CIRTRAN CORP
Form 424B3
December 16, 2003

CIRTRAN CORPORATION
A Nevada Corporation

252,562,500 Shares of Common Stock
$0.001 per share

This prospectus relates to the resale of up to 252,562,500 shares (the "Shares") of common stock of CirTran Corporation, a Nevada corporation. Three of our shareholders, Cornell Capital Partners, LP (the "Equity Line Investor"), Westrock Advisors, Inc., and Butler Gonzalez LLP (collectively with the Equity Line Investor, the "Selling Shareholders") are offering all of the Shares covered by this prospectus. The Selling Shareholders will receive all of the proceeds from the sale of the Shares and we will receive none of those proceeds. The Equity Line Investor is an underwriter of the Shares.

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

CirTran Corporation common stock is quoted on the OTC Bulletin Board and trades under the symbol "CIRT". The last reported sale price of our common stock on the OTC Bulletin Board on November 20, 2003, was approximately $0.02 per share. Nevertheless, the Selling Shareholder does not have to sell the Shares in transactions reported on the OTC Bulletin Board, and may offer its Shares through any type of public or private transactions.

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.

December 2, 2003

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 November 5, 2002, we entered into an Equity Line of Credit Agreement (the "Equity Line Agreement") with Cornell Capital Partners, LP, a private investor (the "Equity Line Investor"). Subsequently, as of March 31, 2003, we agreed with the Equity Line Investor to terminate the Equity Line Agreement and to negotiate a new agreement.

We entered into a second equity line of credit agreement (the "Second Equity Line Agreement") with the Equity Line Investor as of April 8, 2003. Under the Second Equity Line Agreement, we have the right to draw up to $5,000,000 from the Equity Line Investor against an equity line of credit (the "Equity Line"), and to put to the Equity Line Investor shares of our common stock in lieu of repayment of the draws. The number of shares to be issued is determined by dividing the amount of the draw by the lowest closing bid price of our common stock over the five trading days after the advance notice is tendered. The Equity Line Investor is required under the Second Equity Line Agreement to tender the funds requested by us within two trading days after the five-trading-day period used to determine the market price.

Our right to make draws under the Second Equity Line Agreement terminates on the earlier of our having drawn an aggregate of $5,000,000 or April 8, 2005. The maximum amount that we can draw under the Equity Line in a single draw is $85,000, although we are not required to draw the maximum amount each time. We are entitled to make draws on the Equity Line every seven trading days. In connection with each draw, we have agreed to pay to the Equity Line Investor four percent of the amount of the draw as consideration for providing the Equity Line.

Despite our contractual right to make draws on the equity line and put shares of our stock to the Equity Line Investor, we are also prohibited by the Second Equity Line Agreement from putting shares to the Equity Line Investor which would cause the Equity Line Investor to own in excess of 9.9% of our then-outstanding common stock. Because the volume of trading in our stock has

been volatile, there can be no assurance that the Equity Line Investor will be able to sell a sufficient number of shares put to it to allow us to take full advantage of the draws. For example, as of November 6, 2003, we had approximately 310,000,000 shares of our common stock outstanding. Nine and nine-tenths percent of 310,000,000 shares is 30,690,000 shares. If the Equity Line Investor is unable to sell all of the shares we put to it in connection with draws under the Equity Line, once the number of unsold shares retained by the Equity Line Investor reaches 30,690,000, we would be unable to make draws on the Equity Line or put shares to the Equity Line Investor until it had sold additional shares into the market.

In connection with the Second Equity Line Agreement, we granted registration rights to the Equity Line Investor, in connection with which we filed this prospectus and the registration statement of which it is a part. We are required to use our best efforts to have this registration statement and prospectus declared effective by the SEC, and we are unable to draw on the Equity Line until this registration statement has been declared effective.

Additionally, in connection with the Second Equity Line Agreement, we issued 2,375,000 shares of common stock to the Equity Line Investor as further consideration for entering into the Second Equity Line Agreement; 125,000 shares of common stock to Westrock Advisors, Inc., ("Westrock"), who acted as a finder in connection with the Second Equity Line Agreement as compensation for its services; and 62,500 shares to Butler Gonzalez, LLP ("Butler Gonzalez"), as partial payment of legal fees in connection with the Second Equity Line Agreement.

Through November 18, 2003, we have drawn $855,000 on the Equity Line and have issued 46,432,654 shares of our common stock in connection with draws on the Equity Line.

The Equity Line Investor, Westrock, and Butler Gonzalez are the Selling Shareholders who will be selling the shares covered by this prospectus and the registration statement of which it is a part.

Risk Factors

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

Risks Related to Our Operations

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

Our expenses are currently greater than our revenues. Our accumulated deficit was $17,171,377 and $15,230,302 at September 30, 2003, and December 31, 2002, respectively. Our net loss from operations for the nine months ended September 30, 2003, and the year ending December 31, 2002, were $724,858 and $2,149,810, respectively. Although our gross profit margin has improved over the last two years, and our level of sales has increased during the last year, our ability to operate profitably depends on our ability to increase our sales further and achieve sufficient gross profit margins for sustained growth. We can give no assurance that we will be able to increase our sales sufficiently to enable us to operate profitably, which could have a material adverse impact on our business.

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

Our financial statements indicate a trend of an increasingly larger excess of current liabilities over current assets. Our current liabilities exceeded our current assets by the following amounts as of the dates indicated: $5,664,395 as of December 31, 2000; $7,832,259 as of December 31, 2001; $4,490,623 at December 31 2002; and by $5,664,754 at September 30, 2003. This trend raises substantial doubt about our ability to continue as a going concern. Unless we obtain additional financing through operations, investment capital or otherwise, there is significant doubt we will be able to meet our obligations as they come due and will be unable to execute our long- term business plans.

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

The independent public accountants' reports for our financial statements for the years ended December 31, 2002, 2001, 2000, and 1999 include an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. This may have an adverse effect on our ability to obtain financing for our operations and to further develop and market our products.

