CIRTRAN CORP
Form 10-K
April 16, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

[X] Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2009F

[ ] Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____________ to ______________

Commission file number 000-49654

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

Nevada (State or other jurisdiction of incorporation or organization)	68-0121636 (I.R.S. Employer Identification No.)
4125 South 6000 West, West Valley City, Utah (Address of principal executive offices)	84128 (Zip Code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one.)

Large Accelerated Filer [ ]
Accelerated Filer [ ]
Non-accelerated Filer [ ]
Smaller Reporting Company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The issuer's revenues for its most recent fiscal year: $9,732,855.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of June 30, 2009, was $4,450,651.

As of April 15, 2010, the issuer had outstanding 1,498,972,923 shares of Common Stock, par value $0.001.

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

Documents incorporated by reference: None.

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PART I

ITEM 1. BUSINESS

This annual report on Form 10-K contains, in addition to historical information, forward-looking statements that involve substantial risks and uncertainties. Our actual results could differ materially from the results anticipated by CirTran and discussed in the forward-looking statements. Factors that could cause or contribute to such differences are discussed below in the section entitled "forward-looking statements" and elsewhere in this Annual Report. We disclaim any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. The following discussion should be read together with our financial statements and related notes thereto included elsewhere in this Report.

CORPORATE BACKGROUND AND OVERVIEW

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

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

Corporate Overview - We conduct our business principally through seven wholly-owned subsidiaries or divisions:

- CirTran Corporation ("CirTran USA");
- CirTran - Asia, Inc. ("CirTran Asia");
- CirTran Products Corp. ("CirTran Products");
- CirTran Media Corp. ("CirTran Media");
- CirTran Online Corp. ("CirTran Online");
- CirTran Beverage Corp. ("CirTran Beverage"); and
- Racore Technology Corporation ("Racore").

CirTran USA

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

As of December 31, 2009 and 2008, approximately 13 percent and 12 percent, respectively, of our revenues were generated by low-volume electronics assembly activities, which consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables. We also assemble

higher-level subsystems and systems incorporating printed circuit boards and complex electromechanical components that convert electrical energy to mechanical energy, in some cases manufacturing and packaging products for shipment directly to our customers' distributors. In addition, we provide other manufacturing services, including refurbishment and remanufacturing. We manufacture on a turnkey basis, directly procuring any of the components necessary for production where the OEM customer does not supply all of the components that are required for assembly. We also provide design and new product introduction services, just-in-time delivery on low-to medium-volume turnkey and consignment projects and projects that require more value-added services, and price-sensitive, high-volume production.

In an effort to operate more efficiently and focus resources on higher margin areas, on March 5, 2010, the Company and Katana Electronics, LLC, a Utah limited liability company ("Katana") entered into certain agreements to reduce its costs (discussed more fully in Note 18). The Agreements include an Assignment and Assumption Agreement, an Equipment Lease, and a Sublease Agreement relating to the Company's property. Under the Assignment and Assumption Agreement, the Company transferred its right, title, interest, obligations and duties in, under and to all of the Company's open and active purchase orders relating to its legacy electronics manufacturing business existing as of March 5, 2010, which Katana agreed to assume. Pursuant to the Equipment Lease, the Company leased certain equipment to Katana for use in filling the purchase orders transferred. The term of the Equipment Lease is for a term of two months, with automatic renewal periods of one month each. The base rent under the Equipment Lease is $1,000 per month. Pursuant to the terms of the Sublease, the Company will sublease a certain portion of the Premises to Katana consisting of the warehouse and office space used as of the close of business on March 4, 2010. The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month. The Sublease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights. Under Agreements signed, the Company continues to have rights to operate as a contract manufacturer in the future in the US and offshore.

CirTran Asia

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

We intend to pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses and injection molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, retail, and direct consumer markets.

The Company has developed several fitness and exercise products, and products in the household and kitchen appliance and health and beauty aids markets that are manufactured in China. Sales of these products comprised approximately 2 percent and 13 percent of revenues reported in 2009 and 2008, respectively. We anticipate that offshore contract manufacturing will play an increased role moving forward.

CirTran Products

CirTran Products pursues contract manufacturing relationships in the U.S. consumer products markets, including products in areas such as: home/garden, kitchen, health/beauty, toys, licensed merchandise, and apparel for film, television, sports, and other entertainment properties. Licensed merchandise and apparel is defined as any item that bears the image, likeness, or logo of a product, or a person such as a well-known celebrity, that is sold or advertised to the public. Licensed merchandise and apparel are sold and marketed in the entertainment and sports franchise industries. Sales of these products comprised 1 percent of total revenues in each of the years 2009 and 2008. We have concentrated our product development efforts into three areas, home and kitchen appliances, beauty products and licensed merchandise. We anticipate that these products will be introduced into the market either under one uniform brand name or under separate trademarked names owned by CirTran Products. We are presently preparing to launch various programs where CirTran Media will operate as the marketer, campaign manager and distributor in various product categories including beauty products, entertainment products, software products, and fitness and consumer products.

CirTran Media

In 2006, we formed Diverse Media Group, now known as CirTran Media, to provide end-to-end services to the direct response and entertainment industries. We are developing marketing production services, and preparing programs in which CirTran Media will operate as the marketer, campaign manager and/or distributor for beauty, entertainment, software, and fitness consumer products. In 2006, we entered into an agreement with Diverse Talent Group, Inc., a California corporation ("DT"), whereby DT agreed to provide outsourced talent agency services in exchange for growth financing. In March 2007, we mutually agreed with DT to terminate the agreement, and assigned to DT the name "Diverse Media Group." Revenues earned by this subsidiary were 0 percent and 2 percent of total revenues during 2009 and 2008, respectively.

Despite the termination of the DT agreement, we anticipate continuing to produce infomercials for the direct marketing industry and for product marketing campaigns. We also plan to provide product marketing, production, media funding, and merchandising services to the direct response and entertainment industries in concert with the original objectives of this subsidiary.

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

CirTran Online

During the first quarter of 2007, we started CirTran Online to sell products via the internet; to offer training, software, marketing tools, web design and support, and other e-commerce related services to entrepreneurs; and to telemarket directly to customers. As part of CirTran Online's business plan, we entered into an agreement with Global Marketing Alliance ("GMA"), a Utah limited liability company specializing in providing services to eBay sellers, conducting internet marketing seminars, and developing and hosting web sites. Revenues derived from the arrangement with GMA comprised 26 percent and 24 percent of total revenue in 2009 and 2008, respectively.

CirTran Beverage

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

Two versions of the Playboy energy drink, regular and sugar-free with 8.4 oz cans, have been developed. During 2007, PlayBev and the Company conducted focus group taste tests to determine the best flavor and ingredients; publicized the new drink via promotional bus tours, celebrity-attended activities, and magazine ads; and negotiated with production facilities and distribution groups. During 2008, the Company secured distribution contracts and the drink began selling in New England, Florida, Atlanta, Oklahoma, and California. We also developed 16 oz cans for the same two versions based on demand. Another promotional bus tour began in Las Vegas at the end of February 2008, and the following month continued into Florida. In 2009, we expanded sales both domestically and internationally. We currently have sales and distribution networks in 27 countries, including Eastern Europe, South Africa, Australia and India, and we anticipate continued growth. Energy drink sales in 2009 and 2008 accounted for 18 percent and 11 percent of total sales, respectively, and billings to PlayBev for development and marketing services accounted for 40 percent and 37 percent of our total sales for 2009 and 2008, respectively.

Racore Technology Corporation

Through our subsidiary, Racore Technology Corporation ("Racore"), we provide engineering design services to customers of some of our other subsidiaries.

PRIMARY PRODUCTS AND SERVICES

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

Fitness and Exercise Products (CirTran Asia)

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

In 2004, we began manufacturing the AbRoller, a type of an abdominal fitness machine, under an exclusive manufacturing agreement. From inception, we have shipped approximately $3.4 million of this product to date. We anticipate shipping additional units of this product.

In 2005, we entered into an exclusive manufacturing contract with Guthy-Renker Corporation ("GRC") for a new fitness machine. Later, a dispute arose concerning the terms of the contract, and we engaged in litigation against GRC. No product was produced under this contract during 2007. During the first quarter of 2008, we arrived at a settlement agreement in connection with the litigation, and were paid $300,000 to resolve all claims.

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

In June 2007, we entered into a five-year, exclusive agreement with Full Moon Enterprises of Nevada to license a new product for the sold-on-TV market. A patent application for The Ball Blaster (TM) was filed by the inventor, who granted the Company the worldwide marketing and distribution rights to this product. We will pay a royalty to the licensor for each unit sold. During 2008 and 2009, we continued our marketing efforts for this product by meeting with potential celebrity spokespersons intended to appear in related infomercials. However, as of the date of this Report, no products have been sold.

Household and Kitchen Appliances, and Health and Beauty Aids (CirTranMedia, CirTranProducts, CirtranAsia)

We began manufacturing household and kitchen appliance products in January 2005. To date, we have manufactured and sold various household and kitchen appliance products. These products are sold through Cirtran Media and CirtranProducts. We manufacture the majority of our household and kitchen appliance products through our CirTran Asia operation.

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

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

ABS-related litigation).

Subsequently, we entered into a contract with another direct marketing company to sell TCP units internationally, along with other ancillary hair products, and have generated an additional $2.3 million in sales. During 2007, we also began a direct TV test marketing program. In 2008 we initiated TV marketing programs and we sold $310,000 of TCP products during the first half of the year. We then decided to revamp the marketing programs and anticipate devoting additional resources to the marketing programs moving forward.

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

In November 2006, we entered into an exclusive agreement with Beautiful Eyes(R), Inc. for a new "hot lashes" product to be sold via infomercials and through retailers. Through the end of 2007, we worked with the customer, developing the product and submitting samples for approval. The infomercial for the product was completed during 2008. We anticipate initiating market tests in the near future.

In February 2007, we announced completion of an infomercial featuring former heavyweight boxing champion Evander Holyfield and The Real Deal Grill™, an indoor/outdoor cooking appliance. Media testing took place in the fall of 2007. Sales of approximately $10,000 resulted, and certain changes were made to the infomercial. We have contracted with another media company for infomercial airings and distribution, and during early 2008 decided to make additional changes to the infomercial to determine if a roll-out was justified. During 2008 we also completed retail packaging design for this product and presented the product to major retailers. We continue sell the product with online retailers and we continue to work with other leading retailers to order to bring the Real Deal Grill to their shelves in the near future.

Also in February 2007, we signed an agreement to manufacture and market a patent-pending, hand-held luggage handle and scale, convenient for travelers to weigh suitcases or packages. During 2007, we worked to develop a final version of the product, and in 2008 we finished packaging design. We are working to develop multiple channels for this unique product.

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

Beverages (CirTran Beverage)

During 2007, we developed two versions of the Playboy-labeled energy drink: regular and sugar-free. Other products considered under the PlayBev agreement are flavored water beverages and related merchandise. During 2007, we also initiated a promotional marketing program, whereby contacts were made with several celebrities who helped publicize the new energy drinks. Additionally, we ran a college-town bus tour throughout the Southwest United States, and the geographic area of the NCAA’s Southeastern Conference. Ads were placed in college-oriented editions of magazines, and we developed collateral materials used to support the product in the college marketplace. A focus group taste test was conducted by Alder-Weiner Research, and the results proved favorable with regards to flavor and ingredients.

During the fourth quarter of 2007 and first part of 2008, the Company secured distribution contracts for the Playboy energy drink and began selling them throughout the United States. Approximately $205,000 in preliminary beverage sales was collected during the fall of 2007.

Another promotional bus tour began in Las Vegas at the end of February 2008 and continued through November 2008 to various destinations throughout the United States. During 2008, additional promotional activities were also put in place. Beverage sales for the year ended December 31, 2009 and 2008, were $1.8 million and $1.5 million, respectively.

During the latter part of 2008 we announced that we had signed an international distribution agreement for the new line of Playboy-branded energy in Mexico. We continue to expand internationally, having signed international distribution agreements to distribute our line of Playboy-branded energy drinks to 27 countries, including Australia, New Zealand, Albania,, India, Lebanon, Mexico, Nigeria, Russia, South Africa, South Korea, Spain, Egypt, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, and Turkey. During the year ended December 31, 2009, we recorded revenues totaling $1,249,283 relating to Playboy-branded energy drink products sold and distributed internationally.

Media/Online Marketing Services (CirTran Media, CirTran Online)

In October 2005, we opened a satellite office in Los Angeles, with a two year lease, in accordance with a planned internal expansion program. In November 2007, a new office space was leased (3 year term) in Los Angeles to house personnel involving CirTran Asia-related product transportation, along with activities connected with our beverage business. In 2008, the Los Angeles office was used almost exclusively for our beverage business.

In early 2007, we signed a three-year, Assignment and Exclusive Services Agreement with GMA, founded by Mr. Sovatphone Ouk, and its affiliate companies, Online Profit Academy, LLC, and Online 2 Income, LLC, including Webprostore.com and Myitseasy.com. Based in the Salt Lake area, these companies offer a wide range of services for e-commerce, including eBay sellers. We plan to work closely with the GMA companies to sell products via the internet, and to offer training, software, marketing tools, web design and support, as well as other e-commerce related services to internet entrepreneurs. Through the GMA companies, we also intend to telemarket directly to buyers of our products and services. We also signed a three-year employment agreement with Mr. Ouk to serve as Senior Vice President of our new CirTran Online subsidiary. GMA and its affiliate companies offer a range of complementary capabilities and products for e-commerce, including seminars on how to buy and sell on the World Wide Web. GMA is experienced in building e-commerce websites, and currently hosts sites for internet entrepreneurs. Both agreements remained in effect during 2008 and 2009.

Electronics Products (CirTran USA, Racore)

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

As previously disclosed in a Current Report on Form 8-K, filed March 11, 2010, in an effort to operate more efficiently and focus resources on higher margin areas, on March 5, 2010, the Company and Katana Electronics, LLC, a Utah limited liability company (“Katana”) entered into certain agreements to reduce its costs (discussed more fully in Note 18). The Agreements include an Assignment and Assumption Agreement, an Equipment Lease, and a Sublease Agreement relating to the Company’s property. Pursuant to the terms of the Sublease, the Company will sublease a certain portion of the Premises to Katana consisting of the warehouse and office space used as of the close of business on March 4, 2010. The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month. The Sublease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights. Under Agreements signed, the Company continues to have rights to operate as a contract manufacturer in the future in the US and off shore. Nothing in the agreements prevents the Company from acquiring new contracts if and when desired.

An overview and summary of the agreements follows. The summaries of the terms and conditions of agreements do not purport to be complete, and are qualified in their entirety by reference to the full text of the agreements.

Assignment and Assumption Agreement

The Assignment and Assumption Agreement, dated March 5, 2010, between the Company and Katana (the “Assignment Agreement”) sets forth the terms and conditions of the Company’s transfer of its right, title, interest, obligations and duties in, under and to all of the Company’s open and active purchase orders relating to its legacy electronics manufacturing business existing as of March 5, 2010 (the “Purchase Orders”). In exchange for the assignment of Purchase Orders, Katana agreed to assume all obligations under and service the Purchase Orders and indemnify the Company from any losses or claims arising from or under the Purchase Orders as of the date of the Assignment Agreement.

The Company made standard representations regarding the ownership and status of the Purchase Orders in connection with the assignment.

Sublease Agreement

In connection with the assignment of the Purchase Orders pursuant to the Assignment Agreement, the Company entered into a Sublease Agreement with KATANA (the "Sublease"). The Company leases from Don L. Buehner the real property and its improvements located at 4125 South 6000 West, West Valley, Utah, 84128 (the "Premises"). Pursuant to the terms of the Sublease, the Company will sublease a certain portion of the Premises to Katana consisting of the warehouse, electronics product manufacturing and assembly area, and office space used as of the close of business on March 4, 2010, for the legacy electronics manufacturing business of the Company.

The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month. The Sublease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights.

Equipment Lease

In connection with the assignment of the Purchase Orders pursuant to the Assignment Agreement, the Company entered into an Equipment Lease with KATANA (the "Equipment Lease") for the lease of certain machinery and equipment related to the Company's divested legacy electronics manufacturing business.

