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CIRTRAN CORP  
Form SB-2/A  
June 21, 2006

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As filed with the Securities and Exchange Commission on June 20, 2006  
Registration Statement No. 333-128549

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

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FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933  
PRE-EFFECTIVE AMENDMENT NO. 5

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CIRTRAN CORPORATION  
(Name of issuer in its charter)

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Nevada (State of incorporation)	3672 (Primary Standard Industrial Classification Code Number)	68-0121636 (I.R.S. Employer Identification No.)
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4125 SOUTH 6000 WEST  
WEST VALLEY CITY, UTAH 84128  
(801) 963-5112  
(Address and telephone number of registrant's principal executive offices  
and principal place of business)

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

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

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If the securities being registered on this Form are being offered on a delayed

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or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [x]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following boxes and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

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

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

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be Registered	Amount To be Registered(1)	Proposed Maximum Aggregate Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.001 par value per share	100,000,000 shares(2)	\$ 0.03(3)	\$3,000,000(3)	\$ 354(3)
<b>Totals</b>	<b>100,000,000 shares</b>		<b>\$3,000,000</b>	<b>\$ 354(4)</b>

- (1) All shares offered for resale by the Selling Shareholder.
- (2) Consisting of (i) up to 100,000,000 shares of common stock issuable to the Selling Shareholder upon conversion of the Company's 5% Secured Convertible Debenture.
- (3) The fee was estimated pursuant to Rule 457(c) under the Act on the basis of the average of the bid and asked price of CirTran's common stock as reported on the OTC Bulletin Board on September 6, 2005.
- (4) Fee paid with original filing. No additional fee due.

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

CIRTRAN CORPORATION  
A Nevada Corporation

100,000,000 Shares of Common Stock  
\$0.001 per share

This prospectus relates to the resale of up to 100,000,000 shares (the "Shares") of common stock of CirTran Corporation, a Nevada corporation. One of our shareholders, Highgate House Funds, Ltd., (the "Selling Shareholder") is offering all of the Shares covered by this prospectus. The Selling Shareholder may receive shares in connection with conversions of our 5% Secured Convertible Debenture (the "Debenture") sold to the Selling Shareholder pursuant to a Securities Purchase Agreement (the "Purchase Agreement"), discussed in more detail herein. The Selling Shareholder may elect to convert, at its option, all or part of the principal amount, together with accrued interest on the Debenture, into shares of our common stock at a conversion price discussed in more detail herein. This Prospectus, and the registration statement of which it is a part does not register the resale of any shares issued as interest accrued or accruable in connection with the Debenture. The Selling Shareholder will receive all of the proceeds from the sale of the Shares and we will receive none of those proceeds. Highgate House Funds, Ltd. may be deemed to be an underwriter of the Shares.

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Investment in the Shares involves a high degree of risk. You should consider carefully the risk factors beginning on page 16 of this prospectus before purchasing any of the Shares offered by this prospectus.

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CirTran Corporation common stock is quoted on the OTC Bulletin Board and trades under the symbol "CIRT". The last reported sale price of our common stock on the OTC Bulletin Board on June 13, 2006, was approximately \$0.03 per share. Nevertheless, the Selling Shareholders do not have to sell the Shares in transactions reported on the OTC Bulletin Board, and may offer their Shares through any type of public or private transactions.

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

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June \_\_, 2006

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

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

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

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Summary about CirTran Corporation and this offering

### CirTran Corporation

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

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

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

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

### This offering

On May 26, 2005, we entered into a securities purchase agreement (the "Purchase Agreement") with Highgate House Funds, Ltd., a Cayman Island exempted company ("Highgate" or the "Selling Shareholder"), relating to the issuance by us of a 5% Secured Convertible Debenture, due December 31, 2007, in the aggregate principal amount of \$3,750,000 (the "Convertible Debenture").

In connection with the purchase of the Convertible Debenture, we used \$2,265,000 to repay two promissory notes to Cornell Capital Partners, LP ("Cornell"), one in the amount of \$1,700,000, and the other in the amount of \$565,000. Highgate and Cornell have the same general partner, Yorkville Advisors, but have different portfolio managers.

We also paid a commitment fee of \$240,765, a structuring fee of \$10,000 to Highgate, and legal fees of \$5,668. As such, of the total purchase amount of \$3,750,000, the net proceeds to us were \$1,228,567, which we received following the closing of the issuance of the Convertible Debenture. We used these proceeds for general corporate and working capital purposes.

The Convertible Debenture bears interest at a rate of 5%. Highgate is entitled to convert, at its option, all or part of the principal amount owing under the

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Convertible Debenture into shares of our common stock at a conversion price equal to the lesser of (a) \$0.10 per share, or (b) an amount equal to the lowest closing bid price of the Common Stock as listed on the OTC Bulletin Board, as quoted by Bloomberg L.P. for the twenty (20) trading days immediately preceding

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the conversion date. Except as otherwise set forth in the Convertible Debenture, Highgate's right to convert principal amounts owing under the Convertible Debenture into shares of our common stock is limited as follows:

1. Highgate may convert up to \$250,000 worth of the principal amount plus accrued interest of the Convertible Debenture in any consecutive 30-day period when the market price of our stock is \$0.10 per share or less at the time of conversion;
2. Highgate may convert up to \$500,000 worth of the principal amount plus accrued interest of the Convertible Debenture in any consecutive 30-day period when the price of our stock is greater than \$0.10 per share at the time of conversion, provided, however, that Highgate may convert in excess of the foregoing amounts if we and Highgate mutually agree; and
3. Upon the occurrence of an event of default (as defined in the Convertible Debenture), Highgate may, in its sole discretion, accelerate full repayment of all debentures outstanding and accrued interest thereon or may, notwithstanding any limitations contained in the Convertible Debenture and/or the Purchase Agreement, convert the Convertible Debenture and accrued interest thereon into shares of our common stock pursuant to the Convertible Debenture.

A chart showing the number of shares issuable upon hypothetical conversions at particular conversion prices is set forth in the "Risk Factors" section on page 16.

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

We filed this registration statement to register the resale of shares issuable to Highgate upon conversions by Highgate of the Convertible Debenture. However, this registration statement does not register the resale of any shares issued to Highgate as payment of interest accrued on the Convertible Debenture, and neither this registration statement nor the prospectus may be used to sell shares issued to Highgate as payment of interest accrued on the Convertible Debenture.

On June 15, 2006, we entered into an agreement with Highgate to amend the registration rights agreement, pursuant to which we agreed to use our best efforts to have the registration statement declared effective by July 31, 2006. Under the amendment, if the registration statement has not been declared effective by July 31, 2006, Highgate may declare us in default under the Convertible Debenture.

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The number of shares issuable in connection with this registration statement is also limited by our authorized capital, which as of June 13, 2006, was 750,000,000 shares. In other words, we are not authorized to issue more than 750,000,000 shares of our common stock, irrespective of how many shares are covered by this registration statement and prospectus, unless we increase our authorized capital, as discussed below in the "Risk Factors" section on page 20.

The terms of the Convertible Debenture include and set forth other information, including certain limitations on conversions by Highgate and redemption of the Convertible Debenture, all discussed more fully below in the Section "5% Convertible Debenture." Additionally, in connection with the issuance of the Convertible Debenture, we entered into additional agreements with Highgate, including a registration rights agreement, a security agreement, and an escrow agreement, all discussed more fully below in the Section "5% Convertible Debenture."

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### Recent Developments

#### Diverse Media Group

On March 21, 2006, the Company issued a press release "CirTran Forms New Division to Serve Direct Response and Entertainment Industries." The new division will concentrate its efforts on product marketing, production, media funding and merchandise manufacturing services working as a complete vertically-integrated platform that can augment our manufacturing services in the direct response industry. Our experience in this industry over the past two years has taught us that there is a need for a single source solution. In addition, we feel it will help us capture additional business that might otherwise had been lost at the manufacturing level allowing us to participate in all additional areas.

#### CirTran Products Division

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

CirTran Products was established to pursue manufacturing relationships on both a contracted and proprietary basis in the consumer products industry. Proprietary products will be product lines where the intellectual property (logo, trade name etc.) are owned by CirTran Products as well as exclusively manufactured by CirTran Corporation. The marketing efforts may also be managed exclusively by CirTran, or CirTran may choose to engage third party consultants or partner with an independent marketing firm. CirTran Products also intends to pursue contract manufacturing relationships in the consumer products industry which can include product lines including: home/garden, kitchen, health/beauty, toys, licensed merchandise and apparel for film, television, sports and other entertainment properties. Licensed merchandise and apparel can be defined as any item that bears the image of, likeness, or logo of a product sold or advertised to the public. Licensed merchandise and apparel are sold and marketed in the entertainment (film and television) and sports (sports franchises) industries.

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As of June 13, 2006, we had concentrated our product development efforts into three areas, home/kitchen appliances, beauty products and licensed merchandise. We anticipate that these products will be introduced into the market under one uniform brand name or under a separate trademarked names owned by CirTran Products.

### Additional Convertible Debenture Transaction

On December 30, 2005, we entered into a securities purchase agreement (the "Purchase Agreement") with Cornell Capital Partners, a Delaware limited partnership ("Cornell Capital"), relating to the issuance by us of a 5% Secured Convertible Debenture, due July 30, 2008, in the aggregate principal amount of \$1,500,000 (the "Cornell Debenture").

We also paid a commitment fee of \$120,000, and a structuring fee of \$10,000 to Cornell Capital. As such, of the total purchase amount of \$1,500,000, the net proceeds to us were \$1,370,000. We will use these proceeds for general corporate and working capital purposes, in our discretion.

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

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subject to certain restrictions and limitations set forth in the Cornell Debenture.

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

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

Also pursuant to the Cornell Debenture, we have the right to redeem, by giving 3 days' written notice to Cornell Capital, a portion or all of the Cornell Debenture then outstanding by paying an amount equal to one hundred five percent (105%) of the amount redeemed plus interest accrued thereon. In the event that we redeem only a portion of the outstanding principal amount of the Cornell Debenture, Cornell Capital may convert all or any portion of the unpaid principal or interest of the Cornell Debenture not being redeemed by us. Additionally, if after the earlier to occur of (x) fifteen (15) months following the date of the purchase of the Cornell Debenture or (y) twelve (12) months following the date on which the initial registration statement is declared effective, all or any portion of the Cornell Debenture remains outstanding, then we, at the request of Cornell Capital, are required to redeem such amount

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outstanding at the rate of five hundred thousand dollars (\$500,000) per each 30-day period. Finally, upon the occurrence of an event of default as defined in the Cornell Debenture, Cornell Capital can convert all outstanding principal and accrued interest under the Cornell Debenture irrespective of any of the limitations set forth in the Cornell Debenture and/or the Purchase Agreement, and in such event, all such principal and interest shall become immediately due and payable.

In connection with the Purchase Agreement, we also agreed to grant to Cornell Capital warrants (the "Warrants") to purchase up to an additional 10,000,000 shares of our common stock. The Warrants have an exercise price of \$0.09 per share, and expire three years from the date of issuance. The Warrants also provide for cashless exercise if at the time of exercise there is not an effective registration statement or if an event of default has occurred.

Additionally, we entered into an investor registration rights agreement (the "Registration Rights Agreement") with Cornell Capital, pursuant to which we agreed to file, within 120 days of the closing of the purchase of the Cornell Debenture, a registration statement to register the resale of shares of our common stock issuable to Cornell Capital upon conversion of the Cornell Debenture. We agreed to register the resale of up to 42,608,696 shares, consisting of 32,608,696 shares underlying the Cornell Debenture, and 10,000,000 shares underlying the Warrants. We agreed to keep such registration statement effective until all of the shares issuable upon conversion of the Cornell Debenture have been sold. In the event that we issue more than 32,608,696 shares of its common stock upon conversion of the Cornell Debenture, we will file additional registration statements as necessary.

On June 15, 2006, we entered into an agreement with Cornell to amend the registration rights agreement, pursuant to which we agreed to file the registration statement not later than August 15, 2006, instead of 120 days following the closing of the issuance of the Cornell Debenture. Under the amendment, if the registration statement has not been filed by August 15, 2006, Cornell may declare us in default under the Cornell Debenture.

We also entered into a security agreement (the "Security Agreement") with Cornell Capital, pursuant to which we granted a second position security interest in all of our property, including goods; inventory; contract rights and general intangibles; documents, receipts, and chattel paper; accounts and other receivables; products and proceeds; and any interest in any subsidiary, joint

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venture, or other investment interest to secure our obligation under the Cornell Debenture and the related agreements.

We also entered into an escrow agreement (the "Escrow Agreement") with Cornell Capital relating to the holding and disbursement of payment of the purchase price of the Cornell Debenture and cash payments made by us in payment of the obligations owing under the Cornell Debenture. We agreed with Cornell Capital to appoint David Gonzalez as the Escrow Agent under the Escrow Agreement.

By way of background, we have previously entered into financing transactions with Cornell Capital. In April 2003, we had entered into an equity line of credit agreement with Cornell Capital, pursuant to which we drew a total of \$2,150,000 on the equity line, and issued a total of 57,464,386 shares of

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common stock to Cornell Capital. In May 2004, we entered into a standby equity distribution agreement with Cornell Capital, but the agreement was terminated before any funds were drawn or any shares were issued. Between June 2003 and January 2005, Cornell Capital loaned to us an aggregate of \$5,595,000 pursuant to promissory notes issued to Cornell Capital. These notes were paid in full by May 2005.

Highgate House Funds, Ltd., a Cayman Island exempted company ("Highgate"), who is the Selling Shareholder under this registration statement, and Cornell Capital have the same general partner, Yorkville Advisors, but have different portfolio managers. Additionally, the escrow agent appointed in connection with the purchase and sale of both the Cornell Capital debenture transaction and the Highgate debenture transaction is David Gonzalez, who is an officer of Cornell Capital.

The Company does not anticipate that it will use any of the proceeds of the sale of the Cornell Debenture to Cornell Capital to repay the debenture sold to Highgate.