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

Our sales volume has increased in year ending 2002 as compared to the year ending 2001. Our sales volumes for the last three years have changed as indicated by the following levels of net sales for the periods indicated: $6,373,096 for the year ending December 31, 2000; $1,870,848 for the year ended December 31, 2001; and $2,299,668 for the year ended December 31, 2002. On an annualized basis, this trend indicates a 64% decrease in sales from 2000 through the year ended December 31, 2002. Even though our gross profit has improved substantially during the same period, unless we are successful in increasing both sales and net profit margins, there is

significant doubt that we will be able to continue as a going concern.

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

As of September 30, 2003, our monthly operating costs and interest expenses averaged approximately $240,000 per month. As income from operations is not sufficient to meet these expenses, we must depend on other sources of capital to fund our operations. We have operated without a line of credit since February 2000, and it is unlikely that we will be able, in our current financial condition, to obtain additional debt financing; and if we did acquire more debt, we would have to devote additional cash flow to pay the debt and secure the debt with assets. Therefore, we likely will have to rely on equity financing to meet our anticipated capital needs. We recently entered into a private equity line of credit to provide financing, but the funds available may not be sufficient to sustain our operations beyond June 30, 2005. There can be no assurances that we will be successful in obtaining additional capital. If we issue additional shares in connection with debt or equity financing, this will serve to dilute the value of our common stock and existing shareholders' positions. If we are unsuccessful in obtaining additional funding to finance our operations, there is serious doubt that we will be able to continue as a going concern, and we may be forced to seek the protection of the bankruptcy laws.

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

As of September 30, 2003, we have significant short-term debt, including approximately $1,414,941 in accounts payable, $830,957 in demand notes due certain of our shareholders and related parties, and $3,450,949 in accrued liabilities, over half of which consist of delinquent federal and state payroll taxes (see "Legal Proceedings"). We are currently not able to fully service this debt. We are attempting to negotiate forbearance agreements with many of our creditors and to restructure our short-term debt. There can be no assurance that we will be successful in these efforts.

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

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

We have accrued delinquent payroll tax liabilities of approximately $2.07 million and have not yet come to a final resolution of a payment schedule with respect to most of this amount. Though we are attempting to negotiate settlement with respect to this amount, there can be no assurance that we will be successful in those negotiations or that, if successful, we will be able to service any payment obligations which may result from such settlement. If we are unsuccessful, the Internal Revenue Service could instigate foreclosure proceedings against us pursuant to the Service's rules and regulations.

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

We are involved in numerous legal proceedings, many of which have filed lawsuits and have obtained judgments against us. (See "Legal Proceedings.") We

are currently attempting to negotiate with each of these claimants to settle the claims against CirTran, although in many cases, we have not yet reached final settlements. There can be no assurance that we will be successful in those negotiations or that, if successful, we will be able to

service any payment obligations which may result from such settlements.

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

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

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

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

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

Risks Related to Our Industry

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

Electronic manufacturing service providers must provide increasingly rapid turnaround time for their OEM customers. We do not obtain firm, long-term purchase commitments from our customers and have experienced a demand for reduced lead-times in customer orders. Our customers may cancel their orders, change production quantities or delay design and production for several factors. Cancellations, reductions or delays by a customer or group of customers could adversely affect our results of operations. Additional factors that affect the electronics industry and that could have a material adverse effect on our

business include the inability of our customers to adapt to rapidly changing technology and evolving industry standards and the inability of our customers to develop and market their products. If our customers' products become obsolete or fail to gain commercial acceptance, our results of operations may be materially and adversely affected.

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

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

our business and the realization of revenues from our clients. These delays could have a material adverse impact on our business.

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

We may not be able, especially given our lack of financial resources, to effectively respond to the technological requirements of a changing market, including the need for substantial additional capital expenditures that may be required as a result of these changes. The electronics manufacturing services industry is characterized by rapidly changing technology and continuing process development. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities and successfully anticipate or respond to technological changes on a cost-effective and timely basis. In addition, our industry could in the future encounter competition from new or revised technologies that render existing technology less competitive or obsolete.

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

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

Risks Related to the Offering

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

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

Hypothetical Conversion Price	Shares issuable upon puts aggregating $4,145,000
$0.01	414,500,000
$0.02	207,250,000
$0.03	138,166,667
$0.04	103,625,000
$0.05	82,900,000
$0.10	41,450,000
$0.15	27,633,333
$0.25	16,580,000
$0.50	8,290,000

Given the formulas for calculating the shares to be issued under the Equity Line, there effectively is no limitation on the number of shares of common stock which may be issued in connection with a put under the Equity Line, except for the number of shares registered under this prospectus and the registration statement of which it is a part. If the market price of the common stock decreases, the number of shares of common stock issuable in connection with the Equity Line will increase and, accordingly, the aggregate amount of draws under the Equity Line

will decrease. Accordingly, despite our right to draw up to an aggregate of $5,000,000 under the Second Equity Line Agreement, we may run out of shares registered under this prospectus and the registration statement of which it is a part to issue to the Equity Line Investor in connection with our draws. The following table demonstrates the correlation between share price decline and decreases in aggregate draw amounts available, given the maximum 250,000,000 shares of common stock registered under this prospectus and the registration statement of which it is a part for issuance in connection with draws on the Equity Line:

Hypothetical Conversion Price	Shares issuable upon puts, up to a maximum of 250,000,000	Maximum draws av $5,000
$0.01	250,000,000	$2,500
$0.02	250,000,000	$5,000
$0.03	166,666,667	$5,000
$0.04	125,000,000	$5,000
$0.05	100,000,000	$5,000
$0.10	50,000,000	$5,000

$0.15	33,333,333	$5,000
$0.25	20,000,000	$5,000
$0.50	10,000,000	$5,000

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

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

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

The formula for determining the number of shares of common stock to be issued under the Equity Line is based, in part, on the market price of the common stock and is equal to the lowest closing bid price of our common stock over the five trading days after the put notice is tendered by us to the Equity Line Investor. As a result, the lower the market price of our common stock at and around the time we put shares under the Equity Line, the more shares of our common stock the Equity Line Investor receives. Any increase in the number of shares of our common stock issued upon puts of shares as a result of decreases in the prevailing market price would compound the risks of dilution described in the preceding paragraph.