The term of the Equipment Lease is two (2) months with automatic renewal periods of one month each. The base rent under the Equipment Lease is $1,000 per month. The Equipment Lease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights.

INDUSTRY BACKGROUND

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

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

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

on their investment with greater flexibility in responding to market demands and exploiting new market opportunities.

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

MARKET AND BUSINESS STRATEGY

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

We have concentrated our focus on promoting four operating business segments. These segments include Beverage Distribution, Marketing and Media, Contract Manufacturing and Electronics Assembly.

Beverage Distribution

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

Contract Manufacturing

Based on the trends observed in the contract manufacturing industry, one of our goals is to benefit from the increased market acceptance of, and reliance upon, the use of manufacturing specialists by many OEMs, marketing firms, distributors, and national retailers. We believe the trend towards outsourcing manufacturing will continue. OEMs utilize manufacturing specialists for many reasons, including reducing the time it takes to bring new products to market, reducing the initial investment required and to access leading manufacturing technology, gaining the ability to better focus resources in other value-added areas, and improving inventory management and purchasing power. An important element of our strategy is to establish partnerships with major and emerging OEM leaders in diverse segments across the electronics industry. Due to the costs inherent in supporting customer relationships, we focus our efforts on customers with which the opportunity exists to develop long-term business partnerships. Our goal is to provide our customers with total manufacturing solutions for both new and more mature products, as well as across product generations - an idea we call "Concept to Consumer."

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

Marketing and Media

We currently provide product marketing services to the direct response and retail markets for both proprietary and non-proprietary products. This segment provides campaign management and marketing services for both the Direct Response, Retail and Beverage Distribution markets. We provide marketing and media services to support our own product efforts, and offer to customers marketing service in channels involving television, radio, print media, and the internet.

Electronics Assembly

As described above, in an effort to operate more efficiently and focus resources on higher margin areas, on March 5, 2010, the Company and Katana Electronics, LLC, a Utah limited liability company ("Katana") entered into certain agreements to reduce its costs (discussed more fully in Note 18). The Agreements include an Assignment and Assumption Agreement, an Equipment Lease, and a Sublease Agreement relating to the Company's property. Pursuant to the terms of the Sublease, the Company will sublease a certain portion of the Premises to Katana consisting of the warehouse and office space used as of the close of business on March 4, 2010. The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month. The Sublease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights. Under Agreements signed, the Company continues to have rights to operate as a contract manufacturer in the future in the US and off shore.

SUPPLIERS, SUBCONTRACTORS, AND RAW MATERIALS

We utilize subcontractors, both domestically and internationally (particularly in China), to manufacture products that we choose not to produce ourselves. We have arrangements with co-packing bottling companies, along with can manufacturers to provide us with products for energy drink beverage distribution. This strategy has proved effective and is allowing us the ability to maintain a lean operational structure and the opportunity to generate increased profit margins.

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

RESEARCH AND DEVELOPMENT

The Company has five primary product and service areas: fitness and exercise products; household and kitchen appliances and health and beauty aids; electronic products; media/online marketing services; and beverages. During 2009 and 2008, we spent approximately $63,000 each year on research and development of new products and services. The costs of that research and development were billed to specific customers. In addition, our wholly-owned subsidiary, Racore, spent approximately $10,000 during each of those respective years developing technologies intended to eventually be used in new products sold through other CirTran subsidiaries. We will continue to provide Racore's technical expertise to develop and enhance our product line when, and if future demand may arise.

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

SALES AND MARKETING

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

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

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

Historically, we have had substantial recurring sales from existing customers. With the growth of the beverage distribution sales, we are rapidly gaining new customers both domestically and internationally. We consider sales and marketing as an integrated process involving direct salespersons and project managers, as well as senior executives. We also use independent sales representatives in certain geographic areas. We have also engaged strategic consulting groups to make strategic introductions to generate new business. This strategy has proven successful, and has already generated multiple manufacturing contracts.

In 2009, 25 percent of our net sales were derived from new customers, whereas during 2008, 12 percent of our net sales were sourced from new customers. The growth in new customer acquisition is driven by the domestic and international growth of the Playboy-licensed energy drink sales. During 2009, nearly 50 percent of the sales from recurring customer sales were related to sales to PlayBev and revenue derived via the GMA contract. Sales to PlayBev consist of beverage marketing and development services billed by CirTran Beverage. In 2008, our largest pre-existing customer, PlayBev, accounted for approximately 29 percent of our net sales, which sales consisted of beverage development and marketing services. Our two largest non-beverage related customers were Dynojet and Evolve, which each accounted for approximately seven percent of net sales in 2008. We anticipate beverage-related sales and services, together with sales from our contract manufacturing segment, to continue providing the majority of our net sales.

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

The Company also has contracts that require minimum quantity purchase orders over periods terminating between 2010 and 2019. If the full minimum quantity orders are purchased under these current agreements, they would generate upwards of $500,000,000 in revenues to the Company. The majority of these international distribution contracts are based on minimum orders they are required to purchase during the term of the contract to maintain their rights of selling the Playboy Energy Drink. Revenue under these contracts is not recognized until ordered products have been shipped. There is no assurance, except for the upfront deposits, that the parties to these agreements will meet their obligations for the minimum quantity or any level of purchases required under their respective agreements.

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

MATERIAL CONTRACTS AND RELATIONSHIPS

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

Broadata Agreement

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

Evolve Agreement

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

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

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

The customer defaulted on payments and the Company recorded a receivable of $133,890 relating to storage fees for the product. During the year ended December 31, 2009, we fully reserved for outstanding receivables totaling $133,890. As of December 31, 2009, we had a $0 balance outstanding from the agreement.

PlayBev Agreement

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

PlayBev has no operations, so under the terms of the PlayBev Agreement, the Company was appointed the master manufacturer and distributor of the beverages and other products that PlayBev licensed from Playboy. As a result, we have assumed all the risk of collecting amounts owed from customers, and contracting with vendors for manufacturing

and marketing activities. The royalty payable to PlayBev is an amount equal to the Company's gross profits from collected beverage sales, less 20 percent of the Company's related cost of goods sold, and 6 percent of the Company's collected gross sales.

The Company also agreed to provide services to PlayBev for initial development, marketing, and promotion of the new beverage. These services are to be billed to PlayBev and recorded as an account receivable from PlayBev. The Company initially agreed to carry up to a maximum of $1,000,000 as a receivable due from PlayBev in connection with these billed services. On March 19, 2008, the Company agreed to increase the maximum amount it would carry as a receivable due from PlayBev, in connection with these billed services, from $1,000,000 to $3,000,000. The Company has advanced amounts beyond the $3,000,000 in order to continue the market momentum internationally. As of March 19, 2008, the Company also began charging interest on the outstanding amounts owing at a rate of 7 percent per year.

COMPETITION

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

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

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

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

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

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

our capabilities against the merits of manufacturing products internally

REGULATION

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

EMPLOYEES

As of April 14, 2010, we employed a total staff of 15 persons in the United States. In our Salt Lake headquarters, we employed 9 persons: 7 in administrative and clerical positions, and 1 each in sales and project management. In our Los Angeles sales office, we employed 2 persons: one in sales and administration, and one assistant. In our Bentonville sales office, we employed one person. In Nevada, we employed one in administration and quality control. We also employed additional sales representatives in New Jersey and Illinois.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Where You Can Obtain Additional Information

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

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

ITEM 2. DESCRIPTION OF PROPERTY

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

In 2010, in connection with the Agreements between the Company and Katana (described above), the Company entered into a Sublease Agreement with Katana (the "Sublease"). Pursuant to the terms of the Sublease, the Company will sublease a certain portion of the Premises to Katana consisting of the warehouse, electronics product manufacturing and assembly area, and office space used as of the close of business on March 4, 2010, for the legacy electronics manufacturing business of the Company.

The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month. The Sublease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights.

China

Our facilities in Shenzhen, China, constitute a sales and business office. We have no manufacturing facilities in China. Our office in Shenzhen is approximately 1,060 square feet. The term of the lease is for two years, beginning May 28, 2007. Under the terms of our lease on the space, the monthly payment was 12,783 China Yuan Renminbi, which was the equivalent of $1,871 on March 27, 2009. We closed the sales and business office at the end of 2009.

Century City, California

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

Bentonville, Arkansas

In November 2006, we signed a two-year lease on a 1,150 square-foot facility in Bentonville, Arkansas, in close proximity to Wal-Mart's world headquarters. Lease payments during the two-year lease term have been $1,470 per month. We entered into a new lease agreement, beginning in November 2008 for a 600 square-foot facility at a new location in Bentonville. Lease payments for the two year lease are $715 per month.

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

ITEM 3. LEGAL PROCEEDINGS

Advanced Beauty Solutions, LLC, v. CirTran Corporation, Case No. 1:08-ap-01363-6M. In connection with prior litigation between Advanced Beauty Solutions (“ABS”) and the Company, ABS claimed non-performance by the Company and filed an adversary proceeding in ABS’s bankruptcy case proceeding in the United States Bankruptcy Court, Central District of California, San Fernando Valley Division. On March 17, 2009, the Bankruptcy Court entered judgment in favor of ABS and against the Company in the amount of $1,811,667 plus interest. On September 11, 2009, the Bankruptcy Court denied the Company’s motion to set aside the judgment. As of the date of this report, ABS was pursuing collection efforts on this judgment.

A&A Smart Shopping v. CirTran Beverage Corp., California Superior Court, Los Angeles County, KC054487. Plaintiff A&A Smart Shopping ("A&A") filed a complaint against CirTran Beverage Corporation ("CirTran Beverage") and John Does 1-100, claiming breach of contract and intentional interference with economic relations, based on a distribution agreement between A&A and CirTran Beverage. On February 9, 2009, CirTran Beverage filed its answer, claiming that A&A had materially breached the Distribution Agreement, and that CirTran Beverage had terminated the Distribution Agreement. The case was dismissed with prejudice by the plaintiff on March 23, 2010.

Apex Maritime Co. (LAX), Inc. v. CirTran Corporation, CirTran Asia, Inc., et al., California Superior Court, Los Angeles County, SC098148. Plaintiff Apex Maritime Co. (LAX), Inc. ("Apex") filed a complaint on May 8, 2008, against the Company and CirTran Asia, the Company's subsidiary, claiming breach of contract, nonpayment on open book account, non-payment of an account stated, and non-payment for services, seeking approximately $62,000 against the Company and $121,000 against CirTran Asia. The Company and CirTran Asia answered on June 9, 2008. The parties subsequently entered into a Release and Settlement Agreement pursuant to which the Company and

CirTran Asia agreed to pay an aggregate of $195,000 in monthly payments. In the event of default under the Release and Settlement Agreement, the Plaintiffs could file a Stipulation for Entry of Judgment in the amount of $195,000, minus any amounts paid under the Release and Settlement Agreement. On February 26, 2009, the Stipulation of Judgment was filed, granting the California court jurisdiction to enforce the Release and Settlement Agreement. On March 3, 2009, the court entered its judgment pursuant to the Release and Settlement Agreement. On April 23, 2009, a Judgment Enforcing Settlement was entered against CirTran Corporation and CirTran Asia, Inc., jointly and severally in the principal amount of $173,000, plus fees of $1,800 and costs of $40. On October 28, 2009, the Third Judicial District Court, District of Utah, West Jordan Department, entered an Order in Supplemental Proceedings, with which the Company complied. The parties have engaged in settlement negotiations.

Jimmy Esebag v. CirTran Beverage Corp., Fadi Nora, et al., California Superior Court, Los Angeles County, BC396162. On August 12, 2008, the plaintiff filed a complaint against CirTran Beverage and Mr. Nora bringing claims of breach of contract, fraud, and defamation (solely against Mr. Nora) alleging non-payment of a fee of $1,000,000. The defendants filed their answer on October 2, 2008. The parties subsequently settled the matter, and entered into a settlement agreement pursuant to which the Company agreed to make ten monthly payments of $10,000. The case was conditionally dismissed, although in the event that the Company failed to make any payment under the schedule, Mr. Esebag could reinstate the matter and judgment would be entered in the amount of $100,000 plus costs and attorneys’ fees. As of the date of the Annual Report, the Company had not made all the required payments, and Mr. Esebag had not sought to enforce the stipulated judgment.

Force Electronics v. CirTran Corporation, Civil No. 90900319 7 DC, Third Judicial District Court, Salt Lake Department, State of Utah. By Complaint dated January 28, 2009, Force Electronics brought suit against the Company, seeking $7,156 for merchandise and services. On or about April 7, 2009, default judgment was entered. The parties have engaged in settlement discussions and have agreed to settle the case for $5,805, subject to receipt of payment from the Company.

Fortune Resources LLC v. CirTran Beverage Corp, Civil No. 090401259, Third Judicial District Court, Salt Lake County, State of Utah. On February 5, 2009, the plaintiff filed a complaint against CirTran Beverage, claiming non-payment for goods in the amount of $121,135. CirTran Beverage filed its answer on March 10, 2009, denying the allegations in the Complaint. The case is presently in the discovery phase. An order requiring CirTran Beverage to produce certain documents and information was entered on or about February 19, 2010. The plaintiff says that CirTran Beverage did not comply with the order and seeks entry of judgment for the amount claimed in the complaint. CirTran Beverage has engaged in settlement negotiations.

Global Freight Forwarders v. CirTran Asia, Civil No. 080925731, Third Judicial District Court, Salt Lake County, State of Utah. On December 18, 2008, the plaintiff filed a complaint against CirTran Asia, claiming breach of contract, breach of the duty of good faith and fair dealing, and unjust enrichment, seeking approximately $260,000. The Complaint was served on CirTran Asia on January 5, 2009. On February 12, 2009, CirTran Asia filed its answer. Thereafter, CirTran Asia filed an amended answer and counterclaim. The case is presently in the discovery phase. CirTran Asia intends to defend vigorously against the allegations in the Complaint.

Dr. Najib Bouz v. CirTran Beverage Corp, Iehab Hawatmeh and Does 1-20, Superior Court for the State of California, County of Los Angeles, Civil No. KC053818. On September 12, 2008, the plaintiff filed a complaint, seeking a judgment for $52,500 plus attorneys' fees and certain costs, against CirTran Beverage, Iehab Hawatmeh and unnamed others, claiming breach of contract and fraud in connection with a certain promissory note. CirTran Beverage and Mr. Hawatmeh answered, denying liability. On August 11, 2009, the parties entered into a settlement agreement whereby the claims against Mr. Hawatmeh were dismissed with prejudice, and the Company agreed to pay Dr. Bouz $63,000 over a twelve month period. As of the date of this Report, all required payments had been made.

Dr. Paul Bouz v. CirTran Beverage Corp, Iehab Hawatmeh and Does 1-20, Superior Court for the State of California, County of Los Angeles, Civil No. KC053819. On September 12, 2008, the plaintiff filed a complaint, seeking a judgment for $52,500 plus attorneys' fees and certain costs, against CirTran Beverage, Iehab Hawatmeh and unnamed others, claiming breach of contract and fraud in connection with a certain promissory note. CirTran Beverage and Mr. Hawatmeh answered, denying liability. On August 11, 2009, the parties entered into a settlement agreement whereby the claims against Mr. Hawatmeh were dismissed with prejudice, and the Company agreed to pay Dr. Bouz $63,000 over a twelve month period. As of the date of this Report, all required payments had been made.

NA CL&D Graphics v. CirTran Beverage Corp., Case No. 09V01154, Circuit Ct, Waukesha County, Wisconsin. On or about March 23, 2009, CL&D filed an action in the above court, alleging claims for breach of contract, unjust enrichment, promissory estoppel, and seeking damages of at least $25,488 along with attorneys' fees and costs. We understand that CirTran Beverage Corp is reviewing the matter and intends to defend vigorously against the allegations in the complaint.

PART II

ITEM 4. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

Calendar Quarter Ended	High Bid	Low Bid
December 31, 2009	$0.013	$0.006
September 30, 2009	$0.018	$0.003
June 30, 2009	$0.006	$0.001
March 31, 2009	$0.003	$0.001
December 31, 2008	$0.003	$0.001
September 30, 2008	$0.005	$0.004
June 30, 2008	$0.007	$0.006
March 31, 2008	$0.013	$0.011

As of April 15, 2009, we had approximately 3,000 shareholders.