### Exclusive Manufacturing Agreement

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

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

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

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

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

The contract is for three years, and Arrowhead agreed to purchase a minimum of ten million (10,000,000) units of the Product (the "Minimum Quantity"), subject

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to the terms and conditions of the Agreement. Arrowhead and CirTran have agreed on the Minimum Quantity in good faith, although the parties acknowledged that in certain circumstances described in the agreement, the agreement may be terminated prior to the sale of the entire Minimum Quantity. Arrowhead agreed to submit purchase orders for the Product from time to time in accordance with the terms of the agreement. Arrowhead agreed to pay CirTran for the Product purchased at the prices ranging from \$2.95 to \$1.90 per unit, depending on the cumulative number of units of Product which have been purchased by Arrowhead. Arrowhead will also be entitled to a rebate equal to 10% of the purchase Price paid for Product in the previous Tier. Rebates will be payable only in the form of a credit memo against future purchases. Rebate credit memos will not be paid in cash and may not be applied against outstanding balances. We will calculate eligibility for the Rebate as soon as practicable following the end of the month in which a new Tier is entered.

We have produced hand made samples, which have been sent to Arrowhead. These were approved and we are awaiting final approval for the production samples that were supplied at the end of March 2006.. Once the production samples are approved, we will start production according to the release schedule that should be provided by Arrowhead shortly thereafter.

### Aegis Assessments

On March 14th, 2006, we announced that we had received a \$250,000 order to build and deliver the first production run of the next generation SafetyNet(TM) RadioBridge(TM) which we redesigned at the request and on behalf of Aegis Assessments, Inc., a Scottsdale, Arizona-based homeland security contractor. Since the announcement, we have been procuring materials to manufacture the units and ship to Aegis so they can start fulfilling their orders to their customers. We delivered the new, redesigned units and received payment in full from Aegis in April 2006.

### Settlement of Legal Proceedings

On April 12th, 2006, we announced that we had settled all major litigation in which we were a defendant. These litigation matters had been described in our previous SEC filings and were settled for less than the original claims against us. We were able to settle these cases with a total cash outlay of only \$200,000 after originally having exposure of up to \$4.25 million. We settled with Howard Salamon, a financial consultant who originally sued us for \$1.75 million through the issuance of 4 million restricted shares and a warrant to purchase an additional 7 million shares exercisable at \$.05 per share. We also settled our dispute with Sunborne XII, LLC, a Colorado limited liability company and the owner of a building in Colorado Springs, Colorado, to which we expanded our operations in the late 1990s, for \$200,000 in cash. Sunborne's claim originally ranged up to \$2.5 million. Both settlements were reached in February 2006. Our subsidiary, CirTran Asia, will continue to proceed with its action against International Edge, Inc., Michael Casey Enterprises, Inc., Michael Casey, David Hayek, and HIPMG, Inc., as discussed below under "Legal Proceedings."

### Real Deal Grill

On April 18th, 2006, we announced that we had joined forces with former heavyweight champion Evander Holyfield to market and promote "The Real Deal Grill(TM)," a new electric indoor/outdoor cooking product to be sold via TV infomercials. We arranged with the former champion's company, Holyfield Management, Inc., of Georgia, for his services to promote the product and to film a series of TV infomercials featuring Mr. Holyfield and The Real Deal Grill, which are scheduled to be filmed in Florida in May 2006. Mr. Holyfield will receive a talent fee for all units sold.

HBD/Reliant Agreement

On April 19, 2006, we announced that we had signed an agreement relating to "The Real Deal Grill(TM) (the "Grill"), which will initially be sold on TV worldwide and endorsed by Evander Holyfield, the four-time heavyweight boxing champion of the world. The agreement was signed with Harrington Business Development ("HBD") of St. Petersburg, Florida, giving HBD the rights to market the Grill in the Americas and Japan (the "Territory"). Under the contract, HBD will initially market the Grill on TV through infomercials in the U.S., Canada, South America and Japan, which will be filmed in Florida featuring Mr. Holyfield. Under the terms of the contract, we have paid one-half of the costs of producing the initial infomercial, in the amount of \$37,500. Under the contract, HBD granted to us the right to use the raw footage, including audio and video, for the initial infomercial to produce infomercials or other advertisements for the Grill for use solely outside of the Territory. The agreement has an initial term of 3 years and may be renewed. HBD is part of Reliant International Media Corporation ("Reliant"), a full-service direct response company founded by industry pioneers and leaders Tim and Kevin Harrington. The Harringtons, who have been in the direct response industry since the early 1980's, have produced long and short form infomercials for products in numerous categories, which have been seen on TV around the world.

In further consideration for use of the Infomercial footage, we agreed to pay to HBD a royalty of \$2.00 per unit of product on all products sold outside of the territory covered by the agreement (consisting of North America, South America, and Japan) by the Company or sublicensees of the Infomercial footage, net of returns and warranty replacements. For purposes of this royalty obligation, a unit of product consists of the Real Deal Grill itself including any accessories included in the price of the grill. The royalty to HBD for any accessories or options which are advertised in the Infomercial and which may be sold separately shall be 10% of the wholesale price for such items received by the Company. Sales will be calculated on a cash basis, and royalties are due within 14 days of the receipt of payment by the Company for the product.

As of June 13, 2006, we had not received any purchase orders for the Grill, the infomercial had not been filmed, and we had not begun manufacturing the Grill. Once we receive the initial purchase order, we anticipate that we will begin manufacturing, although there can be no guarantee that HBD or Reliant will place any orders or that we will receive the maximum amount possible under the agreement, announced as \$30 million, which assumed that HBD would purchase \$30 million worth of the Grill.

Diverse Talent Group Agreement

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

Prior to entering into the Services Agreement, Nassif and DT Group operated a talent agency in Los Angeles, California, with extensive industry contacts. DMG, a subsidiary of the Company, was seeking to commence a diversified media business of product marketing, infomercial production, media financing and

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product merchandising services to the Direct Response and Entertainment Industries.

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

Pursuant to the Services Agreement, DT agreed to provide all creative and operational needs of DMG's talent division. DT agreed to supply these services

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exclusively to DMG. Additionally, all gross revenues generated from DT's operations after the Effective Date are to be paid to DMG.

At the time of signing the Services Agreement, DMG paid to DT an initial payment of \$50,000 in consideration of the following:

- the right to use the name "Diverse" and be associated with the existing reputation of DT;
- the right to obtain DT's services on an exclusive basis;
- all accounts receivable and contracts receivable of DT Group as of the Effective Date; and
- the assignment by DT of certain talent contracts.

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

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

Additionally, Nassif will receive 5% of the gross margin received by DMG on any new business opportunities generated for DMG through Nassif's personal efforts and contacts (the "New Business Payments"). The New Business Payments may be made in cash or in shares of the Company's restricted common stock, subject to compliance with all applicable securities laws.

DMG also agreed in the Services Agreement to provide financing to DT, in the form of a non-interest-bearing capital line of credit (the "Capital Line"), not to exceed \$200,000, pursuant to a loan agreement (the "Loan Agreement"). DT may make weekly draws not to exceed \$20,000, on terms as set forth in the Loan Agreement.

In connection with the Loan Agreement, DT and DMG entered into a security agreement (the "Security Agreement"), pursuant to which DT granted to DMG a security interest (the "Security Interest") in all of the personal property of

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DT, including inventory, accounts, equipment, general intangibles, deposit accounts, and other items listed in the Security Agreement. The Security Interest secures DT's obligations to DMG under the Capital Line.

Also in connection with the Loan Agreement, Nassif provided a fraudulent transaction guarantee (the "Guarantee"), pursuant to which Nassif agreed to indemnify DMG and its officers, affiliates, and others against any damages arising out of any fraudulent actions by DT.

### May 2006 Private Offering

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

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

The Warrants have exercise prices ranging from \$0.15 to \$0.50 as noted above, and are exercisable as of the date of issuance and through and including the date which is five years following the date on which our Common Stock is listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock Exchange (the "Expiration Date").

With respect to the shares underlying the Warrants, we granted piggyback registration rights as follows: (A) once all of the warrants with an exercise price of \$0.15 (the "Fifteen Cent Warrants") have been exercised, we agreed to include in the next registration statement that is filed by us the resales of the shares issued upon exercise of the Fifteen Cent Warrants; (B) once all of the warrants with an exercise price of \$0.25 (the "Twenty-five Cent Warrants") have been exercised, we agreed to include in the next registration statement that is filed by us the resales of the shares issued upon exercise of the Twenty-five Cent Warrants; and (C) once all of the warrants with an exercise price of \$0.50 (the "Fifty Cent Warrants") have been exercised, we agreed to include in the next registration statement that is filed by us the resales of the shares issued upon exercise of the Fifty Cent Warrants. We did not grant any registration rights with respect to the Shares.

The Shares and the Warrants were issued without registration under the 1933 Act in reliance on Section 4(2) of the 1933 Act and the rules and regulations promulgated thereunder. We intend to use the proceeds from the Private Offering for working capital and general business purposes.

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### Closing and Approval of Asset Purchase Agreement

On June 6, 2006, CirTran Corporation (the "Company") and Advanced Beauty Solutions, LLC ("ABS") closed a transaction (the "Asset Purchase") whereby the Company purchased certain assets of ABS, subject to the approval of the U.S. Bankruptcy Court adjudicating the bankruptcy proceedings of ABS (the "ABS Bankruptcy Court"). On June 7, 2006, the ABS Bankruptcy Court entered an order approving the Asset Purchase.

### Background

On January 19, 2005, the Company signed an Exclusive Manufacturing Agreement with ABS, a California limited liability company, relating to the manufacture of a flat iron hair product in California. On July 7, 2005, the Company signed another Exclusive Manufacturing Agreement with ABS, relating to the manufacture of a hair dryer product in California.

In early October 2005, the Company was notified that ABS had defaulted on its obligation to its financing company. Following the notice of ABS's default, the Company terminated the agreements for both products based on the default. In January 2006, following efforts to resolve the disputes with ABS, the Company filed a lawsuit against ABS, claiming breach of contract, interference with contractual relationships, unjust enrichment, and fraud, and seeking damages from ABS.

With respect to the flat iron products, through October 2005, CirTran had shipped directly to ABS approximately \$4,746,000 worth of the product, and CirTran had received from ABS or its finance company total payments of

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approximately \$788,000. In November 2005, the Company repossessed from ABS approximately \$2,341,000 worth of the products in the United States, as the Company was permitted to do pursuant to the agreement.

Since November 2005, the Company has been pursuing its rights under the agreements and has been offering the flat iron product for sale directly to ABS's customers. In doing so, the Company sold to ABS's international customers directly approximately \$426,000 worth of the flat iron product. The shipments have all been paid in full. These products shipped were not part of the repossessed inventory.

On January 24, 2006, ABS filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Central District of California, San Fernando Valley Division (the "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.

Pursuant to the Sale Motion, the Company and ABS entered into negotiations for

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the purchase by the Company of certain of the assets and assumption of certain of the obligations (described more fully below) of ABS. Because ABS was subject to the jurisdiction of the ABS Bankruptcy Court, any agreement between the Company and ABS relating to the sale of ABS's assets had to be approved by the ABS Bankruptcy Court.

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

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

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

- (i) a cash payment in the amount of \$1,125,000;
- (ii) a reduction of CirTran's allowed claim in the Bankruptcy Case by \$750,000;
- (iii) the assumption of any assumed liabilities; and
- (iv) the obligation to pay ABS a royalty equal to \$3.00 per True Ceramic Pro flat iron unit sold by ABS (the "Royalty Obligation").

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

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

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

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

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payments under the Royalty Obligation, whichever comes first.

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

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

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

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

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### Risk Factors

The short- and long-term success of CirTran is subject to certain risks, many of which are substantial in nature and outside the control of CirTran. You should consider carefully the following risk factors, in addition to other information contained herein. When used in this prospectus, words such as "believes," "expects," "intends," "plans," "anticipates," "estimates," and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. You should understand that several factors govern whether any forward-looking statement contained herein will or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include plans and objectives of management for future operations, including the strategies, plans and objectives relating to the products and the future economic performance of CirTran and its subsidiaries discussed above. We disclaim any intention or obligation to update or revise and forward-looking statement, whether as a result of new information, future events, or otherwise. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of any such statement should not be regarded as a representation by CirTran or any other person that the objectives or plans of CirTran will be achieved.

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

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### 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 current assets exceeded our current liabilities by \$300,528 as of March 31, 2006. Our accumulated deficit increased to \$19,605,311 at March 31, 2006, compared to \$19,327,310 at December 31, 2005. Our net loss for the quarter ending March 31, 2006, was \$277,998, compared to \$201,728 for the quarter ended March 31, 2005. The change was mostly attributable to settlements of notes payable. Our current liabilities exceeded our current assets by \$1,142,874 as of December 31, 2005, and by \$3,558,826 as of December 31, 2004. Our net loss for the year ending December 31, 2005, was \$527,708, which included a gain on forgiveness of debt of \$337,761, compared to \$658,322 for the year ended December 31, 2004, which included a gain on forgiveness of debt of \$1,713,648. Our ability to operate profitably depends on our ability to increase our sales further and achieve sufficient gross profit margins for sustained growth. We can give no assurance that we will be able to increase our sales sufficiently to enable us to operate profitably, which could have a material adverse impact on our business. Our 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. There are doubts that we will be able to continue as a going concern.

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

Our current assets exceeded our current liabilities by \$300,528 as of March 31, 2006. For the three months ended March 31, 2006 and 2005, we had negative cash flows from operations of \$719,898 and \$385,701, respectively. As of December 31, 2005, our current liabilities exceeded our current assets by \$1,142,874, compared to \$3,558,826 as of December 31, 2004. For the year ended December 31, 2005 and 2004, we had negative cash flows from operations of \$1,751,744 and \$1,680,054, respectively. There can be no guarantee that our current assets will 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

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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 reports of our independent registered public accounting firm for the years ended December 31, 2005 and 2004, raises doubts about our ability to continue as a going concern.

The independent registered public accounting firm's reports for our financial statements for the years ended December 31, 2005 and 2004, 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.

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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 2005 as compared to 2004. Our sales volumes for the previous four years have changed as indicated by the following levels of net sales for the periods indicated: \$2,299,668 for the year ended December 31, 2002; \$1,215,245 for the year ended December 31, 2003 and \$8,862,715 for the year ended December 31, 2004. For the year ended December 31, 2005 our sales increased to \$12,992,512 which is a 46.6% increase from year ended December 31, 2004. This increase indicates an increasing trend in sales volume. 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.

One of our customers was responsible for approximately 71% of our accounts receivable at December 31, 2005. That customer filed bankruptcy in January 2006. If the bankruptcy estate is unable to make full payments on this account receivable, or if such payments are delayed, the resulting impact on our collections could have a material adverse impact on our business.