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

The net proceeds from the Equity Line could potentially exceed our net tangible book deficit of $5,047,404 at September 30, 2003. Accordingly, the Equity Line Investor will experience immediate and substantial dilution between approximately $0.0103 to $0.2508 per share, or approximately 100.31% to 103.11% of the estimated average conversion price of $0.01 to $0.25. The dilution at various estimated average conversion prices is as follows:

Estimated Average Conversion Price	Dilution Per Share	Percent Dilution P
$0.01 (1)	$0.0103	103.11%
$0.02	$0.0205	102.26%
$0.03	$0.0305	101.78%
$0.04	$0.0406	101.47%
$0.05	$0.0506	101.25%
$0.10	$0.1007	100.71%
$0.15	$0.1508	100.50%
$0.25	$0.2508	100.31%

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

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

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

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

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

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

The public trading market for our common stock is limited. On July 15, 2002, our common stock was listed on the OTC Bulletin Board. Nevertheless, an established public trading market for our common stock may never develop or, if developed, it may not be able to be sustained. The OTCBB is an unorganized,

inter-dealer, over-the- counter market that provides significantly less liquidity than other markets. Purchasers of our common stock therefore may have difficulty selling their shares should they desire to do so.

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

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

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

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

For example, as of November 6, 2003, we had approximately 310,000,000 shares of our common stock outstanding. Nine and nine-tenths percent of 310,000,000 shares is 30,690,000 shares. As of November 18, 2003, our average daily trading volume was approximately 2,500,000 shares traded per day. A hypothetical draw of $85,000, the maximum amount we are entitled to draw under the Second Equity Line Agreement, as of November 18, 2003, would result in the issuance of approximately 4,250,000 shares of our common stock. It likely would take the Equity Line Investor longer than the 7 trading days we are required to wait between puts to sell 4,250,000 shares.

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

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

As noted above, sales by the Equity Line Investor likely will result in

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

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

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

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

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

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

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

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

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

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

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

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

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

The risks and uncertainties described in this section are not the only ones facing CirTran. Additional risks

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

Use of Proceeds

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

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

Determination of Offering Price

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

DESCRIPTION OF BUSINESS

We are a full-service contract electronics manufacturer servicing original equipment manufactures ("OEMs") in the following industries:

communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semi-conductor. We conduct our operations through two main divisions: circuit board manufacturing and assembly, and Ethernet card design and manufacture.

Industry Background

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

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

A second trend in the industry has been the increasing shift from pin-through-hole, or PTH, to surface mount technology, or SMT, interconnection technologies. SMT and PTH printed circuit board assemblies are printed circuit

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

Electronics Assembly and Manufacture

Approximately 80% of our revenues are generated by our electronics assembly activities, which consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables. We also assemble higher-level sub-systems and systems incorporating printed circuit boards and complex electromechanical components

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

Ethernet Technology

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

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

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

agencies. In August of 2003, Racore received an order from the United States Air Force for over $13,000. Further, Racore expects to receive additional orders through 2003 and into 2004.

Market and Business Strategy

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

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

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

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

- 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.

Suppliers; Raw Materials

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

Research and Development

During 2002 and 2001, CirTran Corporation spent approximately $43,272 and $159,271, 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 $148,287, 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.

Sales and Marketing

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

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

are provided at either an hourly rate or at a fixed contract price for a specified task.

In 2002, 94% of our net sales were derived from pre-existing customers, whereas during the year ended December 31, 2001, over 97% of our net sales were derived from customers that were also customers during 2000. Historically, a small number of customers accounted for a significant portion of our net sales. In 2002 our three largest customers accounted for approximately 45% of our total sales. However in 2001 no single customer accounted for more than 10% of our total sales. During the year ended December 31, 2000, our largest customer, Osicom Technology and its successor, Entrada Networks, Inc., accounted for 30% of consolidated net sales. We no longer do business with Entrada Networks, Inc.

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

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. At December 31, 2002, our backlog was approximately $450,000. As of November 18, 2003, our backlog had increased to $590,000.

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

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

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

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

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

Nevertheless, management feels that the Company's continued involvement

in these relationships enables the Company to continue to bid competitively for these larger bids.

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

With respect to the contracts with Intermotive, Inc. ("Intermotive"), referenced in the October 10, 2001, press release, through December 31, 2002, we had entered into purchase orders with Intermotive ranging from approximately $4,607 to $34,077. The Company's relationship with Intermotive remains productive, and management believes that this relationship should continue to produce revenue for the Company, although there can be no guarantee that Intermotive will continue to order from us or that any future orders will be substantial.

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

In February 2003, CirTran received Certification Approval under the Joint Certification Program ("JCP") from the United States/Canada Joint Certification Office, Defense Logistics Information Service. Certification under the JCP establishes the eligibility of a U.S. or Canadian contractor to receive technical data governed, in the U.S. by Department of Defense ("DoD") directive 5230.25 and, in Canada, by the Technical Data Control Regulations ("TDCR"). We feel JCP benefits the U.S. and Canadian defense and high technology industries by facilitating their continued access to

unclassified technical data disclosing critical technology in the possession of, or under the control of the U.S. DoD or the Canadian Department of National Defense ("DND"). This is an important recognition for CirTran and is consistent with our efforts to expand our revenue opportunities. Our approved access to technologies in the U.S. DoD and the Canadian DND will allow us to support the commercial activities of the broad range of manufacturers working with both governments.

Material Contracts and Relationships

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

our independent marketing representatives that features standard terms typically found in such agreements.

Competition

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

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

Regulation

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

Employees

We employ 51 persons, 4 in administrative positions, 3 in engineering and design, 42 in clerical and manufacturing, and 2 in sales.