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

Equity Compensation Plan Information

The following table sets forth information regarding our equity compensation plans, including the number of securities to be issued upon the exercise of outstanding options, warrants, and rights; the weighted average exercise price of the outstanding options, warrants, and rights; and the number of securities remaining available for issuance

under the Company's Stock Plans at April 15, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	53,160,000	$0.014	44,440,000
Equity compensation plans not approved by shareholders	None	None	None
Total	53,160,000	$0.014	44,440,000

Recent Sales of Securities

The following sales of securities occurred during 2009:

We issued shares of our common stock without registering those securities under the Securities Act of 1933, as amended ("Securities Act") as follows:

- o During the three months ended March 31, 2009 YA Global chose to convert $110,000 of the convertible debenture into 65,088,757 shares of common stock at a price of $.00169, which was the lesser of $0.10 per share or an amount equal to the lowest closing bid price of our common stock during the twenty trading days immediately preceding the conversion date, pursuant to the terms of the debenture agreement.

- o 7,621,580 shares of common stock were issued to Highgate as a conversion payment of $7,622 of principal on our debenture obligation during the three months ended March 31, 2008. The blended conversion rate of $0.001 was determined as being the lesser of $0.10 per share or an amount equal to the lowest closing bid price of our common stock during the twenty trading days immediately preceding the conversion date, pursuant to the terms of the debenture agreement.

The shares of common stock were issued without registration under the 1933 Act in reliance on Section 4(2) of the 1933 Act and the rules and regulations promulgated thereunder. The effect of the derivative conversion of both transactions totaled $81,833.

In addition, on July 14, 2009, the Company entered into a Stock Purchase Agreement with Mr. Nora to purchase 75,000,000 shares of our common stock at a purchase price of $.003 per share, for a total of $225,000, payable through the conversion of outstanding loans made by the director us. Mr. Nora and we acknowledged in the purchase agreement that we did not have sufficient shares to satisfy the issuances, and agreed that the shares would be issued once we have sufficient shares to do so. As of December 31, 2009, we showed the balance of $225,000 as an accrued liability on the balance sheet.

Also, on July 14, 2009, we entered into a Stock Purchase Agreement with our president to purchase 50,000,000 shares of our common stock at a purchase price of $.003 per share, for a total amount of $150,000, payable through the conversion of outstanding loans made by our president to us. Mr. Hawatmeh and we acknowledged in the purchase agreement that we did not have sufficient shares to satisfy the issuances, and agreed that the shares would be issued once we have sufficient shares to do so. As of December 31, 2009, we showed the balance of $150,000 as an accrued liability on the balance sheet.

The following sales of securities occurred during 2008:

During 2008 we issued 175,222,320 restricted shares of common stock to Highgate and YA Global upon conversion of $691,160 of convertible debt and accrued interest. On each conversion date, the conversion rate was the lower of $0.10 per share, or 100 percent of the lowest closing bid price of our common stock over the 20 trading days preceding the conversion. The average conversion rate was $.004 during 2008. The effect of the derivative conversion totaled $474,209.

During the first six months of 2008 we issued a total of 63,142,857 restricted shares in six separate private placements for a total of $441,000.

In August 2008, we issued 3,000,000 restricted shares of common stock to a former employee as part of a final payment of an accrued settlement obligation in the amount of $21,000, which was the fair market value of the shares

required to be issued when the settlement was made.

In September 2008 a total of 73,635,960 restricted shares were issued in four private placement transactions involving the conversion of $305,900 in advances, which investors had previously loaned to the Company, together with additional proceeds of $25,000. Also included in these transactions was the conversion of accrued liabilities totaling $39,890. All dollar amounts were based on the fair market value on the day the shares were sold as determined by the closing price bid price.

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

Penny Stock Rules

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

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

ITEM 5. SELECTED FINANCIAL DATA

Not required.

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

OVERVIEW

In our U.S. operations, we provide a mix of high and medium size volume turnkey manufacturing services and products using various high-tech applications for leading electronics OEMs in the communications, networking, peripherals, gaming, law enforcement, consumer products, telecommunications, automotive, medical, and semiconductor industries. Our services include pre-manufacturing, manufacturing and post-manufacturing services. Our goal is to offer customers the significant competitive advantages that can be obtained from manufacture outsourcing. We also market an energy drink under the Playboy brand pursuant to a license agreement with Playboy Enterprises, Inc. (“Playboy”).

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

CirTran USA accounted for 13 percent and 12 percent of our total revenues during 2009 and 2008, respectively, generated by low-volume electronics assembly activities consisting primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables. On March 5, 2010, the Company and Katana Electronics, LLC, a Utah limited liability company ("Katana") entered into certain agreements related to the Company's legacy electronic manufacturing business. (See Note 18 of the consolidated financial statements.)

CirTran Asia manufactures and distributes electronics, consumer products and general merchandise to companies with international markets. Such sales were 2 percent and 13 percent of our total revenues during 2009 and 2008, respectively.

CirTran Products pursues contract manufacturing relationships in the U.S. consumer products markets, including licensed merchandise sold in the sports and entertainment markets. These sales comprised 1 percent of total sales for each of the years ended December 31, 2009 and 2008.

CirTran Media provides end-to-end services to the direct response and entertainment industries. During 2009 and 2008, this subsidiary's revenues were 0 percent and 2 percent of total sales, respectively.

CirTran Online sells products via the internet, and provides services and support to internet retailers. In conjunction with partner GMA, revenues from this division were 26 percent and 24 percent of total revenues in 2009 and 2008, respectively.

CirTran Beverage was organized, in May 2007, to arrange for the manufacture, marketing and distribution of Playboy-licensed energy drinks, flavored water beverages, and related merchandise. The Company also entered into an agreement with PlayBev, a related party, which holds the Playboy license. The Company provides development and promotional services to PlayBev, and pay a royalty based on the Company’s product sales and manufacturing costs. Services billed to PlayBev in 2009 and 2008 under this arrangement accounted for 40 percent and 37 percent of total sales, respectively. The Company also sold energy drink beverages during 2009 and 2008, which amounted to 18 percent and 11 percent of total sales.

RESULTS OF OPERATIONS - COMPARISON OF YEARS ENDED DECEMBER 31, 2009 AND 2008

Sales and Cost of Sales

Net sales for the year ended December 31, 2009, totaled $9,732,855, as compared to $13,675,545 for the year ended December 31, 2008, a 29 percent decline. The decline is primarily attributable to revenue declines in the Contract Manufacturing, Marketing & Media, and Electronics Assembly segments. Net sales in the Contract Manufacturing segment fell $1,611,104 in year ended December 31, 2009, as compared to the same period in 2008. Net sales in the Marketing and Media segment fell by $2,213,460 in 2009 as compared to 2008. The net sales decreases are attributable primarily to the effects of the national economic slowdown in our traditional manufacturing segments and a strategic shift into promising segments with improved profit margins. Beverage Distribution sales increased to $1,784,028 for the year ended December 31, 2009, as compared to $1,500,713 for the year ended December 31, 2008. The increase continues to be driven by strong interest internationally for the Playboy branded energy drinks.

Cost of sales, as a percentage of sales, increased to 98 percent for the year ended December 31, 2009, as compared to 88 percent for the prior year ended December 31, 2008. Consequently, the gross profit margin decreased to 2 percent from 12 percent, respectively, for the same time period. The decrease in gross profit margin is attributable to the continued sales mix shift into the CirTran Online and CirTran Beverage products and services. The primary CirTran Online products and services are governed by the arrangement we have with GMA. Pursuant to our Assignment and Exclusive Services Agreement, we recognize the revenue collected under the GMA contracts, and remit back to GMA a management fee approximating their actual costs. This management fee is included in our cost of revenue. Another important factor driving the decrease in gross margin percentage is the nature of our manufacturing and distribution agreement with PlayBev. Presently, CirTran Beverage invoices PlayBev for beverage development and marketing services, on what amounts to five percent markup basis. In addition, CirTran Beverage records products sales and costs on sales made directly to distributors and end customer, which sales provide a more favorable gross profit margin. We anticipate that gross profit margins for CirTran Beverage will increase in the future as we increase our

distribution of the Playboy energy drink beverages to both domestic and international markets.

The following charts present (i) comparisons of sales, cost of sales and gross profits generated by our four operating segments, i.e., Contract Manufacturing, Electronics Assembly, Marketing and Media, and Beverage Distribution during 2009 and 2008; and (ii) comparisons during these two years for each segment between sales generated by pre-existing customers and sales generated by new customers.

Segment	Year	Sales	Cost of Sales	Royalty Expense	Gross Loss / Margin
Electronics Assembly	2009	$ 1,263,355	$ 1,693,245	$ -	$ (429,890)
	2008	1,664,796	1,458,872	-	205,924
Contract Manufacturing	2009	334,762	129,755	-	205,007
	2008	1,945,867	1,306,063	-	639,804
Marketing / Media	2009	6,350,710	6,021,176	-	329,534
	2008	8,564,169	7,990,657	-	573,512
Beverage Distribution	2009	1,784,028	975,819	745,121	63,088
	2008	1,500,713	484,862	827,813	188,038

Segment	Year	Total Sales	Sales to Pre-existing Customers	Sales to New Customers
Electronics Assembly	2009	$ 1,263,355	$ 1,263,355	$ -
	2008	1,664,796	1,647,480	17,316
Contract Manufacturing	2009	334,762	334,762	-
	2008	1,945,867	1,872,176	73,691
Marketing / Media	2009	6,350,710	6,343,485	7,225
	2008	8,564,169	7,655,279	908,890
Beverage Distribution	2009	1,784,028	146,881	1,637,147
	2008	1,500,713	806,275	694,438

Selling, General and Administrative Expenses

During the year ended December 31, 2009, selling, general and administrative expenses decreased by 23 percent as compared to the year ended December 31, 2008. The reduction of $1,306,639 in selling, general and administrative expenses was driven primarily by reduced media and promotional expenses, lower labor related expenses, and a reduction in shipping and travel costs.

Non-cash compensation expense

Non-cash compensation expense, resulting from the granting of options to employees and outside attorneys to purchase common stock, increased $3,945 during the year ended December 31, 2009 as compared to prior year. No stock options were granted to employees during the year ended December 31, 2009. The increase in non-cash compensation expense relates to the vesting of the previously granted options.

Other income and expense

Interest expense recorded in the Consolidated Statements of Operations combines both accretion expense and interest expense. The combined interest expense for the year ended December 31, 2009, was $1,221,004 as compared to $1,903,590 for the year ended December 31, 2008, a decrease of 36 percent. The decrease in the combined interest expense was driven by a $700,000 reduction in accretion expense recorded for the year ending December 31, 2009, as compared to the year ending December 31, 2008. Derivative accounting treatment of convertible debentures requires accretion of the carrying value of the convertible debenture until the carrying value equals the face value of the instrument. During the year ending December 31, 2008, the carrying value of two of the convertible debenture equaled the face value of the instrument, and as a result, the accretion treatment ceased prior to 2009 (see Note 12 of the consolidated financial statements.) Actual interest expense declined to $777,187 for the year ended December 31, 2009 as compared to the interest expense of $787,797 for the year ending December 31, 2008.

We began accruing interest income during 2008 as a result of a modification of our agreement with PlayBev that took effect on March 19, 2008. Interest income for the year ending December 31, 2009, increased to $518,600 as compared to interest income of $217,431 for the year ended December 31, 2008.

During the year ending December 31, 2008, we received a total of $550,000 in connection with two settlement agreements. As part of the settlement of an agreement with an overseas distributor, with whom contract negotiations eventually terminated, we received $250,000. We also arrived at a settlement agreement in connection with litigation, and received $300,000 to resolve all related claims.

During the year ended December 31, 2008, we recorded impairment on our investment in Diverse Media Group (DTG) of $1,068,000. We recorded an additional impairment of $452,000 on our investment in Diverse Media Group (DTG) for the year ending December 31, 2009. As of December 31, 2009 the carrying value of the investment DTG stock was $0.

We recorded a $100,295 gain on our derivative valuation for the year ending December 31, 2009, as compared to a gain of $2,417,283 recorded for the year ending December 31, 2008. The favorable swing in the derivative valuation is primarily the result of factors relating to the differing debt levels of the underlying convertible securities, together with the varying market values of our common stock.

As a result of these factors, our overall net loss from operations increased to $5,814,653 for the year ending December 31, 2009, as compared to a net loss of $3,911,212 for the year ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

We have had a history of losses from operations, as our expenses have been greater than our revenues. Our accumulated deficit was $39,140,068 at December 31, 2009, and $33,325,415 at December 31, 2008. Net loss for the year ended December 31, 2009, was $5,814,653 as compared to $3,911,212 for the year ended December 31, 2008. Our current liabilities exceeded our current assets by $14,864,374 as of December 31, 2009, and by $4,782,293 as of December 31, 2008. For the years ended December 31, 2009 and 2008, we experienced negative cash flows from operating activities of $485,406 and $4,594,742, respectively.

Cash

The amount of cash used in operating activities during the year ended December 31, 2009, decreased by $4,109,336, as compared to the year ended December 31, 2008, driven primarily by the reduction of PlayBev-related marketing expenditures and an increase in prepaid customer deposits relating to international beverage shipments.

Accounts Receivable

Trade accounts receivable, net of allowance for doubtful accounts, declined $118,494 during the year ended December 31, 2009. We continue to monitor individual customer accounts and are working to improve collections on trade accounts receivable.

During 2007, we agreed to provide services to PlayBev for initial development, marketing, and promotion of the Playboy-labeled energy beverages. We bill these services to PlayBev and record the amount as an account receivable. The receivable, recorded as a receivable due from related party, increased during 2009 to $6,955,817 as of December 31, 2009, of which $670,266 is recorded as current, as compared to a $4,718,843 balance as of December 31, 2008. As per our arrangement with PlayBev, we anticipate that PlayBev will repay the receivable by netting out royalties PlayBev earns from beverage distribution sales, and which royalties we have agreed to pay PlayBev out of anticipated beverage distribution sales. In March 2008, we began accruing interest on the amount due from PlayBev. Interest accrued on the PlayBev accounts receivable balance totaled $518,600 for the year ended December 31, 2009.

Accounts payable, accrued liabilities and short-term debt.

During the year ended December 31, 2009, accounts payable, accrued liabilities and short-term debt increased by $4,729,263 to a combined balance of $9,899,343 as of December 31, 2009. The increase was driven primarily by an increase of $2,215,010 of short-term advances. Accounts payable increased $832,421 as a result of continued PlayBev-related services performed during the year for beverage development, distribution and marketing services. At December 31, 2009, we owed $2,962,339 to various investors from whom we had borrowed funds in the form of either unsecured or short-term advances.

Liquidity and financing arrangements

We have a history of substantial losses from operations, as well of history of using rather than providing cash in operations. We had an accumulated deficit of $39,140,068, along with a total stockholders' deficit of $5,966,941, at December 31, 2009. In addition, we have used, rather than provided, cash in our operations for the years ended December 31, 2009 and 2008, of $485,406 and $4,594,742, respectively. During the year ended December 31, 2009, our monthly operating costs and interest expense averaged approximately $486,000 per month.

In conjunction with our efforts to improve our results of operations we are also actively seeking infusions of capital from investors, and are seeking sources to repay our existing convertible debentures. In our current financial condition, it is unlikely that we will be able to obtain additional debt financing. Even if we did acquire additional debt, we would be required to devote additional cash flow to servicing the debt and securing the debt with assets. Accordingly, we are looking to obtain equity financing to meet our anticipated capital needs. There can be no assurances that we will be successful in obtaining such capital. If we issue additional shares for debt and/or equity, this will dilute the value of our common stock and existing shareholders' positions.

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.

Convertible Debentures

Highgate House Funds, Ltd. - In May 2005, we entered into an agreement with Highgate House Funds, Ltd (“Highgate”) to issue a $3,750,000, 5 percent Secured Convertible Debenture (the "Debenture"). The Debenture was originally due December 2007, and is secured by all of our assets. Highgate extended the maturity date of the Debenture to December 31, 2008. As of January 1, 2008 the interest rate increased to 12 percent. On August 11, 2009, we entered into a forbearance agreement (the “Forbearance Agreement”) with YA Global Investment L.P. (“YA Global”), an assignee of Highgate. We agreed to repay our obligations under the Debentures per an agreed schedule set forth in the Forbearance Agreement..