As of December 31, 2005, one customer, Advanced Beauty Solutions ("ABS"), accounted for approximately 71% of our accounts receivable, in the amount of \$2,350,000. On January 24, 2006, ABS filed a voluntary petition for relief (the "ABS Bankruptcy Case") under Chapter 11 of the U.S. Bankruptcy Code. We have an allowed claim of \$2,350,000 against ABS's estate (the "Estate"). In connection with a settlement of the ABS Bankruptcy Case, we recently closed the purchase of the assets of ABS, which included a reduction of our claim by approximately \$750,000, leaving us with a remaining claim of approximately \$1,600,000. On June 7, 2006, the transaction was approved by the ABS Bankruptcy Court.

We intend to continue to produce and sell the ceramic flat iron products under our contracts with ABS. However, we are required to pay to the Estate royalties on each unit sold. The Estate will then use those royalties to pay the claims against the Estate, including our claim of approximately \$1,600,000. There can be no guarantee that we will be able to sell sufficient quantities of the flat iron products and pay royalties to the Estate to allow us to recover the full amount of our remaining claim. If we are unable to recover the claimed amount, the resulting impact on our collections could have a material adverse impact on our business operations.

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

We are involved in legal proceedings, several of which involve lawsuits filed against us. As of June 13, 2006, one company had a judgment against us in the amount of \$37,966, and there were additional claims, in connection with pending litigation, in the aggregate amount of approximately \$10,000,000. This pending litigation involves CirTran Asia and the other plaintiffs whom have filed their reply to the counterclaim, disputing all of the allegations and claims. International Edge filed a motion to dismiss for lack of jurisdiction, which was pending as of the date of this report. This claim involves licensing issues relating to a product which generated approximately \$3,510,000 in revenue in

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2004 and \$960,000 in 2005. As discussed in the "Legal Proceedings" section, we are currently attempting to negotiate with each of these claimants to settle the claims against CirTran, although in many cases, we have not yet reached final settlements. There can be no assurance that we will be successful in those negotiations or that, if successful, we will be able to service any payment obligations which may result from such settlements.

There is substantial risk, therefore, that the existence and extent of these liabilities could adversely affect our business, operations and financial condition. 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 substantial risk that our vendors could expand their collection efforts to collect the unpaid amounts. If they undertake significant collection efforts, and if we are unable to negotiate settlements or satisfy our obligations, we could be forced into bankruptcy.

In connection with the sale of the Convertible Debentures, we granted a security interest in all of our assets to secure our payment obligations under the Convertible Debentures. If we are unable to satisfy our payment obligations, Highgate or Cornell Capital could execute on the security interest and take control of our assets.

In connection with the sale of the Convertible Debenture to Highgate, we entered into a security agreement with Highgate, pursuant to which we pledged all of our property, including goods; inventory; contract rights and general intangibles; documents, receipts, and chattel paper; accounts and other receivables; products and proceeds; and any interest in any subsidiary, joint venture, or other investment interest to secure our obligation under the Convertible Debenture and the related agreements. Similarly, in connection with the sale of the Convertible Debenture to Cornell Capital, we entered into a security agreement with Cornell Capital, pursuant to which we gave a second position security interest and pledged all of our property, including goods; inventory; contract rights and general intangibles; documents, receipts, and chattel paper; accounts and other receivables; products and proceeds; and any interest in any subsidiary, joint venture, or other investment interest to secure our obligation under the Cornell Capital Convertible Debenture and the related agreements. In the event that we are unable to make our payment obligations under the Convertible Debentures or to work out alternate arrangements with Highgate and/or Cornell Capital, or to arrange for financing to enable us to make our payment obligations to Highgate and/or Cornell Capital, Highgate and/or Cornell Capital could execute on the security interest and take control of all of our property and 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 the success of our Company. Though we have employment agreements with Mr. Iehab Hawatmeh, Mr. Trevor Saliba, and Mr. Shaher Hawatmeh (see "Executive Compensation"), and a key-man life insurance policy for Mr. Iehab Hawatmeh, the untimely death or disability of Mr. Hawatmeh could have a serious adverse affect on our operations.

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

For the year ended December 31, 2005, sales of products manufactured in the United States accounted for 24.1 percent of our total net revenues, and sales of

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products manufactured in China accounted for 75.9 percent of our total net revenues. Our sales of our products manufactured internationally have increased, and now represents a larger percentage of our sales. Additionally, the portion of our products that are produced at facilities in close proximity to our CirTran-Asia production facilities in ShenZhen, China, has increased. As a result, we are subject to the risks inherent in international operations. Our international business activities could be affected, limited, or disrupted by a variety of factors, including:

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- \* 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;
- \* taxation in multiple jurisdictions; and/or
- \* political instability, war or terrorism.

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

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

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

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

- \* difficulties in managing foreign sales channels;
- \* difficulties in enforcing agreements and collecting receivables through foreign legal systems and addressing other legal issues;

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- \* longer payment cycles;
- \* taxation issues;
- \* 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
- \* unexpected domestic and international regulatory, economic or political changes.

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

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

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

We have not held an annual shareholder meeting in several years, which could result in a legal action being brought against the Company to compel an annual meeting.

We have not held an annual meeting of shareholders since 2001. Under Nevada law, if a Nevada corporation does not hold a meeting to elect directors of the corporation within eighteen months after the last election of directors, a shareholder or shareholders owning at least fifteen percent of the Company's outstanding voting stock can apply to a court for an order compelling the Company to hold a shareholder meeting to elect directors. Because it has been more than eighteen months since our last meeting where directors were elected, an action could be brought, pursuant to Nevada law, against the Company to compel us to hold an annual meeting and elect directors of the Company.

Our authorized capital presently would be insufficient to allow us to issue shares upon conversion of our outstanding derivative securities, which could result in our being in default or subject to claims of breach of contract, and could have a material adverse impact on our business.

Our authorized capital stock consists of 750,000,000 shares of common stock. As of June 13, 2006, we had 634,853,832 shares issued and outstanding. A hypothetical conversion of the remaining principal amount of the Highgate

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Convertible Debenture, namely \$3,000,000, would result in the issuance of 100,000,000 shares, assuming a hypothetical conversion price of \$0.03 per share. Conversion of the full principal amount of the Cornell Convertible Debenture, namely \$1,500,000, would result in the issuance of 50,000,000 shares of common stock, assuming a hypothetical conversion price of \$0.03 per share. Additionally, in May 2006, we issued warrants to purchase up to an additional 30,000,000 shares of our common stock. Presently, we do not have sufficient shares to permit a full conversion of all of the convertible debentures and exercise of outstanding warrants. Under the Highgate Convertible Debenture and the Cornell Convertible Debenture, failure to deliver shares upon conversion can constitute an event of default, giving Highgate or Cornell, as applicable, the right to accelerate the payment of all remaining amounts due and owing under the debenture. Failure to deliver shares upon exercise of the warrants could result in claims being brought against us for breach of contract, among others.

We intend to hold an annual meeting of shareholders to seek approval of our shareholders to amend our articles of incorporation to increase our authorized capital, although there can be no guarantee that we will be able to obtain shareholder approval to do so. If we do not receive shareholder approval to increase our authorized capital, we would not have sufficient shares to permit a full conversion of the convertible debentures and exercise of the outstanding warrants. A failure to deliver shares upon conversion or exercise of our outstanding derivative securities or to increase our authorized capital could have a material adverse impact on our business and operations

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### 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 12% 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 clients varies

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significantly from time to time. Responding to the fluctuations and variations in the mix and number of our clients can cause significant time delays in the operation of our business and the realization of revenues from our clients. These delays could have a material adverse impact on our business, 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.

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

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The following table describes the number of shares of common stock that would be issuable, assuming that the full principal amount of the Convertible Debentures (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 Convertible Debentures, and further assuming that the applicable conversion or exercise prices at the time of such conversion or exercise were the following amounts:

	Shares Issuable Upon Conversion of \$3,000,000 Principal Amount of Convertible Debenture by	Shares Issuable Upon Conversion of \$1,500,000 Principal Amount of Convertible Debenture by	Total Shares Issuable in Connection with Conversion of Aggregate Principal Amount
Hypothetical			

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Conversion Price	Highgate House Funds, Ltd.	Cornell Capital Partners	of Convertible Debentures
\$0.01	300,000,000	150,000,000	450,000,000
\$0.02	150,000,000	75,000,000	225,000,000
\$0.03	100,000,000	50,000,000	150,000,000
\$0.04	75,000,000	37,500,000	112,500,000
\$0.05	60,000,000	30,000,000	90,000,000
\$0.10	30,000,000	15,000,000	45,500,000

Given the formula for calculating the shares to be issued in connection with conversions of the Convertible Debentures, there effectively is no limitation on the number of shares of common stock which may be issued in connection with conversions of the Convertible Debentures, except for the number of shares registered under prospectuses and related registration statements. As such, holders of our common stock may experience substantial dilution of their interests to the extent that Highgate and/or Cornell Capital converts amounts under the Convertible Debentures.

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 the Convertible Debenture by Highgate and Cornell Capital may result in substantial dilution to the equity interests of holders of CirTran common stock other than Highgate and Cornell Capital. 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 Debentures. Furthermore, public resales of our common stock by Highgate and/or Cornell Capital following the issuance of common stock in connection with conversions of the Convertible Debentures likely will depress the prevailing market price of our common stock. Even prior to the time of actual conversions and public resales, the market "overhang" resulting from the mere existence of our obligation to honor such conversions or exercises could depress the market price of our common stock, 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 Debentures, 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 Debenture, 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 Cornell Capital Convertible Debenture, 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 Cornell Capital.

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As a result, the lower the market price of our common stock at and around the

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time we issue shares to Highgate or Cornell Capital in connection with the Convertible Debentures, the more shares of our common stock Highgate or Cornell Capital, respectively, 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 sales of shares issued to Highgate and Cornell Capital in connection with the Convertible Debentures, which could materially effect the market price of our stock.

Downward pressure on the market price of our common stock that likely will result from sales of our common stock by Highgate and/or Cornell Capital issued in connection with conversions of the Convertible Debentures, could encourage short sales of common stock by Highgate or Cornell Capital. 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 the Convertible Debentures may have little if any effect on the adverse impact of our issuance of shares in connection with the Convertible Debentures, and as such, Highgate and Cornell Capital may sell a large number of shares, resulting in substantial dilution to the value of shares held by our existing shareholders.

Both Highgate and Cornell Capital are prohibited, except in certain circumstances, from converting amounts of the Convertible Debentures to the extent that the issuance of shares would cause Highgate or Cornell Capital, respectively, to beneficially own more than 4.99% of our then outstanding common stock. These restrictions, however, do not prevent Highgate or Cornell Capital 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 Highgate or Cornell Capital could sell more than 4.99% of the outstanding common stock in a relatively short time frame while never holding more than 4.99% at one time. As a result, existing shareholders and new investors 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 shares from Highgate or Cornell Capital may have difficulty selling their shares.

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

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It may be more difficult for us to raise funds in subsequent stock offerings as a result of the sales of our common stock by Highgate and Cornell Capital in connection with the Convertible Debentures.

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

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We may be required to pay liquidated damages to Highgate for failure to meet certain obligations under the registration rights agreement.

In connection with the sale of the Debenture to Highgate, we entered into a registration rights agreement with Highgate, pursuant to which we agreed to file a registration statement within 120 days of closing the sale of the Debenture, and to have the registration statement declared effective within 90 days of its filing. More than 90 days have passed since the filing of the registration statement, and it has not yet been declared effective. Under the terms of the registration rights agreement, we were required to pay one percent of the liquidated value of the Debenture outstanding as liquidated damages for the period commencing one day after the date on which the registration statement should have been declared effective and ending sixty days thereafter, plus two percent of the liquidated value of the Convertible Debentures outstanding as liquidated damages for each thirty-day period commencing sixty-one days after the date on which the registration statement was to be declared effective during which the registration statement has not been declared effective by the SEC. Although we recently entered into an amendment to the registration rights agreement pursuant to which Highgate agreed to a later date by which we need to have the registration statement effective, there can be no guarantee that we will be successful in meeting this extended deadline. As such, we may be required to make substantial liquidated damages payments to Highgate.

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

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

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

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

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

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

Penny stock regulations will tend to reduce market liquidity of our common stock, because they limit the broker-dealers' ability to trade, and a purchaser's ability to sell the stock in the secondary market. The low price of our common stock will have a negative effect on the amount and percentage of transaction costs paid by individual shareholders. The low price of our common stock may also limit our ability to raise additional capital by issuing additional shares. There are several reasons for these effects. First, the internal policies of many institutional investors prohibit the purchase of low-priced stocks. Second, many brokerage houses do not permit low-priced stocks to be used as collateral for margin accounts or to be purchased on margin.

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Third, some brokerage house policies and practices tend to discourage individual brokers from dealing in low-priced stocks. Finally, broker's commissions on low-priced stocks usually represent a higher percentage of the stock price than commissions on higher priced stocks. As a result, our shareholders will pay transaction costs that are a higher percentage of their total share value than if our share price were substantially higher.

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

In recent years, the stock market in general, and the OTC Bulletin Board and the securities of technology companies in particular, has experienced extreme price and trading volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may materially adversely affect our stock price, regardless of operating results. 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 CirTran. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the foregoing risks actually occur, our business, financial condition, or

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results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline.

### Use of Proceeds

All of the shares of common stock issued in connection with conversions of the Convertible Debenture, if and when sold, are being offered and sold by the Highgate as the Selling Shareholder or its pledgees, donees, transferees, or other successors in interest. We will not receive any proceeds from those sales.

Under the Convertible Debenture and related purchase agreement, we used \$2,265,000 to repay two promissory notes to Cornell Capital Partners, LP ("Cornell"), one in the amount of \$1,700,000, and the other in the amount of \$565,000.

We also paid a commitment fee of \$240,765, a structuring fee of \$10,000 to Highgate, and legal fees of \$5,668. As such, of the total purchase amount of \$3,750,000, the net proceeds to us were \$1,228,567. We used these proceeds for general corporate and working capital purposes.

As discussed below in the section "MET Advisors Agreement," we presently have no acquisitions pending or anticipated. Nevertheless, we will continue to review potential acquisition candidates as they arise, and we may choose to use the proceeds of the sale of the Convertible Debenture in connection with future acquisitions.

### Determination of Offering Price

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

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## DESCRIPTION OF BUSINESS

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

### Overview

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

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technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management, and increased purchasing power.

