, adopted the Enterprise Income Tax Law, which took effect on January 1, 2008. The new income tax law sets a unified income tax rate for domestic and foreign companies at 25 percent and abolishes the favorable policy for foreign invested enterprises. Under this new law, newly established foreign invested enterprises will not enjoy favorable tax treatment as previously in effect. Our China subsidiary will be subject to the new tax rate, which may adversely affect our results of operations.

Failure to comply with the US Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

Since we are a domestic corporation required to file reports under the Exchange Act, we are subject to the US Foreign Corrupt Practices Act ("FCPA"), which generally prohibits US companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Non-US companies, including some that may compete with our company, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. We are also required to maintain financial controls that will adequately disclose any payments that might violate the FCPA. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

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, which could make it difficult for us to continue as a going concern.

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

A percentage of our revenue is generated from our electronics assembly and manufacturing services. Of this amount our three largest customers generate approximately 41 percent of the total revenue. Our customers include electronics, telecommunications, networking, automotive, gaming, exercise equipment, and medical device OEMs that contract with us for the manufacture of specified quantities of products at a particular price and during a relatively short period of time. As a result, the mix and number of our customers varies significantly from time to time. Responding to the fluctuations and variations in the mix and number of our customers can cause significant time delays in the operation of our business and the realization of revenues from our customers. These delays could have a material adverse impact on our business, resulting from, among other things, the costs associated from shifting operations to respond to different orders.

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 to effectively respond to the technological requirements of a changing market, including the need for substantial additional capital expenditures that may be required as a result of these changes. The electronics manufacturing services industry is characterized by rapidly changing technology and continuing process development. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities and successfully anticipate or respond to technological changes on a cost-effective and timely basis. In addition, our industry could in the future encounter competition from new or revised technologies that render existing technology less competitive or obsolete. If we are unable to respond adequately to such changes, our business operations could be adversely impacted, which could make it difficult for us to continue as a going concern.

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

Component shortages or price fluctuations in such components could have an adverse effect on our results of operations by delaying or making it more difficult or expensive for us to fill customer orders. 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, again by delaying or making it more difficult or expensive for us to fill orders or to seek new orders.

The energy or New Age beverage industry is brand-conscious, so brand name recognition and acceptance of our products are critical to our success.

Our new beverage business is substantially dependent upon developing awareness and market acceptance of our products and brands by our target market. In addition, our business depends on acceptance by our distributors and retailers of our brands as beverage brands that have the potential to provide incremental sales growth. Although our affiliate has a license agreement until 2012 for use of the Playboy brand in the beverage market, it may be too early in the product life cycle of our brand to determine whether our products and brand will achieve and maintain satisfactory levels of acceptance by independent distributors and retail consumers.

Competition from traditional non-alcoholic beverage manufacturers may adversely affect our distribution relationships and may hinder development of our intended markets, as well as prevent us from expanding into other markets.

The beverage industry is highly competitive. We compete with other beverage companies not only for consumer acceptance but also for shelf space in retail outlets and for marketing focus by our distributors, all of whom also distribute other beverage brands. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers, most of which have substantially greater financial, marketing and distribution resources than ours. Some of these competitors may exert pressure on independent distributors not to carry

18

competitive New Age beverage brands such as ours. We also compete with regional beverage producers and "private label" soft drink suppliers. These national and international competitors have advantages such as lower production costs, larger marketing budgets, greater financial and other resources and more developed and extensive distribution networks than ours. There can be no assurance that we will be able to grow our volumes or be able to maintain our selling prices in existing markets or as we enter new markets.

The New Age beverage industry is characterized by rapid changes in consumer preferences and public perception; our ability to continue developing new products to satisfy our consumers' changing preferences will determine our long-term success.