Accrued interest was originally payable at the time of maturity or conversion. Per the Forbearance Agreement, the scheduled payments are to be applied first to outstanding accrued interest. We may, at our option, elect to pay accrued interest in cash or shares of our common stock, with the conversion price to be used to determine the number of shares of common stock being equal to 85 percent of the lowest closing bid price of our common stock during the ten trading days prior to the payment day. Accrued interest paid during the twelve months ended December 31, 2009, totaled $275,000. Interest accrued during the twelve months ending December 31, 2009, totaled $79,059. The balance of accrued interest owed at December 31, 2009, was $54,982.

In consideration of the Company’s performance under the Forbearance Agreement, YA Global agreed to forbear from enforcing its rights and remedies as a result of the existing defaults under the Debenture, and/or converting the Debenture into shares of the Company’s common stock, until the earlier of (i) the occurrence of a termination event (as defined in the Forbearance Agreement), or (ii) the termination date of the Forbearance Agreement. Nothing contained in the Forbearance Agreement constitutes a waiver by YA Global of any default or event of default, whether existing at the time of the Forbearance Agreement or thereafter arising, and/or its right to convert the Debenture into shares of Common Stock. The Forbearance Agreement only constitutes an agreement by YA Global to forbear from enforcing its rights and remedies and/or converting the Debenture into shares of common stock of the Company upon the terms and conditions set forth in the agreement.

We determined that certain conversion features of the Debenture fell under derivative accounting treatment. Since May 2005, the carrying value has been accreted over the life of the debenture until December 31, 2007, the original maturity date. As of that date, the carrying value of the Debenture was $970,136, which was the remaining face value of the debenture.

In connection with the issuance of the Debenture, $2,265,000 of the proceeds was used to repay earlier promissory notes. Fees of $256,433, withheld from the proceeds, were capitalized and were amortized over the life of the note.

During 2006, Highgate converted $1,000,000 of Debenture principal and accrued interest into a total of 37,373,283 shares of common stock. During 2007, Highgate converted $1,979,864 of Debenture principal and accrued interest into a total of 264,518,952 shares of common stock. During the year ended December 31, 2008, Highgate converted $350,000 of debenture principle into a total of 36,085,960 shares of common stock. The carrying value of the Debenture as of December 31, 2009 was $620,136. The fair value of the derivative liability stemming from the debenture's conversion feature was determined to be $0 as of December 31, 2009.

YA Global December Debenture - In December 2005, we entered into an agreement with YA Global to issue a $1,500,000, 5 percent Secured Convertible Debenture (the "December Debenture"). The December Debenture was originally due July 30, 2008, and has a security interest in all the Company’s assets, subordinate to the Highgate security interest. YA Global also agreed to extend the maturity date of the December Debenture to December 31, 2008. As of January 1, 2008 the interest rate was increased to 12 percent. We agreed to repay our obligations under the Debentures per an agreed schedule.

Accrued interest was originally payable at the time of maturity or conversion. Per the Forbearance Agreement, the scheduled payments are to be applied first to outstanding accrued interest. We may, at its option, elect to pay accrued interest in cash or shares of our common stock, with the conversion price to be used to determine the number of shares of common stock being equal to 85 percent of the lowest closing bid price of the Company’s common stock during the ten trading days prior to the payment day. Accrued interest paid during the twelve months ended December 31, 2009, totaled $350,000. Interest accrued during the twelve months ending December 31, 2009, totaled $186,388. The balance of accrued interest owed at December 31, 2009, was $167,292.

In consideration of the Company’s performance under the Forbearance Agreement, YA Global agreed to forbear from enforcing its rights and remedies as a result of the existing defaults under the December Debenture, and/or converting the December Debenture into shares of the Company’s common stock, until the earlier of (i) the occurrence of a termination event (as defined in the Forbearance Agreement), or (ii) the termination date of the Forbearance Agreement. Nothing contained in the Forbearance Agreement constitutes a waiver by YA Global of any default or event of default, whether existing at the time of the Forbearance Agreement or thereafter arising, and/or its right to convert the December Debenture into shares of Common Stock. The Forbearance Agreement only constitutes an agreement by YA Global to forbear from enforcing its rights and remedies and/or converting the December Debenture into shares of common stock of the Company upon the terms and conditions set forth in the agreement.

The YA Global Debenture was issued with 10,000,000 warrants, with an exercise price of $0.09 per share. The warrants vest immediately and have a three-year life. As a result of the May 2007 1.2-for1 forward stock split, the effective number of vested warrants increased to 12,000,000. On December 31, 2008, all 12,000,000 warrants have expired.

We also granted YA Global registration rights related to the shares of the Company’s common stock issuable upon the conversion of the December Debenture and the exercise of the warrants. As of the date of this Report, no registration statement had been filed.

We determined that the conversion features on the December Debenture and the associated warrants fell under derivative accounting treatment. The carrying value was accreted over the life of the December Debenture until August 31, 2008, a former maturity date, at which time the value of the December Debenture reached $1,500,000.

In connection with the issuance of the December Debenture, fees of $130,000, withheld from the proceeds, were capitalized and are being amortized over the life of the December Debenture.

As of December 31, 2009, YA Global had not converted any of the December Debenture into shares of the Company's common stock. As a result, the carrying value of the debenture as of December 31, 2009, remains $1,500,000. The fair value of the derivative liability stemming from the December Debenture's conversion feature as of December 30, 2009, was determined to be $0.

YA Global August Debenture - In August 2006, we entered into another agreement with YA Global relating to the issuance by the Company of another 5 percent Secured Convertible Debenture, originally due in April 2009, in the principal amount of $1,500,000 (the "August Debenture").

Accrued interest was originally payable at the time of maturity or conversion. Per the Forbearance Agreement, the scheduled payments are to be applied first to outstanding accrued interest. We may, at its option, elect to pay accrued interest in cash or shares of our common stock, with the conversion price to be used to determine the number of shares of common stock being equal to 85 percent of the lowest closing bid price of the Company's common stock during the ten trading days prior to the payment day. Interest accrued during the twelve months ending December 31, 2009, totaled $132,127. The balance of accrued interest owed at December 31, 2009, was $406,821.

In consideration of the Company's performance under the Forbearance Agreement, YA Global agreed to forbear from enforcing its rights and remedies as a result of the existing defaults under the August Debenture, and/or converting the August Debenture into shares of the Company's common stock, until the earlier of (i) the occurrence of a termination event (as defined in the Forbearance Agreement), or (ii) the termination date of the Forbearance Agreement. Nothing contained in the Forbearance Agreement constitutes a waiver by YA Global of any default or event of default, whether existing at the time of the Forbearance Agreement or thereafter arising, and/or its right to convert the August Debenture into shares of Common Stock. The Forbearance Agreement only constitutes an agreement by YA Global to forbear from enforcing its rights and remedies and/or converting the August Debenture into shares of common stock of the Company upon the terms and conditions set forth in the agreement.

In connection with the August Purchase Agreement, we also agreed to grant to YA Global warrants (the "Warrants") to purchase up to an additional 15,000,000 shares of our common stock. The Warrants have an exercise price of $0.06 per share, and originally were to expire three years from the date of issuance. In connection with the Forbearance Agreement, the term of these warrants was extended to August 23, 2010. The Warrants also provide for cashless exercise if at the time of exercise there is not an effective registration statement or if an event of default has occurred. As a result of the May 2007 1.2-for 1 forward stock split, the effective number of outstanding warrants increased to 18,000,000.

In connection with the issuance of the August Debenture, we also granted YA Global registration rights related to the common stock issuable upon conversion of the August Debenture and the exercise of the Warrants. As of the date of this report, no registration statement had been filed.

We determined that the conversion features on the August Debenture and the associated warrants fell under derivative accounting treatment. The carrying value will be accreted each quarter over the life of the August Debenture until the carrying value equals the face value of $1,500,000. During the year ended December 31, 2008, YA Global chose to convert $341,160 of the convertible debenture into 139,136,360 shares of common stock.

YA Global chose to convert $117,622 of the convertible debenture into 72,710,337 shares of common stock during the year ended December 31, 2009. As of December 31, 2009, the carrying value of the August Debenture was $1,041,218. The fair value of the derivative liability arising from the August Debenture's conversion feature and warrants was $11,167 as of December 31, 2009.

In connection with the issuance of the August Debenture, fees of $135,000, withheld from the proceeds, were capitalized and are being amortized over the life of the August Debenture.

Please see the section below, "Debentures – Forbearance Agreement," for a more complete discussion of the Forbearance Agreement..

Debentures – Forbearance Agreement. On August 11, 2009, the Company and YA Global entered into the Forbearance Agreement related to the three convertible debentures issued by the Company to YAGlobal or its predecessor entities.

Under the terms of the Forbearance Agreement, the Company agreed to waive any claims against YAGlobal, entered into a Global Security Agreement (discussed below), a Global Guaranty Agreement (discussed below), and an amendment of a warrant granted to YA Global in connection with the issuance of the August Debenture; agreed to seek to obtain waivers from the Company's landlords at its properties in Utah, California, and Arkansas; agreed to seek to obtain deposit account control agreements from the Company's banks and depository institutions; and to repay the Company's obligations under the Debentures.

The repayment terms of the Forbearance Agreement required an initial payment of $125,000 upon signing the agreement. Beginning September 1, 2009 through May 1, 2010 monthly payments ranging from $150,000 to $300,000 are due for total payments of $2,825,000. The remaining balance is due July 1, 2010.

Pursuant to the Forbearance Agreement, the Company, subject to the consent of YA Global, may choose to pay all or any portion of the monthly payments in common stock, at a conversion price used to determine the number of shares of common stock equal to 85 percent of the lowest closing bid price of the Company's common stock during the ten trading days prior to the payment date.

YA Global agreed to forbear from enforcing its rights and remedies as a result of the existing defaults and/or converting the Debentures into shares of the Company's common stock, until the earlier of the occurrence of a Termination Event (as defined in the Forbearance Agreement), or July 1, 2010.

The Company, YA Global, and certain of the Company's subsidiaries also entered into a Global Security Agreement (the "GSA") in connection with the Forbearance Agreement. Under the GSA, the Company and the participating subsidiaries pledged and granted to YA a security interest in all assets and personal property of the Company and each participating subsidiary as security for the payment or performance in full of the obligations set forth in the Forbearance Agreement.

Additionally, the Company, YA Global, and certain of the Company's subsidiaries also entered into a Global Guaranty Agreement (the "GGA") in connection with the Forbearance Agreement. Under the GGA, the Company and the participating subsidiaries guaranteed to YA Global the full payment and prompt performance of all of the obligations set forth in the Forbearance Agreement.

Other Convertible Instruments

We currently have issued and outstanding options, warrants, convertible notes and other instruments for the acquisition of our common stock in excess of the available authorized but unissued shares of common stock provided for under our Articles of Incorporation, as amended. As a consequence, in the event that the holders of such instruments requiring the issuance, in the aggregate, of a number of shares of common stock that would, when combined with the previously issued and outstanding common stock of the Company exceed the authorized capital of the Company, seek to exercise their rights to acquire shares under those instruments, we will be required to increase the number of authorized shares or effect a reverse split of the outstanding shares in order to provide sufficient shares for issuance under those instruments.

RELATED PARTY TRANSACTIONS

Play Beverages, LLC

During 2006, Playboy Enterprises International, Inc. (“Playboy”) entered into a licensing agreement with Play Beverages, LLC (“PlayBev”), then an unrelated Delaware limited liability company, whereby PlayBev agreed to internationally market and distribute a new energy drink carrying the Playboy name and “Rabbit Head” logo symbol. In

May 2007, PlayBev entered into an exclusive agreement with the Company to arrange for the manufacture, marketing and distribution of the energy drinks, other Playboy-licensed beverages, and related merchandise through various distribution channels throughout the world.

In an effort to finance the initial development and marketing of the new drink, we with other investors formed After Bev Group LLC ("AfterBev"), a California limited liability company and partially owned, consolidated subsidiary of ours. We contributed its expertise in exchange for an initial 84 percent membership interest in AfterBev. The other initial AfterBev members contributed $500,000 in exchange for the remaining 16 percent. We borrowed an additional $250,000 from an individual, and contributed the total $750,000 to PlayBev in exchange for a 51 percent interest in PlayBev's cash distributions. We recorded this $750,000 amount as an investment in PlayBev, accounted for under the cost method. PlayBev then remitted these funds to Playboy as part of a guaranteed royalty prepayment. Along with the membership interest granted us, PlayBev agreed to appoint our president and one of our directors to two of PlayBev's three executive management positions. Additionally, an unrelated executive manager of PlayBev resigned, leaving the remaining two executive management positions occupied by our president and one of our directors. On August 23, 2008, PlayBev's members agreed to amend its operating agreement to change the required membership vote on major managerial and organizational decisions from 75 percent to 95 percent. Since 2007 the two affiliates personally purchased membership interests from PlayBev directly and from other Playbev members constituting an additional 23.1 percent, which aggregated 34.35 percent. Despite the combined 90.5 percent interest owned by these affiliates and we, we cannot unilaterally control significant operating decisions of PlayBev, as the amended operating agreement requires that various major operating and organizational decisions be agreed to by at least 95 percent of all members. The other members of PlayBev are not affiliated with us. Accordingly, while PlayBev is now a related party, we cannot unilaterally control significant operating decisions of PlayBev, and therefore has not accounted for PlayBev's operations as if it was a consolidated subsidiary.

PlayBev has no operations, so under the terms of the exclusive manufacturing and distribution agreement, we were appointed as the master manufacturer and distributor of the beverages and other products that PlayBev licensed from Playboy. In so doing, we assumed all the risk of collecting amounts owed from customers, and contracting with vendors for manufacturing and marketing activities. In addition, PlayBev is owed a royalty from the us equal to our gross profits from collected beverage sales, less 20 percent of our related cost of goods sold, and 6 percent our collected gross sales. We incurred $745,121 and $782,296 in royalty expenses due to PlayBev during the years ended December 31, 2009 and 2008, respectively.

We also agreed to provide services to PlayBev for initial development, marketing, and promotion of the new beverage. These services are billed to PlayBev and recorded as an account receivable from PlayBev. We initially agreed to carry up to a maximum of $1,000,000 as a receivable due from PlayBev in connection with these billed services. On March 19, 2008 we agreed to increase the maximum amount it would carry as a receivable due from PlayBev, in connection with these billed services, from $1,000,000 to $3,000,000. The Company has advanced amounts beyond the $3,000,000 in order to continue the market momentum internationally. As of March 19, 2008 we also began charging interest on the outstanding amounts owing at a rate of 7 percent per annum. We have billed PlayBev for marketing and development services totaling $3,776,101 and $5,044,741 for the years ending December 31, 2009 and 2008, respectively, which have been included in revenues for our marketing and media segment. As of December 31, 2009, the interest accrued on the balance owing from PlayBev totaled $735,831. The net amount due us from PlayBev for marketing and development services, after netting the royalty owed to PlayBev, totaled $6,955,817 at December 31, 2009.

AfterBev Group, LLC

Following AfterBev’s organization in May 2007, we entered into consulting agreements with two individuals, one of whom had loaned us $250,000 when we invested in PlayBev, and the other one was one of our directors. The agreements provided that we assign to each individual approximately one-third of our share in future AfterBev cash distributions, in exchange for their assistance in the initial AfterBev organization and planning, along with their continued assistance in subsequent beverage development and distribution activities. The agreements also provided that as we sold a portion of its membership interest in AfterBev, the individuals would each be owed their

proportional assigned share distributions in the proceeds of such a sale. The actual payment of the distributions depended on what we did with the sale proceeds. If we used the proceeds to help finance beverage development and marketing activities, the payment of distributions would be deferred, pending collections from customers once beverage product sales eventually commenced. Otherwise, the proportional assigned share distributions would be due to the two individuals.

Throughout the balance of 2007, as energy drink development and marketing activities progressed, we raised additional funds by selling portions of its membership interest in AfterBev to other investors, some of whom were our stockholders. In some cases, we sold a portion of its membership interest, including voting rights. In other cases, we sold merely a portion of its share of future AfterBev profits and losses. By the end of 2007, after taking into account the two interests it had assigned, we had retained a net 14 percent interest in AfterBev's profits and losses, but had retained 52 percent of all voting rights in AfterBev. We recorded the receipt of these net funds as increases to its existing minority interest in AfterBev, and the rest as amounts owing as distributable proceeds payable to the two individuals with assigned interests of our original share of AfterBev.