Corporate Background

Our core business was commenced by Circuit Technology, Inc. ("Circuit"), in 1993 by our president, Iehab Hawatmeh. Circuit enjoyed increasing sales and growth in the subsequent five years, going from $2.0 million in sales in 1994 to $15.4 million in 1998, leading to the purchase of two additional SMT assembly lines in 1998 and the acquisition of Racore Computer Products, Inc., in 1997. During that period, Circuit hired additional management personnel to assist in managing its growth, and Circuit executed plans to expand its operations by acquiring a second manufacturing facility in Colorado. Circuit subsequently determined in early 1999, however, that certain large contracts that accounted for significant portions of our total revenues provided insufficient profit margins to sustain

the growth and resulting increased overhead. Furthermore, internal accounting controls then in place failed to apprise management on a timely basis of our deteriorating financial position. During the last several years, we have

experienced significant losses, including $4,179,654 in 2000, $2,933,084 in 2001, and $2,149,810 in 2002.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

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

Significant Accounting Policies

Financial Reporting Release No. 60, which was recently released by the

Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

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

Revenue Recognition

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

Inventories

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

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

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

Checks Written in Excess of Cash in Bank

Historically, banks have temporarily lent funds to us by paying out more funds than were in our accounts under existing lines of credit with those banks. Subsequent to May 2000, when Abacas purchased our line of credit obligation, the Company no longer had lines of credit with banks, and those loans were no longer available or made to us.

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

Related Party Transactions

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

We conduct a substantial portion of our operations utilizing leased facilities consisting of a warehouse and a manufacturing plan from a related party. In 1998, the related party entered into two promissory notes secured by the deeds of trust on the property leased to us. In August 2003, the related party defaulted on the notes and the property was sold under the first of the two deeds of trust. We were served a notice of unlawful detainer and were to vacate the property by September 30, 2003. We received an extension to file our response until November 21, 2003, and may occupy the property until notified otherwise subsequent to filing our response. We are currently negotiating with an unrelated party to have the unrelated party purchase the property from the current property owner. We do not yet have arrangement in place for new facilities should these negotiations fail.

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

Results of Operations - Comparison of Years Ended December 31, 2002 and 2001

Sales and Cost of Sales

Net sales increased 22.9 % to $2,299,668 for the year ended December 31, 2002 as compared to $1,870,848 for the year ended December 31, 2001. The increase is partially due to the increased orders from pre- existing customers. For CirTran Corporation, we had two pre-existing customers that have generated approximately 40% of the sales for 2002. These customers are Tempo at 25% and General Cable at 15% of sales. For Racore, pre- existing customer SGI accounted for 65% of sales.

Cost of sales for the year ended December 31, 2002, was $1,966,851, as compared to $2,340,273 during the prior year. Those costs as a percentage of net sales were 85.5% during 2002 as compared to 125% during 2001. The improvement in the Cost of sales was due to the higher margin contracts the company completed.

Additionally, improvement of inventory management and control has positively affected our gross margins. We traditionally tracked inventory by customer rather than by like-inventory item, and, as a result, we often purchased new inventory to produce products for a new customer, when we likely had the necessary inventory on hand under a different customer name. This prior practice led to a reserve for obsolescence and excess inventory, which for the year 2002 was $540,207, as compared to $506,381 in 2001. However, because of the higher margin sales, our cost of sales decreased. We have changed our method of managing and controlling our inventory so that we can identify inventory by a general part number, rather than a customer number, and we have instituted

monthly reviews to better update and control our inventory. We believe these improvements have lead to better inventory control and will contribute to decreased cost of sales. If we are successful in decreasing our cost of sales further, and if we are able to maintain and increase our levels of sales, we believe we will be successful in generating sufficient gross profit to cover our selling, general and administrative expenses.

The following charts present (i) comparisons of sales, cost of sales and gross profit generated by our two main areas of operations, i.e., electronics assembly and Ethernet technology, during 2001 and 2002; and (ii) comparisons during these two years for each division between sales generated by pre-existing customers and sales generated by new customers.

	Year	Sales	Cost of Sales	Gross Loss/Margin
Electronics Assembly	2002	1,838,781	1,673,739	165,042
	2001	1,352,085	1,718,687	(366,602)
Ethernet Technology	2002	460,887	293,112	167,775
	2001	518,763	621,586	(102,823)

	Year	Total Sales	Pre-existing Customers	New Customers
Electronics Assembly	2002	1,838,781	1,817,312	21,469
	2001	1,352,085	1,311,522	40,563
Ethernet Technology	2002	460,887	338,927	121,960
	2001	518,763	462,844	55,919

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at December 31, 2002 was $1,550,553, as compared to $1,773,888 at December 31, 2001. The decrease in inventory was primarily the result of the settlement with Entrada, repeated customer orders, and the implementation of our inventory control system.

Selling, General and Administrative Expenses

During the year ended December 31, 2002, selling, general and administrative expenses were $2,180,226 versus $1,690,837 for 2001, a 28.2%

increase. The increase is a result of our increase in the size of our sales staff, an increase in the commission structure for the sales staff, and our effort to aggressively market our products during a period of economic downturn.

Interest Expense

Interest expense for 2002 was $437,074 as compared to $773,034 for 2001, a decrease of 43.4%. This decrease is primarily attributable to a decrease in debt which was attributed to the conversions of notes payable to shares of common stock in January and December 2002 and in delinquent payroll tax liabilities, the penalties on which were previously recorded as part of interest expense. As of December 31, 2002 and 2001, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was $2,029,626 and $1,982,445, respectively.

Other income increased from $212 in 2001 to $7,173 in 2002.

As of December 31, 2002, there was a gain on the settlement of the sub-lease in Colorado Springs of $152,500.

As a result of the above factors, our overall net loss decreased 26.7% to $2,149,810 for the year ended December 31, 2002, as compared to $2,933,084 for the year ended December 31, 2001.

Results of Operations - Comparison of Periods Ended September 30, 2003 and 2002

Sales and Cost of Sales

Net sales decreased to $267,494 for the three-month period ended September 30, 2003, as compared to $367,755 during the same period in 2002. Cost of sales decreased by 49.7%, from $358,869 during the three-month period ended September 30, 2002, to $180,660 during the same period in 2003. Our gross profit margin for the three-month period ended September 30, 2003, was 32.4%, up from 2.4% for the same period in 2002. The large improvement in the gross profit margin is attributed to our selling products at higher margins, and selling a lower quantity of high margin products. Though we sustained decreased sales for the three-month period ended September 30, 2003, compared to the same period in 2002, we were able to increase our gross profit margin.