Our current market distribution and penetration is limited with respect to the population as a whole; it is too early for us to determine whether our brand will achieve initial consumer acceptance, and there can be no assurance that this acceptance will ultimately be achieved. Based on industry information, we believe that, in general, New Age beverage brands and products may be successfully marketed for five to nine years after the product is introduced in a geographic distribution area before consumers' taste preferences change. In light of the limited life of New Age beverage brands and products, a failure to introduce new brands, products or product extensions into the marketplace as current ones mature could prevent us from achieving long-term profitability. In addition, customer preferences also are affected by factors other than taste, such as health and nutrition considerations and obesity concerns, shifting consumer needs, changes in consumer lifestyles, increased consumer information and competitive product and pricing pressures. Sales of our products may be adversely affected by the negative publicity associated with these issues. If we do not adjust to respond to these and other changes in customer preferences, our sales may be adversely affected.

We could be exposed to product liability claims for personal injury or possibly death.

Although we have product liability insurance in amounts we believe are adequate, there can be no assurance that the coverage will be sufficient to cover any or all product liability claims. To the extent our product liability coverage is insufficient, a product liability claim would likely have a material adverse effect upon our financial condition. In addition, any product liability claim successfully brought against us may materially damage the reputation of our products, thus adversely affecting our ability to continue to market and sell that or other products. Additionally, we may be required from time to time to recall products entirely or from specific co-packers, markets or batches. Product recalls could adversely affect our profitability and our brand image. We do not maintain recall insurance.

Our beverage business is subject to many regulations and noncompliance is costly.

The production, marketing and sale of our beverages, including the contents, labels, caps and containers, are subject to the rules and regulations of various federal, provincial, state and local health agencies. If a regulatory authority finds that a current or future product or production run is not in compliance with any of these regulations, we may be fined, or production may be stopped, thus adversely affecting our financial condition and results of operations. Similarly, any adverse publicity associated with any noncompliance may damage our reputation and our ability to successfully market our products. Furthermore, the rules and regulations are subject to change from time to time; we have no way of anticipating whether changes in these rules and regulations will impact our business adversely. Additional or revised regulatory requirements could have a material adverse effect on our financial condition and results of operations.

Significant additional labeling or warning requirements may inhibit sales of affected products.

Various jurisdictions may seek to adopt significant additional product labeling or warning requirements relating to the chemical content or perceived adverse health consequences of certain of our products. These types of requirements, if they become applicable to one or more of our major products under current or future environmental or health laws or regulations, may inhibit sales of such products. In California, a law requires that a specific warning appear on any product that contains a component listed by the state as having been found to cause cancer or birth defects. This law recognizes no generally applicable quantitative thresholds below which a warning is not required. If a component found in one of our products is added to the list, or if the increasing sensitivity of detection methodology that may become available under this law and related regulations as they currently exist, or as they may be amended, results in the detection of an infinitesimal quantity of a listed substance in one of our beverages produced for sale in California, the resulting warning requirements or adverse publicity could affect our sales.

Risks Related to our Securities

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 our outstanding convertible debt securities.

The following table summarizes the number of shares of our common stock that would be issuable upon conversion of our outstanding convertible debt securities at December 31, 2007, assuming that the full principal amount of those securities (excluding any interest accrued) was converted into shares of our common stock, irrespective of the availability of registered shares and any conversion limitations contained in the underlying debt instruments, 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 conversion of $970,136 principal amount of Convertible Debenture by Highgate House Funds, Ltd.	Shares issuable upon conversion of $3,000,000 principal amount of Convertible Debentures by YA Global Investment, L.P.	Total sha connection of aggre amount De
$0.005	194,027,200	600,000,000	79
$0.010	97,013,600	300,000,000	39
$0.020	48,506,800	150,000,000	19
$0.030	32,337,867	100,000,000	13
$0.040	24,253,400	75,000,000	9
$0.050	19,402,720	60,000,000	7
$0.100	9,701,360	30,000,000	3

Given the formula for calculating the shares to be issued in connection with conversions of these securities, there effectively is no limitation on the number of shares of common stock which may be issued in connection with their conversion, except for the number of shares registered under related registration statements. As such, holders of our common stock will experience substantial dilution of their interests to the extent that the debentures are converted.

Our issuances of shares in connection with conversions of the Convertible Debentures 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 conversions of our debt securities by the holders thereof may result in substantial dilution to the equity interests of our shareholders. 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 conversions of the convertible debt securities. Furthermore, public resale of our common stock by the debt holders following the issuance of common stock in connection with conversions of those securities likely will depress the prevailing market price of our common stock. Even prior to the time of actual conversions and public resale, 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, which could make it more difficult for existing investors to sell their shares of our common stock, and could reduce the amount they would receive on such sales.