At the end of 2007, we agreed to convert the amount owing to one of the individuals into a promissory note. In exchange, the individual agreed to relinquish his approximately one-third portion of our remaining share of AfterBev's profits and losses. Instead, the individual received a membership interest in AfterBev. In January 2008, the other assignee, which is one our directors, similarly agreed to relinquish the distributable proceeds owed to him, in exchange for an interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, by the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, the director loaned $834,393 to us in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to us. During the year ended December 31, 2009, the director advanced an additional $500,000 to us for his purchase of an additional 3 percent interest in PlayBev, which resulted in a reduction of $500,000 of amounts owed by PlayBev to us. As of December 31, 2009 we still owed the director $64,719 in the form of an unsecured advance. In addition, during the year ended December 31, 2009 one of our directors and our president purchased 6 percent and 5 percent of AfterBev shares, respectively, in private sales from existing shareholders of Afterbev. AfterBev has had no operations since inception.

Global Marketing Alliance

We entered into an agreement with GMA, and hired GMA's owner as the Vice President of CirTran Online (CTO), one our subsidiaries. Under the terms of the agreement, we outsource to GMA the online marketing and sales activities associated with our CTO products. In return, we provide bookkeeping and management consulting services to GMA, and pays GMA a fee equal to five percent of CTO's online net sales. In addition, GMA assigned to us all of its web-hosting and training contracts effective as of January 1, 2007, along with the revenue earned thereon, and we also assumed the related contractual performance obligations. We recognize the revenue collected under the GMA contracts, and remit back to GMA a management fee approximating their actual costs. We recognized net revenues from GMA related products and services in the amount of $2,572,955 and $3,234,588 for the years ended December 31, 2009 and 2008, respectively.

Transactions involving Officers, Directors, and Stockholders

Don L. Buehner was appointed to our Board of Directors as of October 1, 2007. For services to be rendered in 2008, we granted Mr. Buehner an option during 2007 to purchase 2,400,000 shares of our common stock. Prior to his appointment as a director, Mr. Buehner bought the building housing our principal executive offices in Salt Lake City in a sale/leaseback transaction. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. We pay Mr. Buehner a monthly lease payment of $17,083, which is subject to annual adjustments in relation to the Consumer Price Index. We believe that the amount charged and payable to Mr. Buehner under the lease is reasonable and in line with local market conditions. Mr. Buehner retired from our Board of Directors in June 2008.

In connection with the assignment of the Purchase Orders pursuant to the Assignment Agreement, we entered into a Sublease Agreement with KATANA (the “Sublease”). We lease from Don L. Buehner the real property and its improvements located at 4125 South 6000 West, West Valley, Utah, 84128 (the “Premises”). Pursuant to the terms of the Sublease, we will sublease a certain portion of the Premises to Katana consisting of the warehouse, electronics product manufacturing and assembly area, and office space used as of the close of business on March 4, 2010, for our legacy electronics manufacturing business. The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month.

In 2007, we appointed Fadi Nora to its Board of Directors. In addition to compensation we normally pay to non-employee members of the Board, Mr. Nora is entitled to a quarterly bonus equal to 0.5 percent of any gross sales earned by us directly through Mr. Nora's efforts. As of December 31, 2009, we owed $18,565 under this arrangement. Mr. Nora also is entitled to a bonus equal to five percent of the amount of any investment proceeds received by us that are directly generated and arranged by him if the following conditions are satisfied: (i) his sole involvement in the process of obtaining the investment proceeds is the introduction of the Company to the potential investor, but that he does not participate in the recommendation, structuring, negotiation, documentation, or selling of the investment, (ii) neither the Company nor the investor are otherwise obligated to pay any commissions, finders fees, or similar compensation to any agent, broker, dealer, underwriter, or finder in connection with the investment, and (iii) the Board in its sole discretion determines that the investment qualifies for this bonus, and that the bonus may be paid with respect to the investment. During 2008 and 2009, Mr. Nora has received no compensation under this arrangement, and at December 31, 2009, we did not owe him under the arrangement.

In 2007, we also entered into a consulting agreement with Mr. Nora, whereby we assigned to him approximately one-third of our share in future AfterBev cash distributions. In return, Mr. Nora assisted in the initial AfterBev organization and planning, and continued to assist in subsequent beverage development and distribution activities. The agreement also provided that as we sold a portion of our membership interest in AfterBev, Mr. Nora would be owed his proportional assigned share distribution in the proceeds of such a sale. Distributable proceeds due to Mr. Nora at the end of 2007 were $747,290. In January 2008, he agreed to relinquish this amount, plus an additional $116,683, in exchange for a 24 percent interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, Mr. Nora had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, Mr. Nora loaned $834,393 to us in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to us. During 2009 Mr. Nora advanced an additional $500,000 to us for his purchase of an additional 3 percent interest in Playbev, which resulted in a reduction of $500,000 of amounts owed by PlayBev to us. As of December 31, 2009 we still owed the director $64,719 in the form of unsecured advances.

Prior to his appointment with us, Mr. Nora was also involved in the ANAHOP private placement of common stock. On April 11, 2008, Mr. Nora disassociated himself from the other principals of ANAHOP, and as part of the asset settlement relinquished ownership to the other principals of 12,857,144 shares of our common stock, along with all of the warrants previously assigned to him.

In 2007, we issued a 10 percent promissory note to a family member of our president in exchange for $300,000. The note was due on demand after May 2008. During the years ended December 31, 2009 and 2008, we repaid principal and interest totaling $22,434 and $8,444, respectively. At December 31, 2009, the principal amount owing on the note was $208,014. On March 31, 2008, we issued to this same family member, along with four other Company shareholders, promissory notes totaling $315,000. The family member's note was for $105,000. Under the terms of all the notes, we received total proceeds of $300,000, and agreed to repay the amount received plus a five percent borrowing fee. The notes were due April 30, 2008, after which they were due on demand, with interest accruing at 12 percent per annum. During the year ended December 31, 2008 we paid two of the notes in full for a total of $105,000. In addition, we repaid $58,196 in principal to the family member during the year ended December 31, 2008. During 2009 we paid $52,000 towards the outstanding notes, of which $10,000 was paid in principal to the family member. The principle balance owing on the promissory notes as of December 31, 2009 totals $104,415.

During the year ended December 31, 2008, our president advanced the Company $778,600. Of that amount, $600,000 was used to purchase interest in Playbev directly which resulted in a reduction of $600,000 of amounts owed by Playbev to the Company. During 2009 our president advanced an additional $500,000 to the company for his purchase

of an additional 3 percent interest in Playbev, which resulted in a reduction of $500,000 of amounts owed by Playbev to the Company. As of December 31, 2009 we owed our President $341,600 in unsecured advances.

CRITICAL ACCOUNTING ESTIMATES

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

Shipping and handling fees are included as part of net sales. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of goods sold.

We signed an Assignment and Exclusive Services Agreement with GMA, a related party, whereby revenues and all associated performance obligations under GMA's web-hosting and training contracts were assigned to us. Accordingly, this revenue is recognized in our financial statements when it is collected, along with our revenue of CirTran Online Corporation.

We sold our Salt Lake City, Utah building in a sale/leaseback transaction, and reported the gain on the sale as deferred revenue to be recognized over the term of lease pursuant to ASC 840-10, Accounting for Leases.

We have entered into a Manufacturing, Marketing and Distribution Agreement with PlayBev, a related party, whereby we are the vendor of record in providing initial development, promotional, marketing, and distribution services marketing and distribution services. Accordingly, all amounts billed to PlayBev in connection with the development and marketing of its new energy drink have been included in revenue.

Impairment of Long-Lived Assets - We review our long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. At each balance sheet date, we evaluate whether events and circumstances have occurred that indicate possible impairment. We use an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable. As of December 31, 2009, it was determined that the Company's investment in Diverse Talent Group was impaired, and the Company recorded a loss on investment in the amount of $452,000. Long-lived asset costs are amortized over the estimated useful life of the asset, which is typically 5 to 7 years. Amortization expense was $444,455 and $423,026 for the years ended December 31, 2009 and 2008, respectively.

Financial Instruments with Derivative Features - We do not hold or issue derivative instruments for trading purposes. However, we have financial instruments that are considered derivatives, or contain embedded features subject to derivative accounting. Embedded derivatives are valued separate from the host instrument and are recognized as derivative liabilities in our balance sheet. We measure these instruments at their estimated fair value, and recognize changes in their estimated fair value in results of operations during the period of change. We have estimated the fair value of these embedded derivatives using the Black-Scholes model. The fair value of the derivative instruments are measured each quarter.

Registration Payment Arrangements - On January 1, 2007, we adopted ASC 815-40 Accounting for Registration Payment Arrangements. Under ASC 815-40, and ASC 450-10, Accounting for Contingencies, a registration payment arrangement is an arrangement where (a) we have agreed to file a registration statement for certain securities with the SEC and have the registration statement declared effective within a certain time period; and/or (b) we will endeavor to keep a registration statement effective for a specified period of time; and (c) transfer of consideration is required if we fail to meet those requirements. When we issues an instrument coupled with these registration payment requirements, we estimate the amount of consideration likely to be paid under the agreement, and offsets such amount against the proceeds of the instrument issued. The estimate is then reevaluated at the end of each reporting period, and any changes recognized as a registration penalty in the results of operations. As further described in Note 9 to the consolidated financial statements, we have instruments that contain registration payment arrangements. The effect of implementing this has not had a material effect on the financial statements because we consider probability of payment under the terms of the agreements to be remote.

Stock-Based Compensation - Effective January 1, 2006, we adopted the provisions of ASC 718-10, Accounting for Stock Issued to Employees, for our stock-based compensation plans. We previously accounted for our plans under the

recognition and measurement principles of Accounting Standards No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations and disclosure requirements established by ASC 718-10, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based

Compensation - Transition and Disclosure.

Under APB 25, no compensation expense was recorded in earnings for our stock-based options granted under our compensation plans, since the intrinsic value of the options was zero. The pro forma effects on net income and earnings per share for the options and awards granted under the plans were instead disclosed in a note to the consolidated financial statements. Under ASC 718-10, all stock-based compensation is measured at the grant date, based on the fair value of the option or award, and is recognized as an expense in earnings over the requisite service period, which is typically through the date the options vest.

We adopted ASC 718-10 using the modified prospective method. Under this method, compensation cost would've been recognized over the remaining service periods for the unvested portion of all stock-based options and awards granted prior to January 1, 2006, that remained outstanding, based on the grant-date fair value measured under the original provisions of ASC 718-10 for pro forma and disclosure purposes. However, no such options were outstanding as of January 1, 2006. There were 5.5 million options granted from the 2004 Stock Plan during 2006 that resulted in $65,616 in compensation cost which would have previously been presented in a pro forma disclosure, as discussed above.

We utilized the Black-Scholes model for calculating the fair value pro forma disclosures under ASC 718-10, and will continue to use this model, which is an acceptable valuation approach under ASC 718-10.

ITEM 6A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our financial statements appear at the end of this report, beginning with the Index to Financial Statements on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer / Chief Financial Officer, as appropriate, to allow for timely decisions regarding disclosure.

As required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation under the supervision of our Chief Executive Officer / Chief Financial Officer of the effectiveness of our disclosure controls and procedures as of December 31, 2009. Based on this evaluation, our Chief Executive Officer / Chief Financial Officer concluded that our disclosure controls and procedures were not effective to provide reasonable assurance as of December 31, 2009, because certain deficiencies involving internal controls constituted material weaknesses, as discussed below. The

material weaknesses identified did not result in the restatement of any previously reported financial statements or any other related financial disclosure, and management does not believe that the material weaknesses had any effect on the accuracy of our financial statements for the current reporting period.

Limitations on Effectiveness of Controls

A system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the system will meet its objectives. The design of a control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon assumptions about the likelihood of future events.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control of over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of those internal controls as of December 31, 2009, using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Internal Control - Integrated Framework as a basis for our assessment.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

As of December 31, 2009, our Chief Executive Officer / Chief Financial Officer conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that our internal controls over financial reporting were not effective because there were material weaknesses in our internal control over financial reporting as of December 31, 2009. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. As of December 31, 2009, management identified the following material weaknesses:

Control Environment – We did not maintain an effective control environment for internal control over financial reporting. Specifically, we concluded that we did not have appropriate controls in the following areas:

- Segregation of Duties – As a result of limited resources and staff, we did not maintain proper segregation of incompatible duties. The effect of the lack of segregation of duties potentially affects multiple processes and procedures.

- Entity Level Controls – We failed to maintain certain entity-level controls as defined by the framework issued by COSO. Specifically, our lack of staff does not allow us to effectively maintain a sufficient number of adequately trained personnel necessary to anticipate and identify risks critical to financial reporting. There is a risk that a material misstatement of the financial statements could be caused, or at least not be detected in a timely manner, due to lack of adequate staff with such expertise.

Financial Reporting Process – We did not maintain an effective financial reporting process to prepare financial statements in accordance with generally accepted accounting principles. Specifically, we initially failed to

appropriately account for and disclose the effects of allowances for bad debt, impairment of long lived assets, calculation and recognition of energy drink royalties, proper recognition of year end accrued liabilities, and allowances related to inventory obsolescence. However, management believes that these issues have been addressed and appropriately reflected within this annual report and the included consolidated financial statements.

Inventory – We failed to maintain effective internal controls over the tracking of inventory and adjusting its' corresponding cost to reflect lower of cost or market.

These weaknesses are continuing. Management and the Board of Directors are aware of these weaknesses that result because of limited resources and staff. Management has begun the process of formally documenting the key processes of the Company as a starting point for improved internal control over financial reporting. Efforts to fully implement the processes we have designed have been put on hold due to limited resources, but we anticipate a renewed focus on this effort in the near future. Due to our limited financial and managerial resources, we cannot assure when we will be able to implement effective internal controls over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 8B. OTHER INFORMATION

The Company has previously reported all information required to be disclosed under this Item 8B during the fourth quarter of 2009 in a report on Form 8-K.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Directors and Executive Officers

The following table sets forth certain information concerning the executive officers and directors of CirTran as of April 12, 2010:

Name	Age	Position
Iehab J. Hawatmeh	43	President, Chief Executive Officer, Director, Chairman of the Board, Chief Financial Officer
Fadi Nora	49	Director
Shaher Hawatmeh*	44	Chief Operating Officer since June 2004

* Shaher Hawatmeh, who held the position of Chief Operating Officer of the Company during 2009, resigned from that position on March 5, 2010.

Iehab J. Hawatmeh founded our predecessor company in 1993 and has been our Chairman, President and CEO since July 2000. Mr. Hawatmeh oversees all daily operation including technical, operational and sales functions for the Company. Mr. Hawatmeh is currently functioning in a dual role as Chief Financial Officer. Prior to his involvement with the Company, Mr. Hawatmeh was the Processing Engineering Manager for Tandy Corporation overseeing that company's contract manufacturing printed circuit board assembly division. In addition, he was responsible for developing and implementing Tandy's facility Quality Control and Processing Plan model. Mr. Hawatmeh received a Master's of Business Administration from University of Phoenix and a Bachelor's of Science in Electrical and Computer Engineering from Brigham Young University.

The Board has reviewed Mr. Hawatmeh's business background and service with the Company in connection with his qualification to sit as a member of the Company's board. Based on his years of service as an executive officer of the Company, his background in the electronics assembly industry, and his engineering, financial, and corporate strategic planning background, the Board has concluded that Mr. Hawatmeh is qualified to serve as a member of the Board.

Fadi Nora is a self-employed investment consultant. He was formerly a director of ANAHOP, Inc., a private financing company, and was a consultant for several projects and investment opportunities, including CirTran Corporation, NFE records, Focus Media Group, and other projects. He has been a member of our Board since February 2007. Prior to his affiliation with ANAHOP, Mr. Nora worked with Prudential Insurance services and its affiliated securities brokerage firm Pru-Bach, as District Sales Manager. Mr. Nora received a B.S. in Business

Administration from St. Joseph University, Beirut, Lebanon, in 1982, and an MBA – Masters of Management from the Azusa Pacific University School of Business in 1997. He also received a degree in financial planning from the University of California at Los Angeles.