During 2004, we established a new division, CirTran-Asia, Inc, which has contributed to a large portion of the increase in revenue for the year ended December 31, 2004 and the year ended December 31, 2005. This division is an Asian-based, wholly owned subsidiary of CirTran Corporation and provides a myriad of manufacturing services to the direct response and retail consumer markets. Our experience and expertise in manufacturing enables CirTran-Asia to enter a project at any phase: engineering and design, product development and prototyping, tooling, and high-volume manufacturing. We anticipate that CirTran-Asia will pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses and injection molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, retail, and direct consumer markets. This strategic move into the Asian market has helped to elevate CirTran to an international contract manufacturer status for multiple products in a wide variety of industries, and has, in short order, allow us to target large-scale contracts.

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

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

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

On June 1, 2006, the Company, through its newly formed subsidiary Diverse Media Group ("Diverse Media"), signed an exclusive services agreement with the Diverse Talent Group, Inc. ("DTG") a nationally known talent and literary agency, and its founder and CEO Christopher Nassif. The agreement covers a five-year period that commenced on April 1, 2006, when the companies began co-marketing and working together, and includes the assignment of all of DTG's talent contacts and the first right of refusal on all new and existing business to Diverse Media.

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By joining forces with DTG, the Company intends to add business and a record of business success to this new joint venture. The Company believes that Diverse Media can meet its needs of marketing-driven companies in the U.S. and overseas by pairing talent and products to establish a recognizable and long-standing brand. Management believes that talent and product together can create a powerful brand and it is the intention of Diverse Media, in its partnership with DTG, to develop this concept. The agreement also provides the Company with access to the Diverse Talent Group's talent pool which will be a valuable resource in developing in-house marketing programs for future products. By doing so, CirTran anticipates that it will be able to generate a potential profit margin from the marketing of its programs. Plans for Diverse Media also include the establishment of a full-service music division as well as product merchandise and direct response divisions, although there can be no guarantee that the Company will be able to establish these additional divisions.

Included in the terms of the agreement, Diverse Media agreed to provide DTG with a \$200,000 line of credit. The line will be available to DTG in increments of \$20,000 per week, which DTG will use to cover operating expenses during its seasonally slow periods from about June to August, which coincides with the lull in industry production prior to its new fall programming releases.

### Fitness Products

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

On June 7, 2004, we announced that CirTran-Asia had received an initial purchase order on May 26, 2004, from International Edge relating to the manufacture of 80,000 abdominal fitness machines. This order was the first order placed with CirTran-Asia under the exclusive manufacturing agreement. Subsequently, on June 14, 2004, we received another order for 80,000 units of the abdominal fitness machines, which was announced on June 16, 2004, through a separate press release. The Company received many orders subsequent to these first orders. Since these announcements, CirTran-Asia has manufactured, shipped, and received payments of approximately \$5,546,000. On August 13, 2004, we also announced that on August 11, 2004 we had received new orders for Wal-Mart. The Company shipped to Wal-Mart the complete order of abdominal fitness machines and received payments of approximately \$400,000 through the date of this Report. The units were distributed to Wal-Mart stores throughout Canada.

On September 9, 2004, we announced that on September 6, 2004, CirTran-Asia had been awarded the rights to manufacture the Ab Trainer Club Pro, a new abdominal fitness machine, for Tristar Products, under an exclusive manufacturing agreement. This new product is another type of abdominal fitness machine. Since this announcement, and through the date of this Report, CirTran-Asia had manufactured and shipped units, and received payments of approximately \$42,000.

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

of approximately \$1,700,000.

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On September 14, 2004, we announced that on September 7, 2004, we had begun manufacturing the Instant Abs product, another type of abdominal fitness machine, for Tristar Products, under an exclusive manufacturing agreement. Since this announcement, and through the date of this Report, CirTran-Asia had manufactured, and shipped units, and received payments of approximately \$640,000.

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

On April 28, 2005, CirTran-Asia announced that it has been awarded a contract (the "April 2005 Agreement") from Guthy - Renker Corporation ("GRC") to be the exclusive manufacturer of a new fitness machine (the "Fitness Product") for the sold-on-TV direct response industry. Pursuant to the April 2005 Agreement, GRC agreed to purchase all of its requirements of the Fitness Product during the term of the April 2005 Agreement, which is defined as running from the signing of the agreement through the time when the Fitness Product is not being sold in quantity. Since signing the April 2005 Agreement, we have received orders totaling approximately \$1,370,000. Since these announcements, CirTran-Asia has manufactured and shipped orders and has received \$1,033,000 as payment for such shipments.

#### New Products

On August 11, 2004, we announced that CirTran-Asia received a purchase order from Emson in New York, on August 10, 2004 relating to the manufacture of a household cooking appliance for hot dogs and sausages. Since these announcements, and through the date of this Report, CirTran-Asia had manufactured and shipped units, and received payments of approximately \$1,630,000.

On October 1, 2004, we entered into an agreement with Transactional Marketing Partners, Inc. ("TMP"), for consulting services. Pursuant to the agreement, we engaged TMP to provide strategic planning and for introduction of new business to us. Under the agreement, we agreed to pay to TMP a fee of ten percent of the net proceeds received by us from business brought to us by TMP. The fee is to be paid within 15 calendar days following the end of the month in which we receive the net proceeds. Additionally, we agreed to pay \$7,500 during each of the first six months of the term of the agreement, with such payments being viewed as an advance against the fee to be earned. The advance payments are not refundable, but will be deducted from fees earned by TMP. The agreement had an initial term of six months, beginning October 1, 2004, and could automatically be extended for successive six-month periods unless either party gives written notice at least 30 days prior to the expiration of the term of the agreement of its intent not to renew. Additionally, we may terminate the agreement at any time by giving 30 days' written notice. In March 2006, the parties have agreed to six-month extensions through September 2006. The parties will evaluate the relationship at that time and decide if there needs to be another extension. To date the

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relationship has proven successful, resulting in multiple new manufacturing relationships.

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

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

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

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

Since November 2005, we have been pursuing our rights under the agreement and have been offering the flat iron product for sale directly to ABS's customers. In doing so, we sold to ABS's international customers directly approximately \$426,000 worth of the flat iron product. The shipments have all been paid in full. These products shipped were not part of the repossessed inventory.

On January 24, 2006, ABS filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Central District of California, San Fernando Valley Division (the "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

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Proposed Modifications have been received by ABS, was filed with the ABS Bankruptcy Court.

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

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

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

- i) a cash payment in the amount of \$1,125,000;
- ii) a reduction of CirTran's allowed claim in the Bankruptcy Case by \$750,000;
- iii) the assumption of any assumed liabilities; and
- iv) the obligation to pay ABS a royalty equal to \$3.00 per True Ceramic Pro flat iron unit sold by ABS (the "Royalty Obligation").

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

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

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

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

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

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

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

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

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

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

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

CirTran announced on January 9, 2006, that Arrowhead Industries, Inc., of Windermere, Florida, had awarded us an exclusive contract to manufacture its patented Hinge Helper (TM) do-it-yourself utility tool for the home. The Hinge Helper will be manufactured by CirTran-Asia, the Company's China-based

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subsidiary. The exclusive manufacturing contract for the product is for three years. Arrowhead has filmed a Hinge Helper infomercial for TV with an airing date scheduled for late April.

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

The contract is for three years, and Arrowhead agreed to purchase a minimum of ten million units of the Product (the "Minimum Quantity"), subject to the terms and conditions of the Agreement. Arrowhead and CirTran have agreed on the

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Minimum Quantity in good faith, although the parties acknowledged that in certain circumstances described in the agreement, the agreement may be terminated prior to the sale of the entire Minimum Quantity. Arrowhead agreed to submit purchase orders for the Product from time to time in accordance with the terms of the agreement. Arrowhead agreed to pay CirTran for the Product purchased at the prices ranging from \$2.95 to \$1.90 per unit, depending on the cumulative number of units of Product which have been purchased by Arrowhead. Arrowhead will also be entitled to a rebate equal to 10% of the purchase Price paid for Product in the previous Tier. Rebates will be payable only in the form of a credit memo against future purchases. Rebate credit memos will not be paid in cash and may not be applied against outstanding balances. We will calculate eligibility for the Rebate as soon as practicable following the end of the month in which a new Tier is entered.

We have produced hand made samples, which have been sent to Arrowhead. These were approved and we are awaiting final approval for the production samples that were supplied at the end of March 2006. Once the production samples are approved, we will start production according to the release schedule that should be provided by Arrowhead shortly thereafter. As of June 13, 2006, the product samples have been approved. Arrowhead had released and the Company shipped 1,500 units to test media. We are awaiting final production releases.

### Electronics Business and Lines of Products

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

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

On June 24, 2005, we announced that Racore received a purchase order from Lockheed-Martin, a well-known aerospace manufacturing company for fiber optic token-ring network adapters. Direct sales of new and repeat business from this company have totaled more than \$30,000. Since this announcement the product has been manufactured and shipped, and payment has been received. As of June 13, 2006, we had shipped an additional \$45,000 worth of product to this company.

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

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

On August 4, 2005, we announced that Racore received a purchase order from Walt Disney World, a well-known amusement park in the southeastern United States, for more than \$21,000 worth of network interface cards. Since this announcement, the product has been manufactured and shipped, and payment has been received.

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

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

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

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

CirTran Products was established to pursue manufacturing relationships on both a contracted and proprietary basis in the consumer products industry. Proprietary products will be product lines where the intellectual property (logo, trade name etc.) are owned by CirTran Products as well as exclusively manufactured by CirTran Corporation. The marketing efforts may also be managed exclusively by CirTran, or CirTran may choose to engage third party consultants or partner with an independent marketing firm. CirTran Products also intends to pursue contract manufacturing relationships in the consumer products industry which can include product lines including: home/garden, kitchen, health/beauty, toys, licensed merchandise and apparel for film, television, sports and other entertainment properties. Licensed merchandise and apparel can be defined as any item that

bears the image of, likeness, or logo of a product sold or advertised to the public. Licensed merchandise and apparel are sold and marketed in the entertainment (film and television) and sports (sports franchises) industries. As of June 13, 2006, we have concentrated our product development efforts into three areas, home/kitchen appliances, beauty products and licensed merchandise. We anticipate that these products will be introduced into the market under one uniform brand name or under separate trademarked names owned by CirTran Products.

#### Industry Background

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

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

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

#### Electronics Assembly and Manufacture

As of December 31, 2005, approximately 23% of our revenues were generated by our

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

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As part of our electronics assembly and manufacture focus, in April 2004, we entered into a Preferred Manufacturing Agreement (the "Broadata Agreement") with Broadata Communications, Inc. ("Broadata"). Under this agreement, we will perform exclusive "turn-key" manufacturing services handling most of Broadata's manufacturing operations from material procurement to complete finished box-build. Specifically, Broadata agreed that during the three-year term of the Broadata Agreement, we would be the exclusive manufacturer of the Broadata products covered by the Broadata Agreement. Under the Broadata Agreement, Broadata issues us purchase orders specifying the work to be completed and the delivery time. The price paid for work performed under the Broadata Agreement is our costs plus 10%, plus an assembly fee of \$0.07 per component and an hourly charge of \$18 per hour for manual assembly, mechanical assembly, and testing, subject to periodic review and adjustment. We agreed to ship the products manufactured FOB West Valley City, Utah. Beginning in May 2005, we began handling a portion of Broadata's manufacturing operations from material procurement to complete finished box-build. The initial term of the agreement is three years, continuing month to month thereafter unless terminated by either party.

#### Ethernet Technology

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

Additionally, we have established, and continue to seek to establish, key business alliances with major multinational companies in the computing and data communications industries for which we produce private label, custom designed networking products and technologies on an OEM basis. These alliances generally require that Racore either develop custom products or adapt existing Racore

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products to become part of the OEM customer's product line. Under a typical contract, Racore provides a product with the customer's logo, packaging, documentation, and custom software and drivers to allow the product to appear unique and proprietary to the OEM customer. Contract terms generally provide for a non-recurring engineering charge for the development and customization charges, together with a contractual commitment for a specific quantity of product over a given term.

### Contract Manufacturing

Through our subsidiary, CirTran-Asia, we design, engineer, manufacture and supply products in the electronics, consumer products and general merchandise industries for various marketers, distributors and national retailers. This new division is our Asian-based, wholly owned subsidiary, and 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 any phase: engineering and design; product development and prototyping; tooling; and high-volume manufacturing. This strategic move into the Asian market has helped to elevate CirTran to an international contract manufacturer status for multiple products in a wide variety of industries, and has, in short order, allowed us to target large-scale contracts.

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

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### Market and Business Strategy

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

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

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

- \* To Focus Resources. Because the electronics industry is experiencing greater levels of competition and more rapid technological change, many OEMs are focusing their resources on activities and technologies which add the greatest value to their operations. By offering comprehensive electronics

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assembly and related manufacturing services, we believe manufacturing specialists allow OEMs to focus on their own core competencies such as product development and marketing.

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

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

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

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

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

### Suppliers; Raw Materials

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

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shortages of various components used in our assembly and manufacturing processes, we typically hedge against such shortages by using a variety of sources and, to the extent possible, by projecting our customer's needs.

### Research and Development

During 2005 and 2004, CirTran Corporation spent approximately \$200,000 and \$75,000, respectively, on research and development of new products and services. The costs of that research and development were paid for by our customers. In addition, during the same periods, our subsidiary, Racore, spent approximately \$45,000 and \$42,536, respectively. None of Racore's expenses were paid for by its customers. We remain committed, particularly in the case of Racore, to continuing to develop and enhance our product line as part of our overall business strategy.

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

In the coming months, we anticipate that Racore will redesign some of its products to reduced versions of existing products, but also similar yet unique products that will satisfy market needs which currently have no deliverable or affordable solutions. These products will realize reduced development costs, quicker time to market, higher profit margins, greatly reduced support costs, less pressure from competitors, and shorter sales and delivery cycles. These products will leverage our expertise in the areas of fiber optics, security, and portability.

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

### Sales and Marketing

As of June 13, 2006, we had three individuals on our internal sales staff, and we have continued to pursue sales representative relationships with firms that work as independent contractors in generating new business. We signed an agreement with TMP and have other outside independent contractors that we continue to work with. This is advantageous to the Company, as it provides the Company with a broad sales network with no direct cost. It is our intention to continue pursuing sales representative relationships as well as internal salaried sales executives. Early in 2006 the Company opened a dedicated satellite sales/engineering office in Los Angeles to headquarter all business development activities companywide. The Company has since begun staffing this office with administrative and project management staff. The Company is still pursuing product development and business development professionals with

concentrated efforts on the direct response, product and retail distribution

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divisions as well as sales executives for the electronics manufacturing division.