Inventory

We use just-in-time manufacturing, which is a production technique that minimizes work-in-process inventory and manufacturing cycle time, while enabling us to deliver products to customers in the quantities and time frame required. This manufacturing technique requires us to maintain an inventory of component parts to meet customer orders. Inventory at September 30, 2003, was $1,492,002, as compared to $1,550,553 at December 31, 2002. Though decrease in inventory is negligible, it demonstrates better control over inventory purchases.

Selling, General and Administrative Expenses

During the quarter ended September 30, 2003, selling, general and administrative expenses were $596,238 versus $516,650 for the same period in 2002, a 15.4% increase. The increase is substantially the result of our increase in fees related to notes payable to the equity line investor and also the result of

settlement expenses.

Interest Expense

Interest expense for quarter ended September 30, 2003, was $128,178 as compared to $41,865 for the same period in 2002, an increase of 206.2%. This increase is primarily attributable to an increase in debt which was attributed to the increase in notes payable and an increase in interest rates. As of September 30, 2003, and December 31, 2002, the amount of our liability for delinquent state and federal payroll taxes and estimated penalties and interest thereon was $2,096,935 and $2,029,626, respectively.

As a result of the above factors, our overall net loss increased 26.2% to $724,858 for the quarter ended September

30, 2003, as compared to $574,532 for the quarter ended September 30, 2002 and 49.3% to $1,941,075 for the nine months ended September 30, 2003, as compared to $1,299,837 for the same period in 2002.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have had a history of losses and our accumulated deficit was $17,171,377 at September 30, 2003, and $15,230,302 at December 31, 2002. Our net operating loss for the quarter ending September 30, 2003, was $724,858, compared to $574,532 for the quarter ended September 30, 2002. Our current liabilities exceeded our current assets by $5,644,754 as of September 30, 2003, and $4,490,623 as of December 31, 2002. The increase is mostly attributed to increasing account payables, notes payable, and accrued liabilities. For the nine months ended September 30, 2003 and 2002, we had negative cash flows from operations of $723,592 and $914,037, respectively.

Cash

We had cash on hand of $27,934 at September 30, 2003, and $500 at December 31, 2002.

Net cash used in operating activities was $723,592 for the nine months ended September 30, 2003. During 2003, net cash used in operations was primarily attributable to $1,941,075 in net losses from operations, partially offset by non-cash charges, increases in accrued liabilities of $605,184 and in increases to trades accounts payable of $102,779, and in a decrease to inventories of $58,551. The non-cash charges were for depreciation and amortization of $232,094 and non-cash compensation expense of $97,500.

Net cash used in investing activities during the nine months ended September 30, 2003, consisted of equipment purchases of $5,527.

Net cash provided by financing activities was $756,553 during the nine months ended September 30, 2003. Principal sources of cash were proceeds of $100,000 from notes payable to related parties, proceeds from notes payable of $562,350 and proceeds from the exercise of options to purchase common stock of $262,500.

Accounts Receivable

At September 30, 2003, we had receivables of $60,164, net of a reserve for doubtful accounts of $37,840, as compared to $37,464 at December 31, 2002, net

of a reserve of $37,037. This increase is primarily attributed to sales having increased compared to the last two months of last year.

Accounts Payable

Accounts payable were $1,414,941 at September 30, 2003, as compared to $1,359,723 at December 31, 2002. This increase is primarily attributed to additional accounting and legal fees.

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 $17,171,377 and a total stockholders' deficit of $5,047,404 at September 30, 2003. As of September 30, 2003, our monthly operating costs and interest expenses averaged approximately $240,000 per month.

Significant amounts of additional cash will be needed to reduce our debt and fund our losses until such time as we are able to become profitable. At September 30, 2003, we were in default of notes payable whose principal amount, not including the amount owing to Abacas Ventures, Inc., was approximately $675,000. In addition, the principal amount of notes that either mature in 2003 or are payable on demand was approximately $960,000.

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 pay the debt and secure the debt with assets. We may therefore have to rely on equity financing to meet our anticipated capital needs. There can be no assurances that we will be successful in obtaining such capital. If we issue additional shares for debt and/or equity, this will serve to 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.

In conjunction with our efforts to improve our results of operations, discussed above, on November 5, 2002, we entered into an Equity Line of Credit Agreement (the "Equity Line Agreement") with Cornell Capital Partners, LP, a private investor ("Cornell"). We subsequently terminated the Equity Line Agreement, and on April 8, 2003, we entered into an amended equity line

agreement (the "Amended Equity Line Agreement") with Cornell. Under the Amended Equity Line Agreement, we have the right to draw up to $5,000,000 from Cornell against an equity line of credit (the "Equity Line"), and to put to Cornell shares of our common stock in lieu of repayment of the draw. The number of shares to be issued is determined by dividing the amount of the draw by the lowest closing bid price of our common stock over the five trading days after the advance notice is tendered. Cornell is required under the Amended Equity Line Agreement to tender the funds requested by us within two trading days after the five-trading- day period used to determine the market price.

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

Forward-looking statements

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

Selling shareholders

Three of our investors are the Selling Shareholders in connection with this prospectus and the registration statement of which it is a part. None of the Selling Shareholders is affiliated in any way with CirTran or any of our affiliates other than in connection with the Second Equity Line Agreement, and neither the Selling Shareholders nor

any of their affiliates have any relationship of any type with us and our affiliates other than the presently established Second Equity Line Agreement relationships between the Selling Shareholders, on the one hand, and CirTran, on the other hand. This prospectus, and the registration statement of which it is a part, cover the shares to be issued to the Selling Shareholders in connection with the Second Equity Line Agreement.