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

The formulas for determining the number of shares of common stock to be issued in connection with conversions of the Convertible Debentures are based, in part, on the market price of the common stock. With respect to the Highgate Convertible Debentures, the conversion price is equal to the lower of $0.10 per share or the lowest closing bid price of our common stock over the twenty trading days after the conversion notice is tendered by us to Highgate. With respect to the YA Global Convertible Debentures, the conversion price is equal to the lowest closing bid price of our common stock over the twenty trading days after the conversion notice is tendered by us to YA Global. As a result, the lower the market price of our common stock at and around the time we issue shares upon conversion of the Convertible Debentures, the more shares of our common stock Highgate or YA Global, as the case may be, will receive. Any increase in the number of shares of our common stock issued upon conversion of principal or interest on the Convertible Debentures as a result of decreases in the prevailing market price would compound the risks of dilution described in the preceding paragraphs.

There is an increased potential for short sales of our common stock due to the sale of shares issued in connection with the conversion of the Convertible Debentures, which could materially affect the market price of our stock.

Downward pressure on the market price of our common stock that likely will result from sales by the debenture holders of shares of our common stock issued in connection with conversions of the Convertible Debentures could encourage short sales of common stock by the debenture holders or others. 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, which could make it more difficult for existing shareholders to sell their shares.

The restrictions on the number of shares issued upon conversion of our debt securities may have little if any effect on the adverse impact of our issuance of shares in connection with the conversion of such debt securities, and as such, the debenture holders may sell a large number of shares, resulting in substantial dilution to the value of shares held by our existing shareholders.

The debenture holders are prohibited, except in certain circumstances, from converting amounts of the Convertible Debentures to the extent that the issuance of shares would cause either of them to beneficially own more than 4.99 percent of our then outstanding common stock. These restrictions, however, do not prevent the debenture holders from selling shares of common stock received in connection with a conversion, and then receiving additional shares of common stock in connection with a subsequent conversion. In this way, either of these investors could sell more than 4.99 percent of the outstanding common stock in a relatively short time frame while never holding more than 4.99 percent at one time. As a result, other shareholders could experience substantial dilution in the value of their shares of our common stock.

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

The public trading market for our common stock is limited. Beginning July 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.

It may be more difficult for us to raise funds in subsequent stock offerings as a result of the potential for sales of our common stock issued to the debenture holders in connection with a conversion of the Convertible Debentures.

The potential for substantial dilution to the holdings and interest of current and new shareholders and the adverse effect of sales of the shares issued upon conversion of the debentures on the market price of our stock could make it more

difficult for us to raise additional capital through subsequent offerings of our debt or equity securities, which could have a material adverse effect on our operations.

The price of our common stock is volatile.

In recent years, the stock market in general, and the OTC Bulletin Board 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. Investors in our common stock should be aware that they may not be able to resell our shares at or above the price paid for them due to the fluctuations in the market.

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 our business. 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.

Where You Can Get Additional Information

Federal securities laws require us to file information with the Securities and

Exchange Commission ("SEC") concerning our business and operations. Accordingly, we file annual, quarterly, and special reports, and other information with the SEC. You can inspect and copy this information at the public reference facility maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You can get additional information about the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site (http://www.sec.gov) at which you can read or download our reports and other information.

Our internet addresses are www.cirtran.com and www.racore.com. Information on our websites is not incorporated by reference herein. We make available free of charge through our corporate website, www.cirtran.com, our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

ITEM 2. DESCRIPTION OF PROPERTY

On May 4, 2007, we entered into a ten-year lease agreement for our existing 40,000 square-foot headquarters and manufacturing facility, located at 4125 South 6000 West in West Valley City, Utah. Monthly payments are $17,083, adjusted annually in accordance with the Consumer Price Index. The workspace includes 10,000 square feet of office space to support administration, sales, and engineering staff. The 30,000 square feet of manufacturing space includes a secured inventory area, shipping and receiving areas, and manufacturing and assembly space.