We are working aggressively to market existing products through current sales channels. We will also add major new conduits to deliver products and services directly to end users, as well as motivate our distributors, partners, and other third party sales mechanisms. We continue to simplify and improve the sales, order, and delivery process. We are also pursuing strategic relationships with retail distribution firms to engage with us in a reciprocal relationship where they would act as CirTran's 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. These relationships were responsible for a portion of sales generated in 2005 and we anticipate will be a major factor in our sales growth for 2006 and 2007.

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

In 2005, 38% of our net sales were derived from pre-existing customers, whereas during the year ended December 31, 2004, only 20% of our net sales were derived from customers that were also customers during 2003. In 2005, 62% of our sales were derived from new business, with the majority of those sales being secured by exclusive manufacturing contracts. In 2005, our major new customer was Advanced Beauty Solutions, LLC which accounted for about 35% of our net sales. Our second and third largest customers for 2005 were also new customers, Tristar Products with about 14%, and Emson with 9% of our net sales. Our largest pre-existing customer was Dynojet Research Inc. with over 8% of our net sales. We anticipate that our exclusive manufacturing contracts with Guthy-Renker, Reliant and Arrowhead Industries will contribute significantly to our sales for 2006 and 2007 as those projects are scheduled to roll out in the second and third quarter of 2006. Historically, a small number of customers accounted for a significant portion of our electronics assembly and manufacture division 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 Hengtai Machinery Manufacturing Co., Ltd., which manufactures the Supreme Pilates and Zhejiang Cuiori Electrical Appliances Co., Ltd., which manufactures the Perfect Grill, 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 anywhere from 10% to 50% of the purchase orders for materials to some of the factories we have contracts with. In exchange for these financial commitments, the Company receives dedicated manufacturing responsiveness hence eliminating the costly expense associated with capitalizing complete proprietary facilities.

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. As of June 13, 2006, our backlog was approximately \$1,280,000 with confirmed deliveries dates. The Company also has a total of approximately \$90,000,000 of signed contracts for blanket quantities (i.e. the full amount of the contract), in which the customer agrees to purchase a set amount and will issue purchases against the contract when product is needed. The majority of these blanket quantities orders are two contracts from

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Arrowhead for \$22,000,000 and Reliant for \$30,000,000. We have a \$30,000,000 contract from Guthy - Renker Corporation, a contract from Emson for about \$7,000,000 along with a few other smaller contracts. Each contract contains a buy out clause that varies, depending on the product and amounts of product agreed upon.

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

Management has continued its internal plan for increasing sales, reducing costs and restructuring the overall financial condition. As part of this strategy, sales for the Company in 2005 were greater than sales in 2004, and the Company reached an offer in compromise with the Internal Revenue Service in 2004 and the State of Utah in 2006 settling all outstanding tax liabilities.

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

#### Material Contracts and Relationships

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

#### Cogent Agreement

On September 14, 2003, we entered into an agreement with Cogent Capital Corp.

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

### MET Advisors Agreement

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

In January and March 2004, we issued press releases relating to a new agreement with a contract electronics manufacturer. The January 21, 2004, press release stated that we had entered into a Letter of Intent to purchase all the assets of

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

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

As of June 13, 2006, we had no other acquisitions planned or anticipated. We continue to work with MET and Cogent with respect to potential acquisitions.

### Competition

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

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

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

### Regulation

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

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concerning delinquent payroll taxes, we believe we are in substantial compliance with all relevant regulations applicable to our business and operations.

### Employees

As of June 13, 2006, we employed a total staff of 104 persons in the United States. In our Salt Lake headquarters, we employed 101 persons: 6 in administrative positions, 5 in engineering and design, 88 in clerical and manufacturing, and 2 in sales. In our sales office in Los Angeles, we employed 3 persons: 1 administrative and sales, 1 project manager, and 1 clerical assistant. At this time we are actively searching for additional qualified sales staff for our new office. In our CirTran-Asia division, we employed 7 people: 1 administrative, 2 accounting staff, 2 quality engineers, and 2 design engineers. We believe that our relationship with our employees is good.

### Corporate Background

Our core business was commenced by Circuit Technology, Inc. ("Circuit"), in 1993 by our president, Iehab Hawatmeh. Circuit enjoyed increasing sales and growth in the subsequent five years, going from \$2.0 million in sales in 1994 to \$15.4 million in 1998, leading to the purchase of two additional SMT assembly lines in

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1998 and the acquisition of Racore Computer Products, Inc., in 1997. During that period, Circuit hired additional management personnel to assist in managing its growth, and Circuit executed plans to expand its operations by acquiring a second manufacturing facility in Colorado. Circuit subsequently determined in early 1999, however, that certain large contracts that accounted for significant portions of our total revenues provided insufficient profit margins to sustain the growth and resulting increased overhead. Furthermore, internal accounting controls then in place failed to apprise management on a timely basis of our deteriorating financial position.

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

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

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

The short- and long-term success of CirTran is subject to certain risks, many of which are substantial in nature and outside the control of CirTran. You should consider carefully the following risk factors, in addition to other information contained herein. When used in this Report, words such as "believes," "expects," "intends," "plans," "anticipates," "estimates," and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. You should

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understand that several factors govern whether any forward-looking statement contained herein will or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include plans and objectives of management for future operations, including the strategies, plans and objectives relating to the products and the future economic performance of CirTran and its subsidiaries discussed above.

Description of Property

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

On March 31, 2005, the Company entered into a Membership Acquisition Agreement (the "Acquisition Agreement") with Rajayee Sayegh (the "Seller") for the purchase of one hundred percent (100%) of the membership interests in PFE Properties LLC, a Utah limited liability company ("PFE"). Under the Acquisition Agreement, the Company agreed to issue twenty million (20,000,000) shares of its restricted common stock, with a fair value of \$800,000 on the date of issuance. No registration rights were granted. The shares were issued without registration under the 1933 Act in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder.

The primary asset of PFE is its rights, titles and interests in and to a parcel of real property, together with any improvements, rents and profits thereon or associated therewith, located at 4125 S. 6000 W., West Valley City, Utah, 84128, where the Company presently has its headquarters and manufacturing facility.

Following the acquisition of the PFE interests, PFE will continue to own the building. PFE will remain a separate LLC due to liability issues and the Company will continue to make intercompany lease payments under the 2003 lease.

Our facilities in Shenzhen, China, constitute a sales and business office. We have no manufacturing facilities in China. Our office in Shenzhen is approximately 1,600 square feet. Under the terms of our lease on the space, the monthly payment is 15,000 Renminbi, which in was approximately \$1,900 on June 13, 2006. The term of the lease is for two years, running from July 18, 2004.

As of December, 2005, CirTran had begun occupying a commercial space in the Century City district of Los Angeles located at 1875 Century Park East, Suite 1790. The space is approximately 2,500 square feet of office space. The office will serve as the Business Development, Sales, Marketing and Strategic Planning Headquarters company-wide and for all divisions and subsidiaries. The sublease, which was signed in October of 2005 expires in October of 2007. The lease payment is \$4,500 per month, all inclusive.

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.

Where to get additional information

Federal securities laws require us to file information with the Commission concerning our business and operations. Accordingly, we file annual, quarterly, and special reports, and other information with the Commission. You can inspect

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and copy this information at the public reference facility maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549.

You can get additional information about the operation of the Commission's public reference facilities by calling the Commission at 1-800-SEC-0330. The Commission also maintains a web site (<http://www.sec.gov>) at which you can read or download our reports and other information.

CirTran's internet address' are [www.cirtran.com](http://www.cirtran.com)., [www.cirtran-asia.com](http://www.cirtran-asia.com), [www.racore.com](http://www.racore.com).

### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### Overview

We provide a mixture of high and medium size volume turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole and custom injection molded cabling for leading electronics OEMs in the communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semiconductor

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industries. Our services include pre-manufacturing, manufacturing and post-manufacturing services. Through our subsidiary, Racore Technology Corporation, we design and manufacture Ethernet technology products. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing, such as access to advanced manufacturing technologies, shortened product time-to-market, reduced cost of production, more effective asset utilization, improved inventory management, and increased purchasing power.

During 2004, we established a new division, CirTran-Asia, Inc, which has contributed to a large portion of the increase in revenue since that time. This division is an Asian-based, wholly owned subsidiary of CirTran Corporation and provides a myriad of manufacturing services to the direct response and retail consumer markets. Our experience and expertise in manufacturing enables CirTran-Asia to enter a project at any phase: engineering and design, product development and prototyping, tooling, and high-volume manufacturing. We anticipate that CirTran-Asia will pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses and injection molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, retail, and direct consumer markets. This strategic move into the Asian market has helped to elevate CirTran to an international contract manufacturer status for multiple products in a wide variety of industries, and has, in short order, allow us to target large-scale contracts.

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

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

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

### Significant Accounting Policies

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

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

### Revenue Recognition

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

### Inventories

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

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

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

### Related Party Transactions

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

Results of Operations - Comparison of Periods ended March 31, 2006 and 2005, and Years Ended December 31, 2005 and 2004

### Sales and Cost of Sales

Net sales decreased to \$1,737,824 for the three month period ended March 31, 2006, as compared to \$2,920,465 during the same period in 2005, for a decrease of 40.5%. This decrease was attributed to the loss of sales in the CirTran Asia division due to legal issues with the Ab King Pro and ABS (see Legal Proceedings section). Cost of sales decreased by 48.2%, to \$990,370 during the three month

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period ended March 31, 2006, from \$1,949,773 during the same period in 2005. The decrease in cost of sales is directly due to the decrease in revenue. Our gross profit margin for the three month period ended March 31, 2006, was 43.0%, up from 33.2% for the same period in 2005. The majority of the increase is due to a considerable decrease in CirTran-Asia sales which have more favorable margins compared to the electronics assembly and Ethernet technology business operations. The sales in these divisions have remained consistent.

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Net sales increased 46.6% to \$12,992,512 for the year ended December 31, 2005, as compared to \$8,862,715 for the year ended December 31, 2004. This sales increase can be attributed to several factors. The biggest factor contributed to the increase of net sales during the 2005 was the establishment of the new division CirTran-Asia, which has contributed \$4,569,221 of the increase in revenue. Another factor was the strengthening of the overall marketing strategy of the Company. We have added many new customers mostly in CirTran Asia which contributed to the large increase. Also, industry-wide, we are seeing more OEMs release larger order commitments with extended time tables. The second significant factor directly related to CirTran is our marketing approach. Most contract manufacturers approach customers on a job-by-job basis. CirTran approaches customers on a partner basis. We have developed a program where we can be more effective when we control the material procurement, purchasing, and final assembly, providing the customer a final quality product delivered on time and at a lower market cost. This approach for the electronics assembly and manufacture division has resulted in sales to new customers of \$170,504 during the year ended December 31, 2005. The biggest factor contributing to the increase of net sales during 2005 was our contract manufacturing division, which has resulted in sales to new customers of \$4,598,211.

Cost of sales decreased by 4.6%, from \$7,030,934 during year ended December 31, 2004, to \$6,706,135 during year ended December 31, 2005. The decrease in cost of sales is due to an increase in revenue. Our gross profit margin for the year ended December 31, 2005, was 48.1%, up from 20.5% from the year ended December 31, 2004. The increase in margins is attributable to the outsourcing strategy of most of CirTran Asia's business to other subcontractors in China to better control cost of materials, direct labor, and scrap.

The following charts present (i) comparisons of sales, cost of sales and gross profit generated by our two main areas of operations, i.e., Asia Division, electronics assembly and Ethernet technology, during 2004 and 2005; and (ii) comparisons during these two years for each division between sales generated by pre-existing customers and sales generated by new customers.

	Period	Sales	Cost of Sales	Gross Loss/Margin
Contract Manufacture	Three months ended March 31, 2006	\$ 941,239	\$ 735,136	\$ 206,103
	Three months ended March 31, 2005	2,124,844	1,609,774	515,070
	Year ended December 31, 2005	9,865,023	5,739,436	4,125,587

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	Year ended December 31, 2004	5,458,944	4,736,479	722,465
Electronics Assembly	Three months ended March 31, 2006	774,359	244,877	529,482
	Three months ended March 31, 2005	773,013	329,239	443,774
	Year ended December 31, 2005	3,002,038	973,953 (2)	2,028,085
	Year ended December 31, 2004	3,354,057	2,282,253 (1)	1,071,804
Ethernet Technology	Three months ended March 31, 2006	22,226	10,357	11,869
	Three months ended March 31, 2005	22,608	10,760	11,848
	Year ended December 31, 2005	125,451	79,850 (3)	45,601
	Year ended December 31, 2004	49,714	25,202	24,512
		45		
	Period	Total Sales	Pre-existing Customers	New Customers
Contract Manufacture	Three months ended March 31, 2006	\$ 941,239	\$ 725,543	\$ 215,696
	Three months ended March 31, 2005	2,124,844	1,339,957	784,887
	Year ended December 31, 2005	9,865,023	5,266,812	4,598,211
	Year ended December 31, 2004	5,458,944	0	5,458,944

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Electronics Assembly	Three months ended March 31, 2006	774,359	768,105	6,254
	Three months ended March 31, 2005	773,013	5,562	767,451
	Year ended December 31, 2005	3,002,038	2,831,534	170,504
	Year ended December 31, 2004	3,354,057	2,796,720	557,337
Ethernet Technology	Three months ended March 31, 2006	22,226	19,361	2,865
	Three months ended March 31, 2005	22,608	18,645	3,963
	Year ended December 31, 2005	125,451	101,004	24,447
	Year ended December 31, 2004	49,714	30,257	19,457

- (1) Includes the write-down of carrying value of inventories of \$13,000  
(2) Includes the write-down of carrying value of inventories of \$17,364  
(3) Includes the write-down of carrying value of inventories of \$20,725

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at March 31, 2006, was \$2,203,537, as

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compared to \$2,271,604 at December 31, 2005. The decrease in inventory is nominal.

Inventory at December 31, 2005 was \$2,271,604, as compared to \$1,453,754 at December 31, 2004. The increase in inventory is due to the repossession of ABS finished goods inventory.