The following table provides information about the actual and potential ownership of shares of our common stock by the Selling Shareholders in connection with the Equity Line as of November 18, 2003, and the number of our shares registered for sale in this prospectus. The number of shares of common stock issuable to the Equity Line Investor under the Second Equity Line Agreement varies according to the market price at and immediately preceding the put date. Solely for purposes of estimating the number of shares of common stock that would be issuable to the Equity Line Investor as set forth in the table below, we have assumed a hypothetical put by us on November 18, 2003, of the full remaining amount of $4,145,000 under the Equity Line at a per share price of approximately $0.03. The actual per share price and the number of shares

issuable upon actual puts by us could differ substantially. This prospectus and the registration statement of which it is a part covers the resale of up to 252,562,500 shares of our common stock, of which 250,000,000 are registered in connection with shares issued to the Equity Line Investor in lieu of repayment of draws on the Second Equity Line.

Under the terms and conditions of the Second Equity Line Agreement, the Equity Line Investor is prohibited from having shares put to it under the Equity Line to the extent such put by us would result in that person beneficially owning more than 9.9% of the then outstanding shares of our common stock following such put. This restriction does not prevent the Equity Line Investor from receiving and selling put shares and thereafter receiving additional put shares. In this way, the Equity Line Investor could sell more than 9.9% of our outstanding common stock in a relatively short time frame while never beneficially owning more than 9.9% of the outstanding CirTran common stock at any one time. For purposes of calculating the number of shares of common stock issuable to the Equity Line Investor assuming a put of the full amount under the Equity Line, as set forth below, the effect of such 9.9% limitation has been disregarded. The number of shares issuable to the Equity Line Investor as described in the table below therefore may exceed the actual number of shares such Selling Shareholder may be entitled to beneficially own under the Equity Line. The following information is not determinative of the Selling Shareholder's beneficial ownership of our common stock pursuant to Rule 13d-3 or any other provision under the Securities Exchange Act of 1934, as amended.

Name of Selling Shareholder	Shares of Common Stock Owned by Selling Share-holder Prior to Offering	Shares of Common Stock Issuable to Selling Shareholder In Connection with Equity Line Transaction	Percentage of Common Stock Issuable to Selling Shareholder In Connection with Equity Line Transaction(1)	Number of Shares of Common Stock Registered Hereunder (2)	Number of Shares of Common Stock Owned After Offering
Cornell Capital Partners, LP	2,375,0000	186,974,321 (3) (3)	37.14%	252,375,000	0 (4)
Butler Gonzalez, LLP	62,500 (5)	0	0.02%	62,500	0 (6)
Westrock Advisors, Inc.	125,000 (7)	0	0.04%	125,000	0 (6)

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

(2) The registration statement of which this prospectus is a part covers up to 250,000,000 shares of common stock issuable under the Second Equity Line. Because the specific circumstances of the issuances under the Second Equity Line are unascertainable at this time, the precise total number of shares of our common stock offered by the Selling Shareholder cannot be fixed at this time, but cannot exceed 250,000,000 unless we file additional registration statements registering the resale of the additional shares. The amount set forth below represents the number of shares of our common stock that have been issued and that would be issuable, and hence offered in part hereby, assuming a put of the full amount under the Second Equity Line as of November 18, 2003. The actual number of shares of our common stock offered hereby may differ according to the actual number of shares issued upon such conversions.

(3) Includes:

46,432,654	shares of common stock issued to the Equity Line Investor in connection with draws on the Second Equity Line through November 18, 2003.
138,166,667	shares of common stock issuable upon a hypothetical put of the full remaining $4,145,000 available under the Equity Line as of November 18, 2003. This prospectus registers only up to 250,000,000 shares of common stock issuable under the Equity Line. Accordingly, we may not issue shares in excess of 250,000,000 unless we file additional registration statements registering the resale of the additional shares.
2,375,000	additional shares issued to the Equity Line Investor as further consideration for entering into the Second Equity Line Agreement.

(4) Assumes a hypothetical draw of the full remaining $4,145,000 available under the Equity Line as of November 18, 2003, and the issuance of 138,166,667 shares of our common stock, together with the sale by the Equity Line Investor of the 184,599, 321 shares and the full 2,375,000 additional shares issued in connection with the Second Equity Line Agreement. There is no assurance that the Equity Line Investor will sell any or all of the shares offered hereby. However, the Equity Line Investor is contractually prohibited from holding shares, and we are contractually prohibited from putting shares to the Equity Line Investor that would cause it to hold shares, in excess of 9.9% of the then-issued and shares of our common stock. This number and percentage may change based on the Equity Line Investor's decision to sell or hold the Shares.

(5) Consisting of 62,500 shares issued to Butler Gonzalez, LLP, in connection with legal services rendered in connection with the Second Equity Line Agreement transaction.

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

(7) Consisting of 125,000 shares issued to Westrock Advisors, Inc., as payment for its services as placement agent.

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

Selling Stockholder	Name of Natural Person(s)
Cornell Capital Partners LP	Mark Angelo*
Butler Gonzalez, LLP	Thomas Butler and David Gonzalez
Westrock Advisors, Inc.	Greg Martino

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

Plan of Distribution

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

- a block trade in which a broker-dealer engaged by a Selling Shareholder will attempt to sell the Shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by such broker-dealer for its account under this prospectus;
- an over-the-counter distribution in accordance with the rules of the OTC Bulletin Board;
- ordinary brokerage transactions in which the broker solicits purchasers; and
- privately negotiated transactions.

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

In connection with distributions of the Shares or otherwise, a Selling Shareholder may enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers may engage in short sales of the Shares covered by this prospectus in the course of hedging the positions they assume with the Selling Shareholder. A Selling Shareholder may also sell the Shares short and redeliver the Shares to close out such short positions. A Selling Shareholder may also enter into option or other transactions with broker-dealers which require the delivery to the broker-dealer of the Shares,

which the broker-dealer may resell or otherwise transfer under this prospectus. A Selling Shareholder may also loan or pledge the Shares registered hereunder to a broker-dealer and the broker-dealer may sell the shares so loaned or upon a default the broker-dealer may effect sales of the pledged shares pursuant to this prospectus.

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

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

All costs, expenses and fees in connection with the registration of the Shares will be borne by us.