Our facilities in Shenzhen, China, constitute a sales and business office. We have no manufacturing facilities in China. Our office in Shenzhen is approximately 1,060 square feet. Under the terms of our lease on the space, the monthly payment is 12,783 China Yuan Renminbi, which was the equivalent of $1,813 on March 25, 2008. The term of the lease is for two years, running from May 28, 2007.

In November 2007, we began occupying approximately 1,260 square feet of commercial space in the Century City district of Los Angeles. The three-year lease calls for payments of $3,525 per month.

In November 2006, we signed a two-year lease on a 1,150 square-foot facility in Bentonville, Arkansas, in close proximity to Wal-Mart's world headquarters. This lease calls for payments of $1,470 per month, expires in November 2008, and will most likely be renewed.

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

ITEM 3. LEGAL PROCEEDINGS

CirTran Asia, et al. v. International Edge, et al., Civil No. 2:05 CV 413BSJ, U.S. District Court, District of Utah. On May 11, 2005, CirTran Asia, UKing System Industry Co., Ltd. (a subsidiary of our CirTran Asia subsidiary), and Charles Ho filed suit against International Edge, Inc., Michael Casey Enterprises, Inc., Michael Casey, David Hayek, and HIPMG, Inc., for breach of contract, breach of the implied covenant of good faith and fair dealing, interference with economic relationships, and fraud in relation to certain licensing issues relating to the Ab King Pro. The defendants counterclaimed, alleging breach of contract, fraud, defamation and related claims. The plaintiffs filed their reply to the counterclaim, disputing all of the allegations and claims. As of the date of this report, we have settled all claims with International Edge. CirTran Asia also a obtained summary judgment on the counterclaims filed by Michael Casey Enterprises, Inc. and filed a motion for summary judgment on the issue of liability against Michael Casey Enterprises, Inc., which motion is currently pending. We intend to vigorously pursue the remaining claims against the other defendants in this action.

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

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

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

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

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

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

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

iii) the assumption of any assumed liabilities; and

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

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

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

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

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

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

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

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

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

In a subsequent pleading, Mr. Dodo and ABS alleged that we had breached the settlement agreement. That claim has been settled.

CirTran v. Guthy-Renker Corporation and Ben Van De Bunt, Civil No. 20060980298, Third Judicial District Court, Salt Lake County, State of Utah. In May 2006, we filed suit against Guthy-Renker Corporation and one of its officers, claiming breach of contract, breach of the implied covenant of good faith and fair dealing, interference with economic relationships, misrepresentation, and punitive damages. On March 25, 2008, we settled the matter, and Guthy paid us $300,000 under the settlement agreement to resolve all claims.

West Direct, Inc., v. CirTran Corporation, Doc. 1080 No. 826, In the District Court of Douglas County, Nebraska. On or about March 11, 2008, plaintiff West Direct, Inc. instituted this action, alleging the existence, and our violation, of a certain Services Agreement under which plaintiff was to supply certain services for compensation. We deny any obligation to the plaintiff and intend to vigorously oppose the plaintiff's claim of approximately $22,000.

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

No matters were submitted to a vote of the shareholders during the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded in the over-the-counter market. The following table sets forth for the respective periods indicated the prices of the common stock in the over-the-counter market, as reported and summarized by the OTC Bulletin Board. Such prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions. In May 2007, we effected a 1.2-for-1 forward split in the issued and outstanding common stock. Prices below reflect retroactively the forward split.

Calendar Quarter Ended	High Bid	Low Bid
December 31, 2007	$0.026	$0.006
September 30, 2007	$0.012	$0.006
June 30, 2007	$0.019	$0.009
March 31, 2007	$0.017	$0.011
December 31, 2006	$0.023	$0.014
September 30, 2006	$0.028	$0.017
June 30, 2006	$0.045	$0.024
March 31, 2006	$0.055	$0.030

As of April 11, 2008, we had approximately 3,200 shareholders.