### Selling, General and Administrative Expenses

During the three months ended March 31, 2006, selling, general and administrative expenses were \$837,520 versus \$959,891 for the same period in 2005, a 12.7% decrease. The decrease in selling, general and administrative expenses is nominal.

During the year ended December 31, 2005, selling, general and administrative expenses were \$5,923,075 versus \$3,362,933 for 2004, a 76.1% increase. The increase was due to expenses related to the CirTran-Asia division, along with our efforts to aggressively market our products. Selling, general and administrative expenses as a percentage of sales as of December 30, 2005 were 45.6% as compared to 37.9% during 2004. This increase is due to expenses related to the CirTran-Asia division, along with our efforts to aggressively market our products

### Other Income and Expense

Interest expense for three months ended March 31, 2006, was \$1,086,253 as compared to \$143,770 for the same period in 2005, an increase of 655.5%. The increase is primarily due to the derivative treatment of the convertible debenture, discussed below. The estimated fair value of the derivative liability decreased for the three months ended March 31, 2006. This decrease resulted in a gain on derivative valuation of \$893,651.

The Company determined that the features of the Debentures fell under derivative accounting treatment. Accordingly, the Company recognizes these derivatives as liabilities on its balance sheet and measures them at their estimated fair value and recognizes the change in the estimated fair value as a gain or (loss) in the period of the change. The Company estimates the fair value of these embedded derivatives using the Black-Scholes Model, which is based on a sophisticated analysis of historical factors that affect the value of the company's common stock. The fair value of the derivatives instruments is measured each quarter and the resultant change in value is; recorded as an adjustment to the derivative's carrying value and the attendant gain or loss is recognized for the period. During the 1st quarter of 2006, the estimated value of the derivatives decreased by \$893,561 which is reported as a "Gain on derivative valuation" for the period.

As a result of the above factors, we had net loss of \$277,998 for the quarter ended March 31, 2006, as compared to \$201,728 for the quarter ended March 31, 2005. This net loss is attributed to a substantial decrease in sales.

Interest expense for 2005 was \$1,225,252 as compared to \$495,637 for 2004, a increase of 147.2%. The increase is primarily due to the increase in interest expense related the convertible debentures, accretion expense and interest accrued. Also, included are the settlement of various notes payable and interest income charged to delinquent accounts receivable accounts. As of December 31,

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2005 and 2004, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was \$98,316 and \$723,660, respectively. We had a gain on forgiveness of debt related to previously unpaid liabilities in the amount of \$337,761 and a gain on derivative valuation of \$169,570.

Our overall net loss decreased 19.8% to \$527,708 for the year ended December 31, 2005, as compared to \$658,322 for the year ended December 31, 2004.

### Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses preceeding this quarter, and our accumulated deficit increased to \$19,605,311 at March 31, 2006, compared to \$19,327,310 at December 31, 2005. Our net loss for the quarter ending March 31, 2006, was \$277,998, compared to \$201,728 for the quarter ended March 31, 2005. Our current assets exceeded our current liabilities by \$300,528 as of March 31, 2006, and our current liabilities exceeded our current assets by \$1,142,874 as of December 31, 2005. The change was mostly attributable to settlements of notes payable. For the three months ended March 31, 2006 and 2005, we had negative cash flows from operations of \$719,698 and \$385,701 respectively.

Through June 13, 2006, Highgate had converted \$750,000 of the Convertible Debentures, into 24,193,548 shares of our restricted common stock in accordance with the terms of the Convertible Debenture agreement.

On June 1, 2006 the company, through its newly formed subsidiary Diverse Media Group ("Diverse Media"), signed an exclusive services agreement with the Diverse Talent Group, Inc. ("DTG") and DTG's CEO, Christopher Nassif. The agreement covers a five-year period that commenced on April 1, 2006. Included in the terms of the agreement, Diverse Media will provide DTG with a \$200,000 line of credit. The line will be available to DTG in increments of \$20,000 per week, which DTG will use to cover operating expenses during its seasonally slow periods from June until August, which coincides with the lull in industry production prior to the new fall programming releases. Diverse Media will initially fund the line of credit with proceeds from operations of CirTran Corporation, its parent company. As of June 13, 2006, DTG had not drawn any funds on the line of credit.

Our accumulated deficit was \$19,327,310 at December 31, 2005, and \$18,799,602 at December 31, 2004. Our net loss for the year ending December 31, 2005 was \$527,708, compared to \$658,322 for the year ending December 31, 2004. Our current liabilities exceeded our current assets by \$1,142,874 as of December 31, 2005, and \$3,558,826 as of December 31, 2004. The decrease in the difference is due to the settlement of notes payable and the agreement with the Internal Revenue Service. Also, in the difference is an increase in cash, net inventory and trade accounts payable. For the years ended December 31, 2005 and 2004, we recorded negative cash flows from operations of \$1,751,744 and \$1,680,054, respectively.

### Cash

We had cash on hand of \$443,637 at March 31, 2006, and \$1,427,865 at December 31, 2005.

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Net cash used in operating activities was \$719,898 for the three months ended March 31, 2006. Cash received from customers of \$2,076,845 was not sufficient to offset cash paid to vendors, suppliers, and employees of \$2,128,964.

The non-cash charges were for depreciation and amortization of \$114,939 and accretion expense of \$965,512. Because the Company has negative cash flows from operations, it must rely on sources of cash other than customers to support its operations. It is anticipated that various methods of equity financing will be required to support operations until cash flows from operations are positive.

Net cash used in investing activities during the three months ended March 31, 2006, consisted of equipment and furniture purchases of \$166,730. Net cash used by financing activities was \$97,600 during the three months ended March 31, 2006 and was primarily related to payments on notes payable to stockholders of \$95,806.

We had cash on hand of \$1,427,865 at December 31, 2005, compared to \$81,101 at December 31, 2004. The increase in cash on hand is due to a new cash management system that was established during 2003, and cash proceeds from the Cornell convertible debenture.

Net cash used in operating activities was \$1,751,744 for the fiscal year ended December 31, 2005. During 2005, net cash used in operations was primarily attributable to \$527,708 in net losses from operations, a gain on forgiveness of debt of \$337,761, an increase in accounts receivable of \$2,126,097, and a decrease in accrued liabilities of \$446,452, partially offset by increases in accounts payable of \$291,143 and in accrued prepaid expenses of \$277,987. The non-cash charge was for depreciation and amortization of \$324,955.

Net cash used in investing activities during the fiscal year ended December 31, 2005, consisted of the property and equipment purchases of \$295,346.

Net cash provided by financing activities was \$3,354,523 during the fiscal year ended December 31, 2005. Principal sources of cash were proceeds from stockholder notes payable of \$123,220, proceeds of \$3,102,067 from convertible debentures, net of cash paid for offering costs; proceeds from the exercise of options and warrants to purchase common stock of \$33,000, and proceeds from notes payable to related parties of \$95,586.

### Accounts Receivable

At March 31, 2006, we had receivables of \$3,019,960, net of a reserve for doubtful accounts of \$158,374, as compared to \$3,358,981 at December 31, 2005, net of a reserve of \$158,374. This decrease was primarily attributed to decreased sales in the last two months of the first quarter as compared to the last two months in 2005. Receivables include the unpaid balance from ABS. (See ABS discussion immediately following this paragraph.) The Company has implemented an aggressive process to collect past due accounts over the past two years. Individual accounts are continually monitored for collectibility. As part of monitoring individual customer accounts, the Company evaluates the adequacy of its allowance for doubtful accounts. Since the implementation of the new collection process, very few accounts have been deemed uncollectible.

### ABS

We did not reserve for doubtful accounts on the amount of \$2,350,000 for the ABS receivable while awaiting the outcome of the settlement offer we had submitted to the bankruptcy court adjudicating ABS's bankruptcy (the "ABS Bankruptcy Court"). The ABS Bankruptcy Court ultimately accepted our offer, and the amount will be removed from the account receivable as part of the settlement.

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As discussed below in the "Legal Proceedings" section, we entered into an agreement with ABS, which was approved by the ABS Bankruptcy Court, to purchase certain assets of ABS pursuant to an asset purchase agreement (the "Asset

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Purchase Agreement"). 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").

For further details, see the "Legal Proceedings" Section.

At December 31, 2005, we had receivables of \$3,358,981, net of a reserve for doubtful accounts of \$158,374, as compared to \$1,288,719 at December 31, 2004, net of a reserve of \$41,143.

This increase was primarily attributed to sales having substantially increased in the last months of the year as compared to the last two months in 2005. Also included is the unpaid balance of accounts receivable from ABS. (See ABS history beginning on page 6). The Company has implemented an aggressive process to collect past due accounts over the past two years. Individual accounts are continually monitored for collectibility. As part of monitoring individual customer accounts, the Company evaluates the adequacy of its allowance for doubtful accounts. Since the implementation of the new collection process, very few accounts have been deemed uncollectible.

### Accounts Payable

Accounts payable were \$528,963 at March 31, 2006, as compared to \$1,239,519 at December 31, 2005. The decrease is related to a drop in sales and paying vendors in a timely manner.

Accounts payable were \$1,239,519 at December 31, 2005, as compared to \$1,104,392 at December 31, 2004. This increase is due to an increase in sales.

### Liquidity and Financing Arrangements

We have a history of substantial losses from operations and using rather than providing cash in operations. We had an accumulated deficit of \$19,605,311 and a total stockholders' equity of \$3,165,931 at March 31, 2006. As of March 31, 2006, our monthly operating costs and interest expenses averaged approximately \$640,000 per month.

We had an accumulated deficit of \$19,327,310 and a total stockholders' equity of \$1,268,054 at December 31, 2005. In addition, during 2005 and 2004, we have used, rather than provided, cash in our operations. As of December 31, 2005, our monthly operating costs and interest expenses averaged approximately \$607,000 per month.

Since February 2000, we have operated without a line of credit. Abacas Ventures,

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Inc., an entity whose shareholders include the Saliba Private Annuity Trust, one of our major shareholders (see "Item 11 - Security Ownership of Certain Beneficial Owners and Management") and a related entity, the Saliba Living Trust, purchased our line of credit of \$2,792,609, and this amount was converted into a note payable to Abacas bearing an interest rate of 10%. As of December 31, 2001, a total of \$2,405,507, plus \$380,927 in accrued interest, was owed to Abacas pursuant to this note payable. During 2002, we entered into agreements with the Saliba Private Annuity Trust and the Saliba Living Trust to exchange 19,987,853 shares of our common stock for \$1,499,090 in principal amount of this debt and to issue an additional 6,666,667 shares to these trusts for \$500,000 cash which was used for working capital for the Company. During December 2002, an additional \$1,020,154 of principal and \$479,846 of accrued interest owed to Abacas was converted to 30,000,000 shares of our common stock. We issued no

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common stock to Abacas during 2003. During 2003 and 2002, the Company received \$350,000 and \$845,000 of cash proceeds under the terms of a bridge loan from Abacas. The Company made principal payments of \$875,000 and 156,268 during 2003 and 2002, respectively, on the bridge loan. At December 31, 2003, the balance owed on the bridge loan was \$163,742. See "Item 12 - Certain Relationships and Related Transactions."

During 2003 and 2002, we converted approximately \$34,049 and \$316,762, respectively of trade payables into notes and stock. During January 2002, in addition to the above-described transactions with the Saliba trusts, we issued 16,666,666 shares of restricted common stock at a price of \$0.075 per share in exchange for the cancellation of \$1,250,000 of notes payable to various stockholders. See "Item 12 - Certain Relationships and Related Transactions." We continue to work with vendors in an effort to convert other trade payables into long-term notes and common stock and to cure defaults with lenders with forbearance agreements that we are able to service.

Despite our efforts to make our debt-load more serviceable, significant amounts of additional cash will be needed to reduce our debt and fund our losses until such time as we are able to become profitable.

During the year ended December 31, 2004, Abacas completed negotiations with several vendors of the Company, whereby Abacas purchased various past due amounts for goods and services provided by vendors, as well as notes payable (see Note 7). The total of these obligations was \$1,263,713. The Company has recorded this transaction as a \$1,263,713 non-cash increase to the note payable owed to Abacas, pursuant to the terms of the Abacas agreement.

The total principal amount owed to Abacas between the note payable and the bridge loan was zero and \$1,530,587 as of December 31, 2005 and 2004, respectively. The total accrued interest owed to Abacas between the note payable and the bridge loan was zero and \$430,828 as of December 31, 2005 and 2004, respectively, and is included in accrued liabilities.

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

As of December 31, 2004, the Company had accrued liabilities in the amount of \$500,000 for delinquent payroll taxes, including interest and penalties, owed to the Internal Revenue Service. The Company, in response to collection notices, filed a due process appeal with the Internal Revenue Service's Appeals Office.

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

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

In conjunction with our efforts to improve our results of operations, discussed above, we are also actively seeking infusions of capital from investors and are seeking to replace our operating line of credit. It is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to paying the debt and securing the debt with assets. We may therefore have to rely on equity financing to meet our anticipated capital needs. There can be no

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assurances that we will be successful in obtaining such capital. If we issue additional shares for debt and/or equity, this will dilute the value of our common stock and existing shareholders' positions.

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

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

Notes Payable to Equity Line Investor - During 2003, we borrowed a total of \$1,830,000 from Cornell Capital Partners, LP, pursuant to nine unsecured promissory notes. The loans were made and the notes were issued from June 2003 through December 2003. In lieu of interest, we paid fees to the lender, ranging from 5% to 10%, of the amount of the loan. These fees have been recorded as interest expense. The fees were negotiated in each instance and agreed upon by us and by the lender and its affiliate. The notes were repayable over periods ranging from 70 days to 131 days. Each of the notes stated that if we did not repay the notes when due, a default interest rate of 24% would apply to the unpaid balance. Through December 31, 2003, we directed the repayment of \$1,180,000 of these notes from proceeds generated under the Equity Line Agreement, as discussed below. At December 31, 2003, the balance owing on these

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notes was \$650,000. All notes were paid when due or before, and at no time did we incur the 24% penalty interest rate.

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

As noted above, we received proceeds of \$5,030,000 from notes payable to Cornell. We used the proceeds from these notes to fund operating losses of approximately \$2,938,000, pay down accounts payable, notes payable and other settlements of approximately \$1,401,000, purchase equipment and tooling in the amount of \$391,000, and to invest in Broadata in the amount of \$300,000. During January 2005, the Company received proceeds of \$565,000 from an additional note payable to Cornell to fund the settlement with the Internal Revenue Service

With the sale of the Convertible Debenture in May 2005 to Highgate, \$2,265,000 of the proceeds were paid to Cornell to repay promissory notes in the amount of \$1,700,000 and \$565,000.