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

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

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

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

Regulation M

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

the Shares, for a period of one business day before and after completion of its participation in the distribution.

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

Legal Proceedings

As of September 30, 2003, the Company had accrued liabilities in the amount of $2,096,935 for delinquent payroll taxes, including interest estimated at $371,385 and penalties estimated at $230,927. Of this amount, approximately $325,528 was due the State of Utah. During the first quarter of 2003, no payments were made to the State of Utah. During the third quarter of 2003, partial payments were made to the State of Utah. Approximately $1,760,469 was owed to the Internal Revenue Service as of September 30, 2003. As discussed below, the Company has reached an agreement with the Internal Revenue Service's Appeals Office to allow the Company to file an offer in compromise to resolve the Company's tax liability on a compromise basis. Further, the Utah State Tax Commission has advised the Company that it is willing to enter into an agreement to allow the Company to pay the liability owing to the State of Utah in equal monthly installments over an extended period of time, yet to be determined.

Approximately $10,938 was owed to the State of Colorado as of September 30, 2003.

We (as successor to Circuit Technology, Inc.) were a defendant in an action in El Paso County, Colorado District Court, brought by Sunborne XII, LLC, a Colorado limited liability company, for alleged breach of a sublease agreement involving facilities located in Colorado. Our liability in this action was originally estimated to range up to $2.5 million, and we subsequently filed a counter suit in the same court against Sunborne in an amount exceeding $500,000 for missing equipment. Effective January 18, 2002, we entered into a settlement agreement with Sunborne

with respect to the above-described litigation. The settlement agreement required us to pay Sunborne the sum of $250,000. Of this amount, $25,000 was paid upon execution of the agreement, and the balance of $225,000, together with interest at 8% per annum, was payable by July 18, 2002. As security for payment of the balance, we executed and delivered to Sunborne a Confession of Judgment and also issued to Sunborne 3,000,000 shares of our common stock, which are held in escrow and have been treated as treasury stock recorded at no cost. Because, 75% of the balance owing under the agreement was not paid by May 18, 2002, we were required to prepare and file with the Securities & Exchange Commission, at our expense, a registration statement with respect to the shares that were escrowed. The payment was not made, nor was a registration statement filed with respect to the escrowed shares.

Pursuant to a Termination of Sublease Agreement dated as of May 22, 2002 among the Company, Sunborne and other parties, the sublease agreement that

was the subject of our litigation with Sunborne was terminated and a payment of approximately $109,000 was credited against the amount owed by the Company to Sunborne under the Company's settlement agreement with them. Sunborne has filed a claim that this amount was to be an additional rent expense rather than a payment on the note payable. The Company disputes this claim and intends to vigorously defend the action.

As of May 16, 2003, the Company was in default of its obligations under the settlement agreement with Sunborne, i.e., the total payment due thereunder had not been made, a registration statement with respect to the escrowed shares was not filed, and the Company did not replace the escrowed shares with registered, free-trading shares as per the terms of the agreement. Accordingly, Sunborne has filed the Confession of Judgment and proceeded with execution thereon. The Company is continuing to negotiate with Sunborne in an attempt to settle the remaining obligation under the settlement agreement.

We also assumed certain liabilities of Circuit Technology, Inc. in connection with our transactions with that entity in the year 2000, and as a result we are defendant in a number of legal actions involving nonpayment of vendors for goods and services rendered. We have accrued these payables and have negotiated settlements with respect to some of the liabilities, including those detailed below, and are currently negotiating settlements with other vendors.

Advanced Component Labs adv. Circuit Technology Corporation Civil No. 990912318, Third Judicial District Court, Salt Lake Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about December 8, 1999, under allegations that the Company owed $44,269.43 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for breach of implied contract and unjust enrichment. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Initial discovery is beginning. No trial date has been set.

Advanced Electronics has notified the Company that it believes it has a claim against the Company in the amount of $67,691.56 for the cost of goods or services provided to the Company for the Company's use and benefit. Negotiations for settlement of this claim have resulted in an agreement in principal whereby the Company will make a cash payment to this creditor and issue a promissory note and shares of its restricted common stock in satisfaction of the creditor's claims. The parties are presently negotiating the terms of the settlement documents. However, until the settlement documents are executed and delivered, there can be no assurance that the creditor's claims will be settled nor that the terms will be favorable to the Company.

Arrow Electronics adv. Circuit Technology Corporation, Civil No. 990409504, Third Judicial District Court Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about October 19, 1999, under allegations that the Company owes $199,647.92 for materials and services and terms of a promissory note. The Company has answered, admitting that it owed certain sums and denying all other claims. The Company and Arrow have entered a settlement agreement under which the Company will pay $6,256.24 each month until the obligation and interest thereon are paid. Judgment was entered April 24, 2001, against the Company for $218,435.46 accruing at 16% per annum. The Company is currently attempting to negotiate a settlement of these claims.

Arrow Electronics adv. Circuit Technology Corporation, Civil No. 010406732, Third Judicial District Court, Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about June 28, 2001, under allegations that the Company owes $41,486.26. Judgment was entered against the Company on January 7, 2002. The Company is currently attempting to negotiate a settlement of these claims.

Avnet Electronics has notified the Company that it believes it has a claim against the Company in the amount of $180,331.02 for the cost of goods or services provided to the Company for the Company's use and benefit. No lawsuit has been filed. Negotiations for settlement of this claim have resulted in an agreement in principal whereby the Company will make a cash payment to this creditor and issue a promissory note and its restricted common stock in satisfaction of the creditor's claims. The parties are presently negotiating the terms of the settlement documents. However, until the settlement documents are executed and delivered, there can be no assurance that the creditor's claims will be settled nor that the terms will be favorable to the Company.