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

Equity Compensation Plan Information

The following table sets forth information about the our equity compensation plans, including the number of securities to be issued upon the exercise of outstanding options, warrants, and rights; the weighted average exercise price of the outstanding options, warrants, and rights; and the number of securities remaining available for issuance under the 2006 Stock Plan at April 11, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of remaining future is equity co plans
Equity compensation plans approved by shareholders	None	None	
Equity compensation plans not approved by shareholders	46,800,000	$0.013	
Total	46,800,000	$0.013	

Recent Sales of Unregistered Securities

The following sales of securities occurred during 2007.

During 2007, we issued 264,518,952 shares of common stock to Highgate upon conversion of $1,979,864 of convertible debt and accrued interest at an aggregate conversion rate of $0.007 per share. On each conversion date, the conversion rate was the lower of $0.10 per share, or 100 percent of the lowest closing bid price of our common stock over the 20 trading days preceding the conversion.

In October and November 2007, we sold an aggregate of 29,000,000 shares of common stock to Haya Enterprises, LLC in a private placement for total proceeds of $230,000.

We used the proceeds from these private placements for general corporate purposes and working capital.

In each of the above transactions, the securities were issued to accredited investors pursuant to the exemption from registration provided by Section 4(2) of the Securities Act; the certificates for such securities contain the appropriate legends restricting their transferability absent registration or applicable exemption. The accredited investors received information concerning the Company and had the ability to ask questions about the Company.

Penny Stock Rules

Our shares of common stock are subject to the "penny stock" rules of the Securities Exchange Act of 1934 and various rules under this Act. In general terms, "penny stock" is defined as any equity security that has a market price less than $5.00 per share, subject to certain exceptions. The rules provide that any equity security is considered to be a penny stock unless that security is registered and traded on a national securities exchange meeting specified criteria set by the SEC, authorized for quotation from the NASDAQ stock market, issued by a registered investment Company, and excluded from the definition on the basis of price (at least $5.00 per share), or based on the issuer's net tangible assets or revenues. In the last case, the issuer's net tangible assets must exceed $3,000,000 if in continuous operation for at least three years or $5,000,000 if in operation for less than three years, or the issuer's average revenues for each of the past three years must exceed $6,000,000.

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

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

OVERVIEW

In our U.S. operations, we provide a mix of high and medium size volume turnkey manufacturing services and products using various high-tech applications 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. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing. We also market an energy drink under the Playboy brand pursuant to a license agreement with Playboy Enterprises, Inc.

We conduct business through our subsidiaries and divisions: CirTran USA, CirTran Asia, CirTran Products, CirTran Media Group, CirTran Online, and CirTran Beverage.

CirTran USA accounted for 25 percent and 29 percent of our total revenues during 2007 and 2006, respectively, generated by low-volume electronics assembly activities consisting primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables.

Through CirTran Asia we manufacture and distribute electronics, consumer products and general merchandise to companies selling in international markets. Such sales were 34 and 32 percent of our total revenues during 2007 and 2006, respectively.

CirTran Products pursues contract manufacturing relationships in the U.S. consumer products markets, including licensed merchandise sold in the sports and entertainment markets. These sales comprised 1 percent and 23 percent of total sales for, respectively, the years ended December 31, 2007 and 2006.

CirTran Media provides end-to-end services to the direct response and entertainment industries. During 2007 and 2006, this subsidiary's revenues were 6 percent and 16 percent of total sales, respectively.

CirTran Online sells products via the internet, and provides services and support to internet retailers. In conjunction with partner GMA, revenues from this division were 20 percent of total revenues in 2007.

In May 2007, we organized CirTran Beverage to arrange for the manufacture, marketing and distribution of Playboy-licensed energy drinks, flavored water beverages, and related merchandise. We also entered into an agreement with PlayBev, a related party who holds the Playboy license. We provide development and promotional services to PlayBev, and pay a royalty based on our product sales and manufacturing costs. Services billed to PlayBev in 2007 under this arrangement accounted for 12 percent of total sales. We also sold a limited amount of energy drink beverages during 2007, which amounted to 2 percent of total sales.