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

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

Pursuant to the Equity Line Agreement, in connection with each draw, we agreed to pay a fee of 4% of the amount of the draw to Cornell as consideration for its providing the Equity Line. Total fees paid for the year ended December 31, 2004 were \$128,000. Of these payments, \$86,000 was offset against additional paid-in capital as shares were issued under the Equity Line Agreement and \$68,000 was recorded as deferred offering costs for total deferred offering costs of \$68,000 at December 31, 2004. These deferred offering costs were expensed as the Equity Line Agreement was terminated in conjunction with the sale of the Convertible Debenture in May 2005.

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Standby Equity Distribution Agreement - We entered into a Standby Equity Distribution Agreement (the "Agreement") dated May 21, 2004, with Cornell. Under the Agreement, we had the right, at our sole discretion, to sell periodically to Cornell shares of our common stock for an aggregate purchase price of up to \$20 million. The purchase price for the shares sold to Cornell was to be equal to the lowest volume-weighted average price of our common stock during the pricing period consisting of the five consecutive trading days after we gave an advance notice. The periodic sale of shares was known as an advance. We could request an advance, by giving a written advance notice to Cornell, and could not request advances more frequently than every seven trading days. A closing was to be held on the first trading day after the end of the pricing period. The maximum advance amount was one million dollars (\$1,000,000) per advance, with a minimum of seven trading days between advances. In addition, we could not request advances if the shares to be issued in connection with such advances would result in Cornell owning more than 9.9% of our outstanding common stock.

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

With the sale of the Convertible Debenture in May 2005, the Standby Equity Distribution Agreement and related agreements were terminated.

Convertible Debenture - On May 26, 2005, we entered into a securities purchase agreement (the "Purchase Agreement") with Highgate, relating to the issuance of a 5% Secured Convertible Debenture, due December 31, 2007, in the aggregate principal amount of \$3,750,000 (the "Convertible Debenture").

In connection with the issuance of the Convertible Debenture, we used \$2,265,000 to repay two promissory notes to Cornell Capital Partners, LP ("Cornell"), one in the amount of \$1,700,000, and the other in the amount of \$565,000. Highgate and Cornell have the same general partner, Yorkville Advisors, but have different portfolio managers.

We also paid a commitment fee of \$240,765, a structuring fee of \$10,000 to Highgate, and legal fees of \$5,668. As such, of the total purchase amount of \$3,750,000, the net proceeds to us were \$1,228,567, which we received following the closing of the issuance of the Convertible Debenture. We used these proceeds for general corporate and working capital purposes.

The Convertible Debenture bears interest at a rate of 5%. Highgate is entitled to convert, at its option, all or part of the principal amount owing under the Convertible Debenture into shares of our common stock at a conversion price equal to the lesser of (a) \$0.10 per share, or (b) an amount equal to the lowest closing bid price of the Common Stock as listed on the OTC Bulletin Board, as quoted by Bloomberg L.P. for the twenty (20) trading days immediately preceding the conversion date. Except as otherwise set forth in the Convertible Debenture, Highgate's right to convert principal amounts owing under the Convertible Debenture into shares of our common stock is limited as follows:

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1. Highgate may convert up to \$250,000 worth of the principal amount plus accrued interest of the Convertible Debenture in any consecutive 30-day period when the market price of our stock is \$0.10 per share or less at the time of conversion;
2. Highgate may convert up to \$500,000 worth of the principal

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amount plus accrued interest of the Convertible Debenture in any consecutive 30-day period when the price of our stock is greater than \$0.10 per share at the time of conversion, provided, however, that Highgate may convert in excess of the foregoing amounts if we and Highgate mutually agree; and

3. Upon the occurrence of an event of default (as defined in the Convertible Debenture), Highgate may, in its sole discretion, accelerate full repayment of all debentures outstanding and accrued interest thereon or may, notwithstanding any limitations contained in the Convertible Debenture and/or the Purchase Agreement, convert the Convertible Debenture and accrued interest thereon into shares of our common stock pursuant to the Convertible Debenture.

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

The Company granted Highgate registration rights, pursuant to which the Company agreed to file, within 120 days of the closing of the purchase of the debenture, a registration statement to register the resale of shares of the Company's common stock issuable upon conversion of the principal amount of the Convertible Debenture. The Company agreed to register the resale of up to 100,000,000 shares, and to keep such registration statement effective until all of the shares issuable upon conversion of the principal of the Convertible Debenture have been sold. In the event that the Company issues more than 100,000,000 shares of its common stock, it will file additional registration statements as necessary.

On June 15, 2006, we entered into an agreement with Highgate to amend the registration rights agreement, pursuant to which we agreed to use our best efforts to have the registration statement declared effective by July 31, 2006. Under the amendment, if the registration statement has not been declared effective by July 31, 2006, Highgate may declare us in default under the Convertible Debenture.

As noted above, through June 13, 2006, Highgate had converted \$750,000 of the Convertible Debentures, into 24,193,548 shares of our restricted common stock in accordance with the terms of the Convertible Debenture agreement.

Additional Convertible Debenture Transaction - On December 30, 2005, we entered into a securities purchase with Cornell Capital, relating to the issuance of a 5% Secured Convertible Debenture, due July 30, 2008, in the aggregate principal amount of \$1,500,000 (the "Cornell Debenture").

We also paid a commitment fee of \$120,000 and a structuring fee of \$10,000 to Cornell Capital. As such, of the total amount of \$1,500,000, the net proceeds to us were \$1,370,000. We will use these proceeds for general corporate and working capital purposes, at our discretion.

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

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subject to certain restrictions and limitations set forth in the Cornell Debenture.

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

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

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

In connection with the Purchase Agreement, we also agreed to grant to Cornell Capital warrants (the "Warrants") to purchase up to an additional 10,000,000 shares of our common stock. The Warrants have an exercise price of \$0.09 per share, and expire three years from the date of issuance. The Warrants also provide for cashless exercise if at the time of exercise there is not an effective registration statement or if an event of default has occurred.

Additionally, we entered into an investor registration rights agreement (the "Registration Rights Agreement") with Cornell Capital, pursuant to which we agreed to file, within 120 days of the closing of the purchase of the Cornell Debenture, a registration statement to register the resale of shares of our common stock issuable to Cornell Capital upon conversion of the Cornell Debenture. We agreed to register the resale of up to 42,608,696 shares, consisting of 32,608,696 shares underlying the Cornell Debenture, and 10,000,000 shares underlying the Warrants. We agreed to keep such registration statement effective until all of the shares issuable upon conversion of the Cornell Debenture have been sold. In the event that we issue more than 32,608,696 shares of its common stock upon conversion of the Cornell Debenture, we will file

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additional registration statements as necessary.

On June 15, 2006, we entered into an agreement with Cornell to amend the registration rights agreement, pursuant to which we agreed to file the registration statement not later than August 15, 2006, instead of 120 days following the closing of the issuance of the Cornell Debenture. Under the amendment, if the registration statement has not been filed by August 15, 2006, Cornell may declare us in default under the Cornell Debenture.

We also entered into a security agreement (the "Security Agreement") with Cornell Capital, pursuant to which we granted a second position security interest in all of our property, including goods; inventory; contract rights and general intangibles; documents, receipts, and chattel paper; accounts and other receivables; products and proceeds; and any interest in any subsidiary, joint venture, or other investment interest to secure our obligation under the Cornell Debenture and the related agreements.

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We also entered into an escrow agreement (the "Escrow Agreement") with Cornell Capital relating to the holding and disbursement of payment of the purchase price of the Cornell Debenture and cash payments made by us in payment of the obligations owing under the Cornell Debenture. We agreed with Cornell Capital to appoint David Gonzalez as the Escrow Agent under the Escrow Agreement.

A chart showing the number of shares issuable upon hypothetical conversions at particular conversion prices is set forth in the "Risk Factors" section on page 16.

Through June 13, 2006, Cornell had not converted any principal amount of the Cornell Convertible Debenture.

By way of background, we have previously entered into financing transactions with Cornell Capital. In April 2003, we had entered into an equity line of credit agreement with Cornell Capital. Between December 2003 and March 2004, we drew a total of \$2,150,000 on the equity line, and issued a total of 57,464,386 shares of common stock to Cornell Capital. In May 2004, we entered into a standby equity distribution agreement with Cornell Capital, but the agreement was terminated before any funds were drawn or any shares were issued. Between June 2003 and January 2005, Cornell Capital loaned to us an aggregate of \$5,595,000 pursuant to promissory notes issued to Cornell Capital. These notes were paid in full by May 2005.

Highgate and Cornell have the same general partner, Yorkville Advisors, but have different portfolio managers. Additionally, the escrow agent appointed in connection with the purchase and sale of both the Cornell Capital debenture transaction and the Highgate debenture transaction is David Gonzalez, who is an officer of Cornell Capital.

The Company does not anticipate that it will use any of the proceeds of the sale of the Cornell Debenture to Cornell Capital to repay the debenture sold to Highgate.

Forward-looking statements

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

5% Convertible Debenture

On May 26, 2005, we entered into a securities purchase agreement (the "Purchase Agreement") with Highgate House Funds, Ltd., a Cayman Island exempted company ("Highgate" or the "Selling Shareholder"), relating to the issuance by us of a 5% Secured Convertible Debenture, due December 31, 2007, in the aggregate principal amount of \$3,750,000 (the "Convertible Debenture").

In connection with the issuance of the Convertible Debenture, we used \$2,265,000 to repay two promissory notes to Cornell Capital Partners, LP ("Cornell"), one in the amount of \$1,700,000, and the other in the amount of \$565,000. Highgate

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and Cornell have the same general partner, Yorkville Advisors, but have different portfolio managers.

We also paid a commitment fee of \$240,765, a structuring fee of \$10,000 to the Selling Shareholder, and legal fees of \$5,668. As such, of the total purchase amount of \$3,750,000, the net proceeds to us were \$1,228,567, which we received following the closing of the purchase of the Convertible Debenture. We used these proceeds for general corporate and working capital purposes.

The Convertible Debenture bears interest at a rate of 5%. The Selling Shareholder is entitled to convert, at its option, all or part of the principal amount owing under the Convertible Debenture into shares of our common stock at a conversion price equal to the lesser of (a) \$0.10 per share, or (b) an amount equal to the lowest closing bid price of the Common Stock as listed on the OTC Bulletin Board, as quoted by Bloomberg L.P. for the twenty (20) trading days immediately preceding the conversion date. Except as otherwise set forth in the Convertible Debenture, the Selling Shareholder's right to convert principal amounts owing under the Convertible Debenture into shares of our common stock is limited as follows:

1. The Selling Shareholder may convert up to \$250,000 worth of the principal amount plus accrued interest of the Convertible Debenture in any consecutive 30-day period when the market price of our stock is \$0.10 per share or less at the time of conversion;
2. The Selling Shareholder may convert up to \$500,000 worth of

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the principal amount plus accrued interest of the Convertible Debenture in any consecutive 30-day period when the price of our stock is greater than \$0.10 per share at the time of conversion, provided, however, that the Selling Shareholder may convert in excess of the foregoing amounts if we and the Selling Shareholder mutually agree; and

3. Upon the occurrence of an event of default (as defined in the Convertible Debenture), the Selling Shareholder may, in its sole discretion, accelerate full repayment of all debentures outstanding and accrued interest thereon or may, notwithstanding any limitations contained in the Convertible Debenture and/or the Purchase Agreement, convert the Convertible Debenture and accrued interest thereon into shares of our common stock pursuant to the Convertible Debenture.

A chart showing the number of shares issuable upon hypothetical conversions at particular conversion prices is set forth in the "Risk Factors" section on page 16.

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

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

Also pursuant to the Convertible Debenture, we have the right to redeem, by giving 3 days' written notice to the Selling Shareholder, a portion or all of the Convertible Debenture then outstanding by paying an amount equal to one hundred five percent (105%) of the amount redeemed plus interest accrued thereon. In the event that we redeem only a portion of the outstanding principal amount of the Convertible Debenture, the Selling Shareholder may convert all or any portion of the unpaid principal or interest of the Convertible Debenture not

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being redeemed. Additionally, if after the earlier to occur of (x) fifteen (15) months following the date of the purchase of the Convertible Debenture or (y) twelve (12) months following the date on which the initial registration statement is declared effective, all or any portion of the Convertible Debenture remains outstanding, then we, at the request of the Selling Shareholder, shall redeem such amount outstanding at the rate of five hundred thousand dollars (\$500,000) per each 30-day period. Finally, upon the occurrence of an event of default as defined in the Convertible Debenture, the Selling Shareholder can convert all outstanding principal and accrued interest under the Convertible Debenture irrespective of any of the limitations set forth in the Convertible Debenture and/or the Purchase Agreement, and in such event, all such principal and interest shall become immediately due and payable.

In connection with the Purchase Agreement, we entered into an investor

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registration rights agreement (the "Registration Rights Agreement") with the Selling Shareholder, pursuant to which, we agreed to file, within 120 days of the closing of the purchase of the Convertible Debenture, a registration statement to register the resale of shares of the Company's common stock issuable to the Selling Shareholder upon conversion of the principal or interest on the Convertible Debenture. We agreed to register the resale of up to 100,000,000 shares, and to keep such registration statement effective until all of the shares issuable upon conversion of the principal or accrued interest on the Convertible Debenture have been sold. In the event that we issue more than 100,000,000 shares of common stock upon conversion of the Convertible Debenture, we will file additional registration statements as necessary.

This registration statement does not register the resale of any shares issued to Highgate as payment of interest accrued on the Convertible Debenture, and neither this registration statement nor the prospectus may be used to sell shares issued to Highgate as payment of interest accrued on the Convertible Debenture. The number of shares issuable in connection with this registration statement is also limited by our authorized capital, which as of June 13, 2006, was 750,000,000 shares. In other words, we are not authorized to issue more than 750,000,000 shares of our common stock, irrespective of how many shares are covered by this registration statement and prospectus, unless we increase our authorized capital, as discussed above in the "Risk Factors" section on page 20.

We also entered into a security agreement (the "Security Agreement") with the Selling Shareholder, pursuant to which we pledged all of our property, including goods; inventory; contract rights and general intangibles; documents, receipts, and chattel paper; accounts and other receivables; products and proceeds; and any interest in any subsidiary, joint venture, or other investment interest to secure our obligation under the Convertible Debenture and the related agreements.