The Board has reviewed Mr. Nora's background in the private financing brokerage industries in connection with his qualification to sit as a member of the Company's board. Based on Mr. Nora's prior work as a business consultant and his experience with investment opportunities, capital raising transactions, and financial planning, the Board has concluded that Mr. Nora is qualified to serve as a member of the Board.

Shaher Hawatmeh, Chief Operating Officer, joined our predecessor company in 1993 as its Controller shortly after its founding. He has served in his present capacity since June 2004. Mr. Hawatmeh directly oversees all daily manufacturing production, customer service, budgeting and forecasting for the Company. Following the Company's acquisition of Pro Cable Manufacturing in 1996, Mr. Hawatmeh directly managed the entire Company, supervising all operations for approximately two years and overseeing the integration of this new division into the Company. Prior to joining CirTran, Mr. Hawatmeh worked for the Utah State Tax Commission. Mr. Hawatmeh earned a Master's of Business Administration with an emphasis in Finance from the University of Phoenix and a Bachelor's of Science in Business Administration and a Minor in Accounting. Shaher Hawatmeh is the brother of our President, CEO and Chairman, Iehab Hawatmeh. As noted, Mr. Shaher Hawatmeh resigned from the position of Chief Operating Officer of the Company on March 5, 2010.

Board of Directors

The Board is elected by and is accountable to the shareholders of the Company. The Board establishes policy and provides strategic direction, oversight, and control of the Company. The Board met three times during 2008 and 4 time during 2009. All directors attended all meetings.

Committees of the Board of Directors

As of the date of this Report, the Company did not have separately-designated Audit, Compensation, Governance or Nominating Committees. The Company's full Board acts in these capacities. The Board has determined that the Company does not have at present an audit committee financial expert as defined under Securities and Exchange Commission rules.

As of the date of this Report, there have been no changes to the procedures by which security holders may recommend nominees to our Board of Directors.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires CirTran's officers, directors, and persons who beneficially own more than 10% of the Company's common stock to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater-than-ten-percent shareholders are also required by the SEC to furnish us with copies of all Section 16(a) forms that they file.

Based solely upon a review of these forms that were furnished to the Company, and based on representations made by certain persons who were subject to this obligation that such filings were not required to be made, the Company believes that all reports that were required to be filed by these individuals and persons under Section 16(a) were filed on time in fiscal year 2009.

Code of Ethics

The Company expects that all of its directors, officers and employees will maintain a high level of integrity in their dealings with and on behalf of the Company and will act in the best interests of the Company. The Company has adopted a Code of Business Conduct and Ethics ("Code of Ethics") which provides principles of conduct and ethics for the Company's directors, officers and employees. This Code of Ethics complies with the requirements of the Sarbanes-Oxley Act of 2002. This Code of Ethics is available on the Company's website at www.cirtran.com under "Investor Relations—Corporate Governance" and is also available in print to any stockholder who requests a copy by writing to our corporate secretary at 4125 South 6000 West, West Valley City, Utah 84128.

Director Independence

As of the date of this Report, the Company's common stock was traded on the OTC Bulletin Board (the "Bulletin Board"). The Bulletin Board does not impose standards relating to director independence, or provide definitions of independence. The Company presently has no fully independent directors.

Shareholder Communications with Directors

If the Company receives correspondence from a shareholder that is addressed to the Board, we forward it to every director or to the individual director to whom it is addressed. Shareholders who wish to communicate with the directors may do so by sending their correspondence to the director or directors at the Company's headquarters at 4125 South 6000 West, West Valley City, Utah 84128.

ITEM 10. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We are required to provide information regarding the compensation program in place for our Chief Executive Officer, Chief Financial Officer, and the three other most highly-compensated executive officers. We have also voluntarily elected to include information concerning additional executive officers. In this Annual Report, we refer to our CEO, CFO, and the other highly-compensated executive officers named herein as our "Named Executive Officers." This section includes information regarding, among other things, the overall objectives of our compensation program and each element of compensation that we provide to these and other executives of the Company. This section should be read in conjunction with the detailed tables and narrative descriptions contained in this Report.

As of the date of this Report, the Company did not have a compensation committee; the Company's Board was responsible for determining the Company's compensation policies.

Compensation Objectives

The Company's compensation program encompasses several factors to determine the compensation of the Named Executive Officers. The following are the main objectives of the compensation program for the Named Executive Officers:

- Retain qualified officers
- Provide overall corporate direction for the officers and also to provide direction that is specific to the officers' respective areas of authority. The level of compensation amongst the officer group, in relation to one another, is also considered in order to maintain a high level of satisfaction within the leadership group. We consider the relationship that the officers maintain to be one of the most important elements of the leadership group.
- Provide a performance incentive
- Reward the officers in the following areas:
  - Achievement of specific goals, budgets, and objectives;
  - Professional education and development;
  - Creativity, innovative ideas, and analysis of new programs and projects;
  - New program implementation;
  - Results-oriented determination and organization;
  - Positive and supportive direction for company personnel; and
  - Community involvement.

As of the date of this Report, there were four principal elements of Named Executive Officer compensation. The Board determines the portion of compensation allocated to each element for each individual Named Executive Officer. The discussions of compensation practices and policies are of historical practices and policies. Our Board is expected to continue these policies and practices, but will reevaluate the practices and policies as it considers advisable.

The primary elements of the compensation program include:

- Base salary;
- Performance bonus and commissions;
- Stock options and stock awards
- Employee benefits in the form of:
  - Health and dental insurance;
  - Life insurance;
  - Paid parking and auto reimbursement; and
- Other de minimis benefits.

Base salary

Base salary is intended to provide competitive compensation for job performance and to attract and retain qualified individuals. The base salary level is determined by considering several factors inherent in the market place such as: the size of the company; the prevailing salary levels for the particular office or position; prevailing salary levels in a given geographic locale; and the qualifications and experience of the officer.

Performance bonus and commissions

Bonuses are in large part based on company performance. An earnings before interest, taxes, depreciation, and amortization ("EBITDA") formula and sales growth are the determining factors used to calculate the performance bonus for the Chief Executive Officer and Chief Operating Officer. These two officers are also paid a commission based on a percentage that sales revenue increases as compared to the prior year. In addition, the Chief Executive Officer and Chief Operating Officer are eligible to receive a bonus equal to a certain percentage of, respectively, the value of an acquisition, and the amount of investment proceeds, that the Company achieves during the preceding year attributable solely to their specific efforts. The Chief Financial Officer receives a performance bonus based on performance, as determined by the Board, in addition to any bonus required under an employment contract. Policy decisions to waive or modify performance goals have not been a significant factor to date.

Stock options and stock awards

Stock ownership is provided to enable Named Executive Officers and directors to participate in the success of the Company. The direct or potential ownership of stock will also provide the incentive to expand the involvement of the Named Executive Officer to include, and therefore be mindful of, the perspective of stockholders of the Company.

Employee benefits

Several of the employee benefits for the Named Executive Officers are selected to provide security for the Named Executive Officers. Most notably, insurance coverage for health, life, and liability are intended to provide a level of protection to that will enable the Named Executive Officers to function without having the distraction of having to manage undue risk. The health insurance also provides access to preventative medical care which will help the officers function at a high energy level, manage job related stress, and contribute to the overall well being, all of which contribute to an enhanced job performance.

Other de minimis benefits

Other de minimis employee benefits such as cell phones, parking, and auto usage reimbursements are directly related to job functions but contain a personal use element which is considered to be a goodwill gesture that contributes to enhanced job performance.

As discussed above, the Board determines the portion of compensation allocated to each element for each individual Named Executive Officer. As a general rule, salary is competitively based, while giving consideration to employee retention, qualifications, performance, and general market conditions. Typically, stock options are based on the current market value of the option and how that will contribute to the overall compensation of the Named Executive Officer. Consideration is also given to the fact that the option has the potential for an appreciated future value. As such, the future value may be the most significant factor of the option, but it is also more difficult to quantify as a benefit to the Named Executive Officer.

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Accordingly, in determining the compensation program for the Company, as well as setting the compensation for each Named Executive Officer, the Board attempts to attract the interest of the Named Executive Officer within in the constraints of a compensation package that is fair and equitable to all parties involved.

The following table summarizes all compensation paid to the Named Executive Officers in each of the last two fiscal years.

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary $ (c)	Bonus $ (d)	Stock Awards $ (e)	Option Awards $ (f)	Non-Equity Incentive Plan Compen-sation $ (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings $ (h)	All Other Compen-sation $ (1) (i)	Total $ (j)
Iehab J. Hawatmeh, President and Chief Executive Officer	2008 2009	295,000 314,231	- -	- -	83,708 10,538	- -	- -	21,666 23,789	400,374 348,558
Shaher Hawatmeh, Chief Operating Officer (2)	2008 2009	210,000 210,000	- -	- -	- -	- -	- -	21,456 22,539	231,456 232,539

(1) Amounts for Mr. Iehab Hawatmeh and Shaher Hawatmeh include $12,250 and $9,000 for car allowance, respectively, and $13,539 each for payments of medical insurance premiums.

(2) As noted above, Mr. Shaher Hawatmeh resigned from the Company on March 5, 2010.

Employment Agreements

On July 1, 2004, we entered into an employment agreement with our President and CEO, Iehab Hawatmeh, with an effective date of June 26, 2004 for a term of five years, automatic renewal on a year-to-year basis, base salary of $225,000, bonus of 5% of earnings before interest, taxes, depreciation, and amortization, payable quarterly, as well as any other bonus approved by the Board, and health insurance coverage, cell phone, car allowance, life insurance, and director and officer liability insurance. Mr. Hawatmeh's employment could be terminated for cause, or upon death or disability; a severance penalty applied in the event of termination without cause, in an amount equal to five full years of the then-current annual base compensation, half upon termination and half one year later, together with a continuation of insurance benefits for a period of five years. On January 1, 2007, an amendment to the employment agreement became effective. The amended agreement is for a term of five years and renews automatically on a year-to year basis, provides for base salary of $295,000, plus a quarterly bonus of 5% of earnings before interest,

taxes, depreciation, and amortization, as well as an annual bonus payable as soon as practicable after completion of the audit of the Company's annual financial statements equal to 0.5% of gross sales for the most recent fiscal prior year which exceed 120% of gross sales for the previous fiscal year, plus an additional bonus of 1% of the net purchase price of any acquisitions that are generated by the executive, and any other bonus approved by the Board. The amended agreement also provides for a grant of options to purchase 5,000,000 shares of the Company's common stock in accordance with the terms of the Company's Stock Option Plan, with terms and an exercise price at the fair market value of the Company's common stock on the date of grant. The amended agreement provides for benefits including health insurance coverage, car allowance, and life insurance.

On August 1, 2009, we entered into an Employment Agreement with Mr. Hawatmeh, our President, which amends and restates in their entirety (i) the Employment Agreement between us and Mr. Hawatmeh dated July 1, 2004, and the Amendment to Employment Agreement dated January 4, 2007. The term of the employment agreement continues until August 31, 2014, and automatically extends for successive one year periods, with an annual base salary of $345,000. The Employment Agreement also grants to Mr. Hawatmeh options to purchase a minimum of 6,000,000 shares of the Company's stock each year, with the exercise price of the options being the market price of the Company's common stock as of the grant date. The Employment Agreement also provides for health insurance coverage, cell phone, car allowance, life insurance, and director and officer liability insurance, as well as any other bonus approved by the Board, . The Employment Agreement includes additional incentive compensation as follows: a quarterly bonus equal to 5 percent of the Company's earnings before interest, taxes, depreciation and amortization for the applicable quarter; bonus(es) equal to 1.0 percent of the net purchase price of any acquisitions completed by the Company that are directly generated and arranged by Mr. Hawatmeh; and an annual bonus (payable quarterly) equal to 1 percent of the gross sales, net of returns and allowances of all beverage products of the Company and its affiliates for the most recent fiscal year.

Pursuant to the Employment Agreement, Mr. Hawatmeh's employment may be terminated for cause, or upon death or disability, in which event the Company is required to pay Mr. Hawatmeh any unpaid base salary and unpaid earned bonuses. In the event that Mr. Hawatmeh is terminated without cause, the Company is required to pay to Mr. Hawatmeh (i) within thirty (30) days following such termination, any benefit, incentive or equity plan, program or practice (the "Accrued Obligations") paid when the bonus would have been paid Employee if employed; (ii) within thirty (30) days following such termination (or on the earliest later date as may be required by Internal Revenue Code Section 409A to the extent applicable), a lump sum equal to thirty (30) month's annual base salary, (iii) bonus(es) owing under the Employment Agreement for the two year period after the date of termination (net of an bonus amounts paid as Accrued Obligations) based on actual results for the applicable quarters and fiscal years; and (iv) within twelve (12) months following such termination (or on the earliest later date as may be required by Internal Revenue Code Section 409A to the extent applicable), a lump sum equal to thirty (30) month's Annual Base Salary; provided that if Employee is terminated without cause in contemplation of, or within one (1) year, after a change in control, then two (2) times such annual base salary and bonus payment amounts.

On July 1, 2004, we also entered into an employment agreement, dated effective June 26, 2004, with Shaher Hawatmeh, to act as Chief Operating Officer. Mr. Hawatmeh is the brother of our President and CEO, Iehab Hawatmeh. The original agreement was for a term of three years, renewing automatically on a year-to-year basis, base salary of $150,000, plus a bonus of 1% of our earnings before interest, taxes, depreciation, and amortization, payable quarterly, as well as any other bonus approved by the Board, and provided for health insurance coverage, cell phone, life insurance, and D&O insurance. Employment could be terminated for cause, or upon death or disability. In the event of termination without cause, a severance payment in an amount equal to one years' salary was to be paid. The agreement also contained prohibitions against competition for a period of one year from the date of termination and prohibitions against solicitation of our employees or customers, or inducing anyone to cease doing business with us for a period of two years after termination. On January 1, 2007, an amendment to the employment agreement became effective, providing for a term of five years, automatic renewal on a year-to year basis, base salary of $210,000, a quarterly bonus of 2.5% of earnings before interest, taxes, depreciation, and amortization, an annual bonus of 0.1% of gross sales which exceed 120% of gross sales for the previous year, and a bonus of 5% of all gross investments made into the Company that are directly generated and arranged by Mr. Hawatmeh. The amended agreement also provides for a grant of options to purchase 4,000,000 shares of the Company's common stock in accordance with the terms of the Company's Stock Option Plan, with terms and an exercise price at the fair market value of the Company's common stock on the date of grant. The amended agreement also provides for health insurance coverage, car allowance and life insurance.

On March 5, 2010 we entered into a Separation Agreement (“Agreement”) with Mr. Hawatmeh. As of the date of the “Agreement” Mr. Hawatmeh’s employment with us terminated and he no longer has any further employment obligations with us. In consideration of his execution of this “Agreement” we will pay Mr. Hawatmeh’s “Separation Pay” of $210,000 in twenty-six bi-weekly payments. The first payment of the Separation Pay was to begin on March 19, 2010. We have made the first payment to Mr. Hawatmeh. Additional terms of the separation agreement include payment of all amounts necessary to cover health and medial premiums on behalf of Mr. Hawatmeh, his spouse and dependents through April 20, 2010, all outstanding car allowances and expense ($750) due and owing as of February 28, 2010, satisfaction and payment by us (with a complete release of Mr. Hawatmeh) of all outstanding amounts due and owing on our Corporate American Express Card (issued in the name of Shaher) and the issuance and delivery to Mr. Hawatmeh of ten million (10,000,000) share of our common stock within a reasonable time following authorization by our shareholders of sufficient shares to cover such issuance.

Equity Compensation Plans

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information about securities that may be issued under the Company's equity compensation plans as of the date of this Annual Report.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	53,160,000	$0.014	44,440,000
Equity compensation plans not approved by shareholders	None	None	None
Total	53,160,000	$0.014	44,440,000

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table summarizes information regarding options and other equity awards exercised and the awards owned by the Named Executive Officers that have vested as of December 31, 2009.