RESULTS OF OPERATIONS - COMPARISON OF YEARS ENDED DECEMBER 31, 2007 AND 2006

Sales and Cost of Sales

Net sales increased 42 percent to $12,399,793 for the year ended December 31, 2007, as compared to $8,739,208 for the year ended December 31, 2006. The increase is primarily attributable to revenue provided by the new CirTran Online and CirTran Beverage subsidiaries, which were created in 2007. Revenues from services billed within those two divisions aggregated $4,175,208 during 2007. In addition, we had higher sales attributable to increased shipments of the CoreEvolution exercise product, which is primarily why CirTran Asia sales for during 2007 were higher by $1,406,775, or 50 percent, as compared to 2006.

These sales increases were offset by sales decreases in CirTran Products, which experienced a decline in sales of $1,937,597, or 96 percent, during 2007 as compared to 2006. The reason for the decline was mainly attributable to the loss of TCP flat iron sales at the beginning of 2007. We decided to change the U.S. domestic distribution channel in early 2007, and begin marketing TCP units ourselves with our own infomercial. Accordingly, TCP orders virtually ceased during 2007, and that was the reason for the decrease in CirTran Products shipments. Subsequent to the year-end, we finished our infomercial development and performed media tests; we expect that TCP shipments will begin again by mid-2008.

Cost of sales, as a percentage of sales, increased to 74 percent from 62 percent for the year ended December 31, 2007, as compared to the prior year. Consequently, the gross profit margin decreased to 26 percent from 38 percent, respectively, for the same time period. The decrease in gross profit margin was attributable to the significant shift in the sales mix of products and services experienced during 2007 as compared to 2006. One of the primary reasons for the difference was the arrangement we have with GMA. Pursuant to our Assignment and Exclusive Services Agreement, we recognize the revenue collected under the GMA contracts, and remit back to GMA a management fee approximating their actual costs. This management fee is included in our cost of revenue. Another reason the gross margin decreased was due to the nature of our manufacturing and distribution agreement with PlayBev. CirTran Beverage invoices PlayBev for beverage development and marketing services on what amounts to five percent markup basis. However, we anticipate that gross profit margins for CirTran Beverage will increase during 2008, as we begin distributing more of the Playboy energy drink beverages.

The following charts present (i) comparisons of sales, cost of sales and gross profits generated by our three operating segments, i.e., Contract Manufacturing, Electronics Assembly, and Marketing and Media during 2007 and 2006; and (ii) comparisons during these two years for each segment between sales generated by pre-existing customers and sales generated by new customers.

Segment	Year	Sales	Cost of Sales	Gross Loss/Margin
Contract Manufacturing	2007	$ 4,334,868	$ 2,996,062	$ 1,338,806
	2006	4,865,689	3,563,118	1,302,571
Electronics Assembly	2007	3,089,303	2,435,183	654,120
	2006	2,513,363	1,826,624	686,739
Marketing/ Media	2007	4,975,622	3,741,270	1,234,352
	2006	1,360,156	-	1,360,156

Segment	Year	Total sales	Sales to pre-existing customers	Sales to new customers
Contract Manufacturing	2007	$ 4,334,868	$ 2,784,267	$ 1,550,601
	2006	4,865,689	3,130,057	1,735,632
Electronics Assembly	2007	3,089,303	3,053,662	35,641
	2006	2,513,363	2,447,081	66,282
Marketing/ Media	2007	4,975,622	800,414	4,175,208
	2006	1,360,156	-	1,360,156

Selling, General and Administrative Expenses

During the year ended December 31, 2007, selling, general and administrative expenses increased by 27 percent as compared to the same period for the year ended December 31, 2006. Primary reasons for the increase included higher amortization costs of intellectual property acquired during the latter part of 2006. We also incurred severance costs associated with the termination of an executive in 2007. Higher occupancy costs related to our selling, and then leasing back our building during 2007 also contributed to the increase in 2007. Finally, we experienced approximately 42 percent higher compensation expense in relation to an increased number of employees hired during the last part of 2006 and during 2007 to accommodate anticipated sales growth and expansion.