We also entered into an escrow agreement (the "Escrow Agreement") with the Selling Shareholder relating to the holding and disbursement of payment of the purchase price of the Convertible Debenture and cash payments made by us in payment of the obligations owing under the Convertible Debenture. David Gonzalez was appointed as the Escrow Agent under the Escrow Agreement.

We sold the Convertible Debenture without registration under the Securities Act of 1933, as amended (the "1933 Act") in reliance on Section 4(2) of the 1933 Act, and the rules and regulations promulgated thereunder. Upon future conversions, if any, of the Convertible Debenture into shares of our common stock, we intend to issue the shares without registration under the 1933 Act in reliance on Section 4(2) of the 1933 Act, and the rules and regulations promulgated thereunder. As noted above, we anticipate that any resales by the Selling Shareholder of the shares issued upon conversion of the Convertible Debenture will be made pursuant to this registration statement.

Through June 13, 2006, Highgate had converted \$750,000 of the Convertible Debentures, for 24,193,548 shares of our restricted common stock. Once this registration statement has been declared effective by the SEC, Highgate may sell those shares under this registration statement, although there is no guarantee that Highgate will sell any or all of the shares.

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### Selling shareholder

One of our investors, Highgate House Funds, Ltd., a Cayman Island exempted company, is the Selling Shareholder in connection with this prospectus and the registration statement of which it is a part. Highgate is not affiliated in any way with CirTran or any of our affiliates, except that the escrow agent appointed in connection with the Purchase Agreement and the Escrow Agreement, David Gonzalez, is an officer of Cornell Capital Partners, LLP ("Cornell"), an entity with which we previously entered into two transactions, an equity line of credit agreement and a standby equity distribution agreement. Highgate and Cornell have the same general partner, Yorkville Advisors, but have different portfolio managers. Both the equity line of credit agreement and the standby equity distribution agreement have been terminated. Additionally, as described above, prior to our entering into the Purchase Agreement with Highgate, Cornell had previously made loans to us in the aggregate amounts of \$5,595,000, all of which have been repaid, including two notes for \$1,700,000 and \$565,000, respectively, which loans we repaid with part of the proceeds of the sale of the Convertible Debenture.

This prospectus, and the registration statement of which it is a part, cover the resales of the shares to be issued to Highgate, the Selling Shareholder, in connection with conversions of the Convertible Debenture.

Through June 13, 2006, Highgate had converted \$750,000 of the Convertible Debentures, for 24,193,548 shares of our restricted common stock. Once this registration statement has been declared effective by the SEC, Highgate may sell those shares under this registration statement, although there is no guarantee that Highgate will sell any or all of the shares.

The following table provides information about the actual and potential ownership of shares of our common stock by Highgate in connection with the Convertible Debenture as of June 13, 2006, and the number of our shares registered for sale in this prospectus. The number of shares of common stock issuable to Highgate in connection with conversions of the Convertible Debenture varies according to the market price at and immediately preceding the date of a conversion by Highgate. Solely for purposes of estimating the number of shares of common stock that would be issuable to Highgate as set forth in the table below, we have assumed a hypothetical conversion by Highgate on June 13, 2006, of the full remaining amount of \$3,000,000 principal amount of the Convertible Debenture (with no interest accrued) at a per share price of \$0.03. The actual per share price and the number of shares issuable upon actual conversions by Highgate could differ substantially. This prospectus and the registration statement of which it is a part covers the resale of up to 100,000,000 shares of our common stock issuable to Highgate in connection with conversions of the principal or interest on the Convertible Debenture. The number of shares issuable in connection with this registration statement is also limited by our authorized capital, which as of June 13, 2006, was 750,000,000 shares. In other words, we are not authorized to issue more than 750,000,000 shares of our common stock, irrespective of how many shares are covered by this registration statement and prospectus, unless we increase our authorized capital.

Under the terms and conditions of the Convertible Debenture and the Purchase Agreement, Highgate is prohibited from converting amounts under the Convertible Debenture that would cause Highgate to beneficially own more than 4.99% of the then-outstanding shares of our common stock following such issuance. This restriction does not prevent Highgate from receiving and selling shares and thereafter receiving additional shares. In this way, Highgate could sell more than 4.99% of our outstanding common stock in a relatively short time frame while never beneficially owning more than 4.99% of the outstanding CirTran common stock at any one time. For purposes of calculating the number of shares

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of common stock issuable to Highgate assuming a conversion of the full amount of the Convertible Debenture, as set forth below, the effect of such 4.99% limitation has been disregarded. The number of shares issuable to Highgate as described in the table below therefore may exceed the actual number of shares Highgate may be entitled to beneficially own under the Convertible Debenture. The following information is not determinative of Highgate's beneficial ownership of our common stock pursuant to Rule 13d-3 or any other provision under the Securities Exchange Act of 1934, as amended.

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Name of Selling Shareholder	Shares of Common Stock Owned by Selling Shareholder Prior to Offering (1)	Shares of Common Stock Issuable to Selling Shareholder in Connection with Debenture (4)	Percentage of Common Stock Issuable to Selling Shareholder in Connection with Debenture (2)	Number of Shares of Common Stock Registered Hereunder (3)	Number of Shares of Common Stock Owned After Offering (5)	Percentage of Common Stock Beneficially Owned After the Offering
Highgate House Funds, Ltd.	0	124,193,548 (4)	16.90%	100,000,000	0 (5)	0% (5)

(1) To our knowledge, and based on representations from Highgate's management, Highgate owned 24,193,548 shares of our common stock as of June 13, 2006. Highgate House Funds, Ltd., is an entity managed by Yorkville Advisors, LLC. Adam Gottbetter is the co-portfolio manager of Yorkville Advisors, LLC.

(2) As noted above, Highgate is prohibited by the terms of the Convertible Debenture from converting amounts of the Convertible Debenture that would cause it to beneficially own more than 4.99% of the then outstanding shares of our common stock following such put. The percentages set forth are not determinative of the Selling Shareholder's beneficial ownership of our common stock pursuant to Rule 13d-3 or any other provision under the Securities Exchange Act of 1934, as amended.

(3) The registration statement of which this prospectus is a part covers up to 100,000,000 shares of common stock issuable in connection with the Convertible Debenture. Because the specific circumstances of the issuances under the Convertible Debenture are within the discretion of Highgate and are therefore unascertainable at this time, the precise total number of shares of our common stock offered by the Selling Shareholder cannot be fixed at this time, but cannot exceed 100,000,000 unless we file additional registration

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statements registering the resale of the additional shares. The amount set forth in the table represents the number of shares of our common stock that have been issued and that would be issuable, and hence offered in part hereby, assuming a conversion of the full principal amount of the Convertible Debenture (excluding any interest accrued thereon) as of December 12, 2005. The actual number of shares of our common stock offered hereby may differ according to the actual number of shares issued upon such conversions.

(4) Includes:

24,193,548 shares of common stock issued upon conversion by Highgate of \$750,000 principal amount of the Debenture as of June 13, 2006; and

100,000,000 shares of common stock issuable upon a hypothetical conversion of the remaining \$3,000,000 principal amount of the Convertible Debenture as of June 13, 2006. This prospectus registers only up to 100,000,000 shares of common stock issuable in connection with the Convertible Debenture. Accordingly, we may not issue shares in excess of 100,000,000 unless we file additional registration statements registering the resale of the additional shares.

(5) Assumes a hypothetical conversion of the remaining \$3,000,000 principal amount of the Convertible Debenture as of June 13, 2006, and the issuance of 100,000,000 shares of our common stock, in addition to the 24,193,548 shares previously issued to Highgate upon conversion of \$750,000 principal amount of the Debenture, together with the sale by Highgate of all such shares. There is no assurance that Highgate will sell any or all of the shares offered hereby. However, Highgate is contractually prohibited from

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converting amounts of the Convertible Debenture that would cause it to hold shares in excess of 4.99% of the then-issued and shares of our common stock. This number and percentage may change based on Highgate's decision to sell or hold the Shares. There is no assurance that Highgate will sell any or all of the shares offered hereby. If Highgate sells all of the shares issued to it in connection with the Convertible Debenture, the number of shares held following such sales would be 0 and the percentage of ownership would be 0%. Additionally, as noted, this registration statement registers the resale of up to 100,000,000 shares by Highgate. In the event that we issue more than 100,000,000 shares to Highgate in connection with conversions of the Debenture, we will be required to file additional registration statements to cover the resale of such shares. As noted above, the number of shares issuable in connection with this registration statement is also limited by our authorized capital, which as of June 13, 2006, was 750,000,000 shares. In other words, we are not authorized to issue more than 750,000,000 shares of our common stock, irrespective of how many shares are covered by this registration statement and prospectus, unless we increase our authorized capital.

Plan of Distribution

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The Selling Shareholder, its pledgees, donees, transferees or other successors in interest, may from time to time sell the Shares of our Common Stock directly to purchasers or indirectly to or through underwriters, broker-dealers or agents. The Selling Shareholder may sell all or part of its shares in one or more transactions at fixed prices, varying prices, prices at or related to the then-current market price or at negotiated prices. The Selling Shareholder will determine the specific offering price of the Shares from time to time that, at that time, may be higher or lower than the market price of our Common Stock quoted on the OTC Bulletin Board.

The Selling Shareholder and any underwriters, broker-dealers or agents participating in the distribution of the Shares of our Common Stock may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any profit from the sale of such shares by the Selling Shareholder and any compensation received by any underwriter, broker-dealer or agent may be deemed to be underwriting discounts under the Securities Act. The Selling Shareholder may agree to indemnify any underwriter, broker-dealer or agent that participates in transactions involving sales of the Warrants or shares against certain liabilities, including liabilities arising under the Securities Act.

Because the Selling Shareholder may be deemed to be an "underwriter" within the meaning of the Securities Act, the Selling Shareholder will be subject to the prospectus delivery requirements of the Securities Act. We have informed the Selling Shareholder that the anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to its sales in the market. With certain exceptions, Regulation M precludes the Selling Shareholder, any affiliated purchasers, and any broker-dealer or other person who participates in such distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security.

The method by which the Selling Shareholder, or its pledgees, donees, transferees or other successors in interest, may offer and sell their Shares may include, but are not limited to, the following:

- \* sales on the over-the-counter market, or other securities exchange on which the Common Stock is listed at the time of sale, at prices and terms then prevailing or at prices related to the then-current market price;
- \* sales in privately negotiated transactions;
- \* sales for their own account pursuant to this prospectus;
- \* through the writing of options, whether such options are listed on an options exchange or otherwise through the settlement of short sales;
- \* cross or block trades in which broker-dealers will attempt to sell the shares as agent, but may position and resell a portion of the block as a principal in order to facilitate the transaction;
- \* purchases by broker-dealers who then resell the shares for their own account;

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- \* brokerage transactions in which a broker solicits purchasers;
- \* any combination of these methods of sale; and

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\* any other method permitted pursuant to applicable law.

Any Shares of Common Stock covered by this prospectus that qualify for sale under Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than under this prospectus. The Shares of our Common Stock may be sold in some states only through registered or licensed brokers or dealers. In addition, in some states, the Shares of our Common Stock may not be sold unless they have been registered or qualified for sale or the sale is entitled to an exemption from registration.

The Selling Shareholder may enter into hedging transactions with broker-dealers or other financial institutions. In connection with such transactions, broker-dealers or other financial institutions may engage in short sales of our securities in the course of hedging the positions they assume with the Selling Shareholder. The Selling Shareholder may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealer or other financial institution of the securities offered hereby, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

To our knowledge, there are currently no plans, arrangements or understandings between the Selling Shareholder and any underwriter, broker-dealer or agent regarding the sale of Shares of our Common Stock by the Selling Shareholder.

The Selling Shareholder will pay all fees, discounts and brokerage commissions in connection with any sales, including any fees to finders. We will pay all expenses of preparing and reproducing this prospectus, including expenses or compliance with state securities laws and filing fees with the SEC.

Under applicable rules and regulations under Regulation M under the Exchange Act, any person engaged in the distribution of securities may not simultaneously engage in market making activities, subject to certain exceptions, with respect to the securities for a specified period set forth in Regulation M prior to the commencement of such distribution and until its completion. In addition and with limiting the foregoing, the Selling Shareholder will be subject to the applicable provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M, which provisions may limit the timing of purchases and sales of the securities by Selling Shareholder. The foregoing may affect the marketability of the securities offered hereby.

The Selling Shareholder may be deemed to be an "underwriter" as such term is defined in the Securities Act, and any commissions paid or discounts or concessions allowed to any such person and any profits received on resale of the securities offered hereby may be deemed to be underwriting compensation under the Securities Act.

### Prior History and Dealings with Selling Shareholder and Related Entities

As noted above in the "Recent Developments" section, Highgate House Funds, Ltd., the Selling Shareholder under this registration statement, and Cornell Capital have the same general partner, Yorkville Advisors, but have different portfolio managers. In addition to the Convertible Debentures issued to Cornell in December 2005, we have entered into prior financing transactions with Cornell in the past four years.

- In April 2003, we entered into an equity line of credit agreement with Cornell, pursuant to which we drew a total of \$3,330,000 on the equity line, and issued a total of 121,717,894 shares of common stock to Cornell Capital. We

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registered the resale by Cornell of those shares into the market on a registration statement on Form SB-2.

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- In May 2004, we entered into a standby equity distribution agreement with Cornell Capital, but the agreement was terminated before any funds were drawn or any shares were issued.
- Between June 2003 and January 2005, Cornell Capital loaned to us an aggregate of \$5,595,000 pursuant to promissory notes issued to Cornell Capital. These notes were paid in full by May 2005.

In the prior financing deals with Cornell, specifically the Equity Line of Credit transaction, Cornell sold all of the shares of our common stock that were issued in connection with the Equity Line. Although we do not have a history of dealing with Highgate, there is a strong possibility that Highgate will also sell all of the shares that we issue to it in connection with the conversions of the Convertible Debentures, rather than holding any of the shares for any extended period of time. Such sales could result in substantial dilution.

As noted immediately above in the "Selling Shareholder" section, through June 13, 2006, Highgate had converted \$750,000 of the Convertible Debenture, for 24,193,548 shares of our restricted common stock. Once this registration statement has been declared effective by the SEC, Highgate may sell those shares under this registration statement, although there is no guarantee that Highgate will sell any or all of the shares.

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