Contact East has notified the Company that it believes it has a claim against the Company in the amount of $32,129.89 for the cost of goods or services provided to the Company for the Company's use and benefit. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

C/S Utilities has notified the Company that it believes it has a claim against the Company in the amount of $32,472 regarding utilities services. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

Future Electronics Corp v. Circuit Technology Corporation, Civil No. 000900296, Third Judicial District Court, Salt Lake County, State of Utah. Suit was brought against the Company on or about January 12, 2000, under allegations that the Company owed $646,283.96 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims were asserted for breach of contract, fraud, negligent misrepresentation, unjust enrichment, account stated and dishonored instruments. The Company answered the complaint, admitting that it owed certain sums for conforming goods and services and denying all other claims. Partial Summary Judgment was entered in the amount of $646,783.96 as to certain claims against the Company. During 2000, the Company settled the lawsuit by issuing 5,281,050 shares of the Company's common stock valued at $324,284, paying $83,000 in cash and issuing two notes payable totaling $239,000. During 2002, Future filed a confession of judgment claiming that the Company defaulted on its agreement and claimed the 2000 lawsuit was not properly satisfied. At December 31, 2002, the Company owed $60,133 of principal under terms of the remaining note payable. The Company denies the vendor's claim and intends to vigorously defend itself against the confession of judgment.

Christine Hindenes v. Racore Network, Inc., and CirTran Corporation, Superior Court of California, County of Santa Clara, Civil No. CV811051. Ms. Hindenes brought suit against the Company and Racore for unpaid wages seeking $40,516.44. The Company and Racore are defending these claims. The parties are also conducting settlement negotiations.

Infineon Technologies North America Corp. adv. Circuit Technology, Inc. et al., Case No. CV 792634, Superior Court of the State of California, County of Santa Clara. Judgment was entered against Circuit Technology, Inc., on March 12, 2002, in the amount of $181,342.15. As of March 25, 2003, we are not aware of any collection efforts made by Infineon.

John J. La Porta v. Circuit Technology, Inc. et al., Case No. 010900785, Third Judicial District Court, Salt Lake Department, Salt Lake County, State of

Utah. Mr. La Porta filed suit on or about January 23, 2001, seeking to recover the principal sum of $135,941 plus interest on a promissory note given by Racore Technology Corp. Mr. La Porta claims that the Company is a guarantor of the promissory note and the Company should be held liable because of Racore's default on the note. The Company and Racore are defending these claims and are also negotiating settlement.

Molex has notified the Company that it believes it has a claim against the Company in the amount of $90,000.00 for the cost of goods or services provided to the Company for the Company's use and benefit. The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

Orbit Systems, Inc. adv. Circuit Technology, Inc. et al, Case No. 010100050DC, Third Judicial District Court, West Valley City Department, Salt Lake County, State of Utah. Orbit filed suit on January 4, 2001, seeking to recovery $173,310 for the costs of goods that Orbit claims the Company was under contract to purchase. The Company entered into a settlement agreement with Orbit and has performed all its obligations under the agreement. Orbit has made demand for an additional payment of approximately $600. The Company believes it has no obligation to pay this amount. The Company will seek to enforce the parties' settlement agreement if Orbit continues to demand this additional payment.

Sager Electronics adv. Circuit Technology Corporation, Civil No. 000403535, Third Judicial District Court, Sandy Department, Salt Lake County, State of Utah. Suit was brought against the Company on or about March 23, 2000, under allegations that the Company owed $97,259.23 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for nonpayment of amount owing. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Negotiations for settlement have resulted in an agreement for settlement of all claims of Sager against the Company. The Company has arranged certain payments and is required to pay Sager $1,972.07 each month until paid. The Company defaulted on its obligations in December 2002. The Company is negotiating a new settlement with Sager.

Signal Transformer Co., Inc., has notified the Company that it believes it has a claim against the Company in the amount of $38,989 for the cost of goods or services provided to the Company for the Company's use and benefit. Negotiations for settlement of this claim have resulted in an agreement in principal whereby the Company will arrange for a cash payment to this creditor. The parties are presently negotiating the terms of the settlement documents. However, until the settlement documents are executed and delivered, there can be no assurance that the creditor's claims will be settled nor that the terms will be favorable to the Company.

SuhTech Electronics adv. Circuit Technology Corporation, Civil No. 00L14505, Circuit Court of Cook County Department, Law Division, State of Illinois. Suit was brought against the Company on or about December 23, 1999, under allegations that the Company owed $213,717.70 for the cost of goods or services provided to the Company for the Company's use and benefit. Claims are asserted for breach of contract, unjust enrichment and account stated. The Company has answered, admitting that it owed certain sums for conforming goods

and services and denying all other claims. Judgment was subsequently entered against the Company on May 29, 2002. The parties are presently negotiating the terms of settlement documents, pursuant to which the Company will facilitate a payment to this creditor a cash payment and issue a promissory note and shares of its restricted common stock in satisfaction of the creditors' claims. However, until the settlement documents are executed and delivered, there can be no assurance that the creditors claims will be settled nor that the terms will be favorable to the Company.

University of Utah v. CirTran Corporation, Third District Court, Salt Lake County, Civil No. 020900494 . The University of Utah filed a claim against the Company on January 18, 2002, seeking $37,473.10 in damages. Summary judgment was entered against the Company. The Company entered into a settlement agreement on September 16, 2003, under which the Company is required to make monthly payments of $5,185.47. The total settlement amount under the agreement is $62,225.64. The Company is making payments pursuant to the settlement agreement.

Volt Temporary Services has notified the Company that it believes it has a claim against the Company in the amount of $30,986 for the cost of goods or services provided to the Company for the Company's use and benefit.

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The Company is reviewing its records in an effort to confirm the validity of the claims and has been involved in settlement negotiations.

Wells Fargo Equipment Finance adv. Circuit Technology Corporation, Civil No. 901207 Third Judicial District Court, Salt Lake County, State of Utah. Suit was brought against the Company on or about February 10, 2000, under allegations that the Company owed $439,493.56 for a loan provided to the Company for the Company's use and benefit. Claims are asserted for breach of contract, breach of guarantee and replevin. The Company has answered, admitting that it owed certain sums for conforming goods and services and denying all other claims. Initial discovery is beginning. Judgment has been entered against the Company and certain guarantors in the amount of $427,291.69 plus interest at the rate of 8.61% per annum from June 27, 2000. The parti