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexer-cised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#) (i)	Equity Incentiv Plan Awards: Market o Payout Value o Unearne Shares, Units, o Other Rights That Hav Not Vested ($) (j)
	6,000,000	-	-	$0.013	01-18-12	-	-	-	-

Iehab J. Hawatmeh, President and Chief Executive Officer	6,000,000	-	-	$0.012	11-21-12	-	-	-	-
Shaher Hawatmeh, Chief Operating Officer	4,800,000 4,800,000	- -	- -	$0.013 $0.012	01-18-12 11-21-12	- -	- -	- -	- -

The information above does not include options to purchase 6,000,000 shares for each year of Mr. Hawatmeh's employment, which were guaranteed pursuant to Mr. Hawatmeh's employment agreement, but which had not been granted as of December 31, 2009. (See "Employment Agreements" above.)

(1) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes, excluding the effect of estimated forfeitures, for the fiscal years ended December 31, 2007 and 2008, in accordance with SFAS No. 123(R). Assumptions used in the calculation of these amounts are included in Note 16 to the Company's audited financial statements for the years ended December 31, 2007 and 2008, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2009. Amounts for Iehab J. Hawatmeh and Shaher Hawatmeh each include amounts related to two separate grants of options, one at the beginning and one at the end of 2007. The former grant was intended to relate to services to be rendered during 2007, and the latter was intended to relate to services to be rendered during 2008.

(2) Amounts for Mr. Iehab Hawatmeh and Shaher Hawatmeh include $9,000 each for car allowance, and $11,237 each for payments of medical insurance premiums. The amount for Mr. Saliba includes $101,462 in commissions, and $228,000 in severance payments. Amounts paid to other officers for 2008, and all amounts for 2007, were less than $10,000.

DIRECTOR COMPENSATION

The table below summarizes the compensation paid by the Company to Directors for the fiscal year ended December 31, 2009.

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Option Awards ($) (3) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (f)	All Other Compensation ($) (4) (g)	Total ($) (h)
Iehab Hawatmeh (1)	-	-	-	-	-	-	-
Fadi Nora (2)	20,000	-	-	-	-	13,451	33,451

(1) Iehab Hawatmeh also served as an executive officer of the Company during 2008. He received compensation for his services as an executive officer, set forth above in the Summary Compensation Table. He did not receive any additional compensation for his services as director of the Company.

(2) Mr. Nora was appointed to the Board on February 1, 2007

(3) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes, excluding the effect of estimated forfeitures, for the fiscal year ended December 31, 2008, in accordance with SFAS No. 123(R). Assumptions used in the calculation of these amounts are included in Note 16 to the Company's audited financial statements for the year ended December 31, 2008, included in this Annual Report on Form 10-K.

(4) Mr. Nora – Amounts in column (g) paid to Mr. Nora comprise finders fees earned in connection with the sale to other investors of portions of the Company's membership interest in After Bev Group, LLC.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the ownership of the Company's common stock by each person who, to the knowledge of the Company, is the beneficial owner of more than 5% of the outstanding shares of common stock, or who is (i) each person who is currently a director, (ii) each Named Executive Officer, (iii) all current directors and Named Executive Officers as a group as of April 15, 2010.

(1) Title of class	(2) Name of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Common Stock	Iehab J. Hawatmeh (1)	195,060,960	12.8%
	Fadi Nora (2)	162,719,360	10.7%
	All Officers and Directors as a Group (2 persons)	357,780,320	23.9%

(1) Includes options to purchase up to 12,000,000 shares that can be exercised anytime at exercise prices ranging between $0.012 and $0.013 per share. Also includes a Stock Purchase Agreement to purchase 50,000,000 shares of common stock of the Company at a purchase price of $.003 per share once the Company has sufficient authorized shares.

(2) Includes 2,599,500 shares beneficially owned by Mr. Nora's spouse. Also includes options to purchase up to 4,800,000 shares that can be exercised anytime at exercise prices ranging between $0.012 and $0.013 per share. Also includes a Stock Purchase Agreement to purchase 75,000,000 shares of common stock of the Company at a purchase price of $.003 per share once the Company has sufficient authorized shares.

(3) Options to purchase up to 9,600,000 shares that can be exercised anytime at exercise prices ranging between $0.012 and $0.013 per share.

The persons named in the table have sole or shared voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable. Beneficial ownership is determined according to the rules of the Securities and Exchange Commission, and generally means that person has beneficial ownership of a security if he or she possesses sole or shared voting or investment power over that security. Each director, officer, or 5% or more shareholder, as the case may be, has furnished us information with respect to beneficial ownership. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on the information each of them has given to us, have sole or shared investment and voting power with respect to their shares, except where community property laws may apply.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Play Beverages, LLC

During 2006, Playboy Enterprises International, Inc. ("Playboy") entered into a licensing agreement with Play Beverages, LLC ("PlayBev"), then an unrelated Delaware limited liability company, whereby PlayBev agreed to internationally market and distribute a new energy drink carrying the Playboy name and "Rabbit Head" logo symbol. In May 2007, PlayBev entered into an exclusive agreement with the Company to arrange for the manufacture, marketing and distribution of the energy drinks, other Playboy-licensed beverages, and related merchandise through various distribution channels throughout the world.

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In an effort to finance the initial development and marketing of the new drink, the Company with other investors formed After Bev Group LLC ("AfterBev"), a California limited liability company and partially owned, consolidated subsidiary of the Company. The Company contributed its expertise in exchange for an initial 84 percent membership interest in AfterBev. The other initial AfterBev members contributed $500,000 in exchange for the remaining 16 percent. The Company borrowed an additional $250,000 from an individual, and contributed the total $750,000 to PlayBev in exchange for a 51 percent interest in PlayBev's cash distributions. The Company recorded this $750,000 amount as an investment in PlayBev, accounted for under the cost method. PlayBev then remitted these funds to Playboy as part of a guaranteed royalty prepayment. Along with the membership interest granted the Company, PlayBev agreed to appoint the Company's president and one of the Company's directors to two of PlayBev's three executive management positions. Additionally, an unrelated executive manager of PlayBev resigned, leaving the remaining two executive management positions occupied by the Company president and one of the Company's directors. On August 23, 2008, PlayBev's members agreed to amend its operating agreement to change the required membership vote on major managerial and organizational decisions from 75 percent to 95 percent. Since 2007 the two affiliates personally purchased membership interests from PlayBev directly and from other PlayBev members constituting an additional 23.1 percent, which aggregated 34.35 percent. Despite the combined 90.5 percent interest owned by these affiliates and the Company, the Company cannot unilaterally control significant operating decisions of PlayBev, as the amended operating agreement requires that various major operating and organizational decisions be agreed to by at least 95 percent of all members. The other members of PlayBev are not affiliated with the Company. Accordingly, while PlayBev is now a related party, the Company cannot unilaterally control significant operating decisions of PlayBev, and therefore has not accounted for PlayBev's operations as if it was a consolidated subsidiary.

PlayBev has no operations, so under the terms of the exclusive manufacturing and distribution agreement, the Company was appointed as the master manufacturer and distributor of the beverages and other products that PlayBev licensed from Playboy. In so doing, the Company assumed all the risk of collecting amounts owed from customers, and contracting with vendors for manufacturing and marketing activities. In addition, PlayBev is owed a royalty from the Company Equal to the Company’s gross profits from collected beverage sales, less 20 Percent of the Company’s related cost of goods sold, and 6 percent of the Company’s collected gross sales. The Company incurred $745,121 and $782,296 in royalty expenses due to PlayBev during the years ended December 31, 2009 and 2008, respectively.

The Company also agreed to provide services to PlayBev for initial development, marketing, and promotion of the new beverage. These services are to be billed to PlayBev and recorded as an account receivable from PlayBev. The Company initially agreed to carry up to a maximum of $1,000,000 as a receivable due from PlayBev in connection with these billed services. On March 19, 2008 the Company agreed to increase the maximum amount it would carry as a receivable due from PlayBev, in connection with these billed services, from $1,000,000 to $3,000,000. The Company has advanced amounts beyond the $3,000,000 in order to continue the market momentum internationally. As of March 19, 2008 the Company also began charging interest on the outstanding amounts owing at a rate of 7 percent per annum. The Company has billed PlayBev for marketing and development services totaling $3,776,101 and $5,044,741 for the years ending December 31, 2009 and 2008, respectively, which have been included in revenues for our marketing and media segment. As of December 31, 2009, the interest accrued on the balance owing from PlayBev totaled $735,831. The net amount due the Company from PlayBev for marketing and development services, after netting the royalty owed to PlayBev, totaled $6,955,817 at December 31, 2009.

AfterBev Group, LLC

Following AfterBev’s organization in May 2007, the Company entered into consulting agreements with two individuals, one of whom had loaned the Company $250,000 when the Company invested in PlayBev, and the other one was a Company director. The agreements provided that the Company assign to each individual approximately one-third of the Company’s share in future AfterBev cash distributions, in exchange for their assistance in the initial AfterBev organization and planning, along with their continued assistance in subsequent beverage development and

distribution activities. The agreements also provided that as the Company sold a portion of its membership interest in AfterBev, the individuals would each be owed their proportional assigned share distributions in the proceeds of such a sale. The actual payment of the distributions depended on what the Company did with the sale proceeds. If the Company used the proceeds to help finance beverage development and marketing activities, the payment of distributions would be deferred, pending collections from customers once beverage product sales eventually commenced. Otherwise, the proportional assigned share distributions would be due to the two individuals.

Throughout the balance of 2007, as energy drink development and marketing activities progressed, the Company raised additional funds by selling portions of its membership interest in AfterBev to other investors, some of whom were Company stockholders. In some cases, the Company sold a portion of its membership interest, including voting rights. In other cases, the Company sold merely a portion of its share of future AfterBev profits and losses. By the end of 2007, after taking into account the two interests it had assigned, the Company had retained a net 14 percent interest in AfterBev's profits and losses, but had retained 52 percent of all voting rights in AfterBev. The Company recorded the receipt of these net funds as increases to its existing minority interest in AfterBev, and the rest as amounts owing as distributable proceeds payable to the two individuals with assigned interests of the Company's original share of AfterBev.

At the end of 2007, the Company agreed to convert the amount owing to one of the individuals into a promissory note. In exchange, the individual agreed to relinquish his approximately one-third portion of the Company's remaining share of AfterBev's profits and losses. Instead, the individual received a membership interest in AfterBev. In January 2008, the other assignee, which is one of the Company's directors, similarly agreed to relinquish the distributable proceeds owed to him, in exchange for an interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, by the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, the director loaned $834,393 to the company in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. During the year ended December 31, 2009, the director advanced an additional $500,000 to the Company for his purchase of an additional 3 percent interest in PlayBev, which resulted in a reduction of $500,000 of amounts owed by PlayBev to the Company. As of December 31, 2009, the Company still owed the director $64,719 in the form of an unsecured advance. In addition, during the year ended December 31, 2009, one of the directors of the Company and the Company president purchased 6 percent and 5 percent of AfterBev shares, respectively, in private sales from existing shareholders of Afterbev. AfterBev has had no operations since its inception.

Global Marketing Alliance

We entered into an agreement with GMA, and hired GMA's owner as the Vice President of CTO, one of our subsidiaries. Under the terms of the agreement, we outsource to GMA the online marketing and sales activities associated with our CTO products. In return, we provide bookkeeping and management consulting services to GMA, and pay GMA a fee equal to five percent of CTO's online net sales. In addition, GMA assigned us all of its web-hosting and training contracts effective as of January 1, 2007, along with the revenue earned thereon, and we also assumed the related contractual performance obligations. We recognize the revenue collected under the GMA contracts, and remit back to GMA a management fee approximating their actual costs. We recognized net revenues from GMA related products and services in the amount of $2,572,955 and $3,234,588 for the years ended December 31, 2009 and 2008, respectively.

Other transactions involving Officers, Directors, and Stockholders

Don L. Buehner was appointed to our Board of Directors during 2007. Prior to his appointment as a director, Mr. Buehner bought our building in a sale/leaseback transaction. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. We pay Mr. Buehner a monthly lease payment of $17,083, which is subject to annual adjustments in relation to the Consumer Price Index. Mr. Buehner retired from our Board of Directors following the Company's Annual Meeting of Shareholders on June 18, 2008.

In 2007, we appointed Fadi Nora to our Board of Directors. In addition to compensation the Company normally pays to non-employee members of the Board, Mr. Nora is entitled to a quarterly bonus equal to 0.5 percent of any gross

sales earned by the Company directly through Mr. Nora's efforts. As of December 31, 2009, we owed $18,565 under this arrangement. Mr. Nora also is entitled to a bonus equal to five percent of the amount of any investment proceeds received by us that are directly generated and arranged by him if the following conditions are satisfied: (i) his sole involvement in the process of obtaining the investment proceeds is the introduction of the Company to the potential investor, but that he does not participate in the recommendation, structuring, negotiation, documentation, or selling of the investment, (ii) neither the Company nor the investor are otherwise obligated to pay any commissions, finders fees, or similar compensation to any agent, broker, dealer, underwriter, or finder in connection with the investment, and (iii) the Board in its sole discretion determines that the investment qualifies for this bonus, and that the bonus may be paid with respect to the investment. During 2008 and 2009, Mr. Nora has received no compensation under this arrangement, and at December 31, 2009, we did not owe him under the arrangement.

In 2007, we also entered into a consulting agreement with Mr. Nora, whereby we assigned to him approximately one-third of the Company's share in future AfterBev cash distributions. In return, Mr. Nora assisted in the initial AfterBev organization and planning, and continued to assist in subsequent beverage development and distribution activities. The agreement also provided that as the Company sold a portion of its membership interest in AfterBev, Mr. Nora would be owed his proportional assigned share distribution in the proceeds of such a sale. Distributable proceeds due to Mr. Nora at the end of 2007 were $747,290. In January 2008, he agreed to relinquish this amount, plus an additional $116,683, in exchange for a 24 percent interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, Mr. Nora had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, Mr. Nora loaned $834,393 to us in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. During 2009 Mr. Nora advanced an additional $500,000 to us for his purchase of an additional 3 percent interest in Playbev, which resulted in a reduction of $500,000 of amounts owed by PlayBev to us. As of December 31, 2009, we still owed Mr. Nora $64,719 in the form of unsecured advances.

Prior to his appointment with the Company, Mr. Nora was also involved in the ANAHOP private placement of common stock. On April 11, 2008, Mr. Nora disassociated himself from the other principals of ANAHOP, and as part of the asset settlement relinquished ownership to the other principals of 12,857,144 shares of CirTran Corporation common stock, along with all of the warrants previously assigned to him.

In 2007, we issued a 10 percent promissory note to a family member of the Company president in exchange for $300,000. The note was due on demand after May 2008. During the years ended December 31, 2009 and 2008, the Company repaid principal and interest totaling $22,434 and $8,444, respectively. At December 31, 2009, the principal amount owing on the note was $208,014. On March 31, 2008, we issued to this same family member, along with four other Company shareholders, promissory notes totaling $315,000. The family member's note was for $105,000. Under the terms of all the notes, we received total proceeds of $300,000, and agreed to repay the amount received plus a five percent borrowing fee. The notes were due April 30, 2008, after which they were due on demand, with interest accruing at 12 percent per year. During the year ended December 31, 2008, we paid two of the notes in full for a total of $105,000. In addition, we repaid $58,196 in principal to the family member during the year ended December 31, 2008. During 2009, we paid $52,000 towards the outstanding notes, of which $10,000 was paid in principal to the family member. The principle balance owing on the promissory notes as of December 31, 2009, totalled $104,415.

During the year ended December 31, 2008 the Company president advanced us $778,600. Of the amounts advanced, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to us. During 2009 the Company president advanced an additional $500,000 to the Company for his purchase of an additional 3 percent interest in PlayBev, which resulted in a reduction of $500,000 of amounts owed by PlayBev to us. As of December 31, 2009, we owed our Company President a total of $341,600 in unsecured advances.

Transactions involving ANAHOP, Inc.

In May 2006, we closed a private placement of shares of the Company's common stock and warrants (the "May Private Offering"). Pursuant to a securities purchase agreement we issued 14,285,715 shares of common stock (the "May Shares") to ANAHOP, Inc. ("ANAHOP"), a California company partially owned by Fadi Nora. The consideration paid for the May Shares was $1,000,000. In addition to the Shares, the Company issued warrants (the "Warrants") to designees of ANAHOP to purchase up to an additional 36,000,000 shares of common stock. Of this amount, Mr. Nora was designated to receive Warrants to purchase 10,000,000 shares of common stock.