Non-cash compensation expense

Compensation expense in connection with granting options to employees and outside attorneys to purchase common stock increased by 605 percent for the year ended December 31, 2007 as compared to the prior year. The increase resulted from the difference in the number of options granted to employees during 2007 as compared to 2006. During 2007, employees and outside attorneys were granted options to purchase 59,200,000 shares of common stock, compared to options for 5,500,000 shares of common stock granted during 2006.

Other income and expense

Interest expense for 2007 was $2,650,047 as compared to $3,032,229 for 2006, a decrease of 13 percent. The decrease related primarily due to elimination of the mortgage on our building in connection with our selling and leasing back the property. We experienced a $1,168,623 gain during 2007 related to terminating our contract with DTG. We also recorded a $1,076,629 loss on our derivative valuation for the year ended December 31, 2007, as compared to a gain of $2,838,094 derived during the year ended December 31, 2006. The differences resulted from the varying valuations calculated during the respective periods, taking into account differing debt levels of the underlying convertible debentures along with the different market values of our common stock.

As a result of the above factors, our overall net loss increased 153 percent to $7,232,524 for the year ended December 31, 2007, as compared to $2,854,369 for the year ended December 31, 2006.

LIQUIDITY AND CAPITAL RESOURCES

Our expenses are currently greater than our revenues. We have had a history of losses, and our accumulated deficit was $29,414,203 at December 31, 2007, and $22,181,679 at December 31, 2006. Our net loss for the year ended December 31, 2007 was $7,232,524, compared to $2,854,369 for the year ended December 31, 2006. Our current liabilities exceeded our current assets by $5,986,817 as of December 31, 2007, and $4,863,641 as of December 31, 2006. The primary reasons for the difference were due to a combination of increase in accounts receivable offset by increases in accounts payable and other accrued current liabilities. For the years ended December 31, 2007 and 2006, we experienced negative cash flows from operating activities of $4,260,618 and $1,729,901, respectively.

Cash

The amount of cash used in operating activities during the year ended December 31, 2007 increased by $2,530,717, or 146 percent as compared to the year ended December 31, 2006. Most of the difference stemmed from the difference in net losses for the two years, including the effects of various non-cash elements of gain and loss such as depreciation and amortization, the gain on the termination of the DTC agreement, the cost of granting employee options, and the loss relating to change in derivative valuations on the convertible debentures and related warrants. Aside from these factors, operating cash flows were primarily affected by amounts spent for the development and initial marketing efforts related to the Playboy-licensed energy drink, and then billed to PlayBev.

Accounts Receivable

During 2007, we continued our efforts in improving collections on trade accounts receivable, and monitoring individual customer accounts. This was the main reason trade accounts receivable at December 31, 2007 declined as compared to the balances reflected at December 31, 2006.

The lower 2007 level of trade accounts receivable was more than offset by the amount due from PlayBev. During 2007, we agreed to provide services to PlayBev for initial development, marketing, and promotion of the energy drink. We bill these services to PlayBev and record the amount as an account receivable. We anticipate that PlayBev will repay the receivable by netting out of a portion of the royalties we have agreed to pay PlayBev out of anticipated beverage distribution sales.

Accounts payable and accrued liabilities

Year-end accounts payable, other accrued liabilities, and distributions payable at December 31, 2007 increased by $2,101,351 when compared to corresponding year-end amounts at December 31, 2006. Accounts payable were higher due to activity related to PlayBev-related services performed during the last part of 2007. Distributions payable were also owed to a member of our Board of Directors relating to our assigning him a portion of our membership interest in After Bev Group LLC. Accrued liabilities were higher at the end of 2007 due primarily to the amount of deferred gain recorded resulting from the sale and subsequent leaseback of our building, as well as amounts of interest continuing to accrued on the convertible debentures.

Liquidity and financing arrangements

We have a history of substantial losses from operations, and of using rather than providing cash in operations. We had an accumulated deficit of $29,414,203, along with a total stockholders' deficit of $1,272,779 at December 31, 2007. In addition, during 2007 and 2006, we have used, rather than provided, cash in our operations. As of December 31, 2007, our monthly operating costs and interest expense averaged approximately $638,000 per month.

In conjunction with our efforts to improve our results of operations we are also actively seeking infusions of capital from investors, and are seeking sources to repay our existing convertible debentures