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In June 2006, the Company closed a second private placement of shares of its common stock and warrants (the "June Private Offering"). Pursuant to a securities purchase agreement (the "Agreement"), the Company agreed to issue up to 28,571,428 shares of common stock (the "June Shares") to ANAHOP. The total consideration to be paid for the June Shares will be $2,000,000 if all tranches of the sale close.

Pursuant to the Agreement, ANAHOP agreed to pay $500,000 (the "First Tranche Payment"). Upon the receipt of the First Tranche Payment, the Company agreed to issue a certificate or certificates to the Purchaser representing 7,142,857 of the June Shares.

The remaining $1,500,000 is to be paid by ANAHOP as follows:

(i) No later than thirty calendar days following the date on which any class of the Company’s capital stock is first listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock Exchange, ANAHOP agreed to pay an additional $500,000 to the Company; and

(ii) No later than sixty calendar days following the date on which any class of the Company’s capital stock is first listed for trading on either the Nasdaq Small Cap Market, the Nasdaq Capital Market, the American Stock Exchange, or the New York Stock Exchange, ANAHOP agreed to pay an additional $1,000,000 to the Company. (The payments of $500,000 and $1,000,000 are referred to collectively as the "Second Tranche Payment.")

Upon receipt by the Company of the Second Tranche Payment, the Company agreed to issue a certificate or certificates to ANAHOP representing the remaining 21,428,571 June Shares.

Additionally, once the Company has received the Second Tranche Payment, the Company agreed to issue warrants to designees of ANAHOP to purchase up to an additional 63,000,000 shares.

On April 11, 2008, Mr. Nora disassociated himself from the other principals of ANAHOP, and as part of the asset settlement, relinquished ownership of 12,857,144 shares of CirTran Corporation common stock and all of the warrants previously assigned to him.

ITEM 13. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees for Fiscal 2009 and 2008

The aggregate fees billed to the Company by Hansen Barnett & Maxwell, P.C., the Company’s Independent Registered Public Accounting Firm and Auditor, for the fiscal years ended December 31, 2009 and 2008, are as follows:

	2009	2008
Audit Fees (1)	$ 134,926	$ 112,988
Audit-Related Fees	-	-
Tax Fees (2)	$ 8,425	$ 17,228
All Other Fees	-	-

(1) Audit Fees consist of the audit of our annual financial statements included in the Company’s Annual Report on Form 10-K for its 2007 and 2008 fiscal years and Annual Report to Shareholders, review of interim financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) Tax Fees consist of fees for tax consultation and tax compliance services.

The Board of Directors, acting in the absence of a designated Audit Committee, has considered whether the provision of non-audit services is compatible with maintaining the independence of Hansen Barnett & Maxwell, P.C., and has concluded that the provision of such services is compatible with maintaining the independence of the Company’s auditors.

PART IV

ITEM 14. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

Exhibit No.	Document
3.1	Articles of Incorporation (previously filed as Exhibit No. 2 to our Current Report on Form 8-K, filed with the Commission on July 17, 2000, and incorporated herein by reference).
3.2	Bylaws (previously filed as Exhibit No. 3 to our Current Report on Form 8-K, filed with the Commission on July 17, 2000, and incorporated herein by reference).
10.1	Securities Purchase Agreement between CirTran Corporation and Highgate House Funds, Ltd., dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference).
10.2	Form of 5 percent Convertible Debenture, due December 31, 2007, issued by CirTran Corporation (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference).
10.3	Investor Registration Rights Agreement between CirTran Corporation and Highgate House Funds, Ltd., dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference).
10.4	Security Agreement between CirTran Corporation and Highgate House Funds, Ltd., dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference).
10.5	Escrow Agreement between CirTran Corporation, Highgate House Funds, Ltd., and David Gonzalez dated as of May 26, 2005 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 3, 2005, and incorporated herein by reference).
10.6	Amendment No. 1 to Investor Registration Rights Agreement, between CirTran Corporation and Highgate House Funds, Ltd., dated as of June 15, 2006.

10.7 Amendment No. 1 to Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated as of June 15, 2006.

10.8 Securities Purchase Agreement between CirTran Corporation and ANAHOP, Inc., dated as of May 24, 2006 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.9 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.10 Warrant for 5,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.11 Warrant for 5,000,000 shares of CirTran Common Stock, exercisable at $0.25, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.12 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.50, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 30, 2006, and incorporated here in by reference).

10.13 Asset Purchase Agreement, dated as of June 6, 2006, by and between Advanced Beauty Solutions, LLC, and CirTran Corporation (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on June 13, 2006, and incorporated here in by reference).

10.14 Securities Purchase Agreement between CirTran Corporation and ANAHOP, Inc., dated as of June 30, 2006 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.15 Warrant for 20,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.16 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.15, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.17 Warrant for 10,000,000 shares of CirTran Common Stock, exercisable at $0.25, issued to Fadi Nora (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.18 Warrant for 23,000,000 shares of CirTran Common Stock, exercisable at $0.50, issued to Albert Hagar (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on July 6, 2006, and incorporated here in by reference).

10.19 Lockdown Agreement by and between CirTran Corporation and Cornell Capital Partners, LP, dated as of July 20, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form SB-2/A (File No. 333-128549) filed with the Commission on July 27, 2006, and incorporated herein by reference).

10.20 Lockdown Agreement by and among CirTran Corporation and ANAHOP, Inc., Albert Hagar, and Fadi Nora, dated as of July 20, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form SB-2/A (File No. 333-128549) filed with the Commission on July 27, 2006, and incorporated herein by reference).

10.21 Amendment No. 2 to Investor Registration Rights Agreement, between CirTran Corporation and Highgate House Funds, Ltd., dated as of August 10, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.22 Amendment No. 2 to Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated as of August 10, 2006 (filed as an exhibit to Registration Statement on Form SB-2 (File No. 333-128549) and incorporated herein by reference).

10.23 Amended Lock Down Agreement by and among the Company and ANAHOP, Inc., Albert Hagar, and Fadi Nora, dated as of November 15, 2006 (filed as an exhibit to the Company's Quarterly Report for the quarter ended September 30, 2006, filed with the Commission on November 20, 2006, and incorporated herein by reference).

10.24 Amended Lock Down Agreement by and between the Company and Cornell Capital Partners, L.P., dated as of October 30, 2006 (filed as an exhibit to the Company's Quarterly Report for the quarter ended September 30, 2006, filed with the Commission on November 20, 2006, and incorporated herein by reference).

10.25 Amendment to Debenture and Registration Rights Agreement between the Company and Cornell Capital Partners, L.P., dated as of October 30, 2006 (filed as an exhibit to the Company's Quarterly Report for the quarter ended September 30, 2006, filed with the Commission on November 20, 2006, and incorporated herein by reference).

10.26 Amendment Number 2 to Amended and Restated Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated January 12, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on January 19, 2007, and incorporated here in by reference).

10.27 Amendment Number 4 to Investor Registration Rights Agreement, between CirTran Corporation and Cornell Capital Partners, LP, dated January 12, 2007(previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on January 19, 2007, and incorporated here in by reference).

10.28 Amendment to Employment Agreement for Iehab Hawatmeh, dated January 1, 2007 (previously filed as an exhibit to the Company's Annual Report for the year ended December 31, 2006, filed with the Commission on April 17, 2007, and incorporated herein by reference)

10.29 Assignment and Exclusive Services Agreement with Global Marketing Alliance, LLC, dated April 16, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on April 20, 2007, and incorporated herein by reference).

10.30 Triple Net Lease between CirTran Corporation and Don L. Buehner, dated as of May 4, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on May 10, 2007, and incorporated herein by reference).

10.31 Commercial Real Estate Purchase Contract between Don L. Buehner and PFE Properties, L.L.C., dated as of May 4, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on May 10, 2007, and incorporated herein by reference).

10.32 Exclusive Manufacturing, Marketing, and Distribution Agreement, dated as of May 25, 2007 (previously filed as an exhibit to the Company's' Current Report on Form 8-K filed with the Commission on June 1, 2007, and incorporated herein by reference).

10.33 Amendment Number 3 to Amended and Restated Investor Registration Rights Agreement, between CirTran Corporation and YA Global Investments, L.P. (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed

with the Commission on February 12, 2008, and incorporated herein by reference).

10.34 Amendment Number 6 to Investor Registration Rights Agreement, between CirTran Corporation and YA Global Investments, L.P. (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 12, 2008, and incorporated herein by reference).

10.35 Agreement between and among CirTran Corporation, YA Global Investments, L.P., and Highgate House Funds, LTD (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 12, 2008, and incorporated herein by reference).

10.36 Promissory Note (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on March 5, 2008, and incorporated herein by reference).

10.37	Form of Warrant (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on March 5, 2008, and incorporated herein by reference).
10.38	Subscription Agreement between the Company and Haya Enterprises, LLC (previously filed as an exhibit to the Current Report on Form 8-K, filed with the Commission on March 5, 2008, and incorporated herein by reference).
21	Subsidiaries of the Registrant
31	Certification of President/Chief Financial Officer
32	Certification pursuant to 18 U.S.C. Section 1350 - President/Chief Financial Officer

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIRTRAN CORPORATION

Date: April 15, 2010	By:	/s/ Iehab J. Hawatmeh, President, Chief Financial Officer (Principal Executive Officer, Principal Financial Officer)

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 15, 2010	/s/ Iehab Hawatmeh President, Chief Financial Officer, Principal Executive Officer, Principal Financial and Director
Date: April 15, 2010	/s/ Fadi Nora Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements of CirTran Corporation and related notes thereto and auditors' report thereon is filed as part of this Form 10-K:

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2009 and 2008	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2009 and 2008	F-4
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Notes to Consolidated Financial Statements	F-8

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Registered with the Public Company
Accounting Oversight Board

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and the Stockholders
CirTran Corporation

We have audited the accompanying consolidated balance sheets of CirTran Corporation and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CirTran Corporation and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has an accumulated deficit, has suffered losses from operations and has negative working capital that raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Hansen,
Barnett &
Maxwell,
P.C.
HANSEN,
BARNETT &
MAXWELL,
P.C.

Salt Lake City, Utah
April 15, 2010

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,588	$ 8,701
Trade accounts receivable, net of allowance for doubtful accounts of $290,806 and $108,162, respectively	472,947	591,441
Receivable due from related party	670,266	4,718,843
Inventory, net of reserve of $2,045,458 and $1,028,957, respectively	873,650	1,451,275
Prepaid deposits	82,011	164,556
Other	720,712	305,037
Total current assets	2,828,174	7,239,853
Investment in securities, at cost	300,000	752,000
Investment in related party	750,000	750,000
Deferred offering costs, net	-	15,662
Long-term receivable due from related party	6,285,551	-
Long-term receivable	1,647,895	1,647,895
Property and equipment, net	544,705	773,591
Intellectual property, net	1,270,358	1,871,153
Other assets, net	14,538	19,025
Total assets	$ 13,641,221	$ 13,069,179
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Checks written in excess of bank balance	$ 217,361	$ 133,391
Accounts payable	3,047,592	2,215,171
Short term advances payable	2,962,339	747,329
Accrued liabilities	3,889,412	2,207,580
Deferred revenue	2,275,967	587,052
Derivative liability	523,349	705,477
Convertible debenture	3,161,355	3,162,650
Current portion of refundable customer deposits	828,933	538,080
Current maturities of long-term debt	578,226	1,494,969
Note payable to stockholders	208,014	230,447
Total current liabilities	17,692,548	12,022,146
Refundable customer deposits, net of current portion	1,719,000	1,150,000
Long-term debt, less current maturities	196,614	269,625
Total liabilities	19,608,162	13,441,771

Stockholders' deficit		
CirTran Corporation stockholders' deficit:		
Common stock, par value $0.001; authorized 1,500,000,000 shares; issued and outstanding shares: 1,498,972,923 and 1,426,262,586, respectively	1,498,968	1,426,257
Additional paid-in capital	29,117,928	28,970,335
Subscription receivable	(17,000)	(17,000)
Accumulated deficit	(39,140,068)	(33,325,415)
Total CirTran Corporation stockholders' deficit	(8,540,172)	(2,945,823)
Noncontrolling interest	2,573,231	2,573,231
Total stockholders' deficit	(5,966,941)	(372,592)
Total liabilities and stockholders' deficit	$ 13,641,221	$ 13,069,179

The accompanying notes are an integral part of these consolidated financial statements.

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2009	2008
Net sales	$9,732,855	$13,675,545
Cost of sales	(8,819,995)	(11,240,454)
Royalty Expense	(745,121)	(827,813)
Gross profit	167,739	1,607,278
Operating expenses		
Selling, general and administrative expenses	4,412,219	5,718,858
Non-cash compensation expense	98,281	94,336
Total operating expenses	4,510,500	5,813,194
Loss from operations	(4,342,761)	(4,205,916)
Other income (expense)		
Interest expense	(1,221,004)	(1,903,590)
Interest income	518,600	217,431
Settlement of litigation	(490,000)	-
Gain on settlement of distribution agreement	-	250,000
Gain on settlement of litigation	58,704	300,000
Gain on sale/leaseback	81,074	81,580
Gain on settlement of debt	88,779	-
Impairment of intellectual properties	(156,340)	-
Impairment of investment in securities	(452,000)	(1,068,000)
Gain on derivative valuation	100,295	2,417,283
Total other expense, net	(1,471,892)	294,704
Net loss	$(5,814,653)	$(3,911,212)
Basic and diluted loss per common share	$(0.00)	$(0.00)
Basic and diluted weighted-average common shares outstanding	1,490,580,788	1,219,326,605

The accompanying notes are an integral part of these consolidated financial statements.

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CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009

	Common Stock		Additional			
	Number of shares	Amount	paid-in capital	Subscription receivable	Accumulated deficit	Total
Balances at December 31, 2007	1,101,261,449	$1,101,256	$27,057,168	$(17,000)	$(29,414,203)	$(1,272,779)
Settlement with former employee	3,000,000	3,000	18,000	-	-	21,000
Shares issued for partial conversion of debentures, including effect of derivative conversion	175,222,320	175,222	990,147	-	-	1,165,369
Options granted to employees, consultants and attorneys	-	-	94,336	-	-	94,336
Warrants granted to consultants and attorneys	-	-	144,672	-	-	144,672
Exercise of stock options by consultants and attorneys	10,000,000	10,000	(9,000)	-	-	1,000
Shares and warrants issued in private placement	136,778,817	136,779	675,012	-	-	811,791
Net loss	-	-	-	-	(3,911,212)	(3,911,212)
Balances at December 31, 2008	1,426,262,586	$1,426,257	$28,970,335	$(17,000)	$(33,325,415)	$(2,945,823)
Shares issued for partial conversion of debentures, including effect of derivative conversion	72,710,337	72,711	126,744			199,455
Options granted to employees, consultants and attorneys			5,530			5,530
Warrants granted to consultants and attorneys			15,319			15,319
Net loss	-	-	-	-	(5,814,653)	(5,814,653)
Balances at December 31, 2009	1,498,972,923	$1,498,968	$29,117,928	$(17,000)	$(39,140,068)	$(8,540,172)

The accompanying notes are an integral part of these consolidated financial statements.

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2009	2008
Cash flows from operating activities		
Net loss	$(5,814,653)	$(3,911,212)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	660,940	644,952
Accretion expense	443,816	1,163,983
Provision for doubtful accounts	182,644	52,419
Provision for obsolete inventory	1,016,502	320,685
Gain on sale - leaseback	(81,074)	(81,581)
Impairment of intellectual properties	156,340	-
Impairment of investment in securities	452,000	1,068,000
Non-cash compensation expense	98,281	93,351
Loan costs and interest withheld from loan proceeds	15,662	86,799
Litigation settled through note payable	100,000	-
Litigation settled through accrued liability	390,000	-
Options issued to attorneys for services	20,849	146,657
Change in valuation of derivative	(100,295)	(2,417,283)
Changes in assets and liabilities:		
Trade accounts receivable	(164,630)	(231,962)
Related party receivable	(3,236,974)	(4,479,876)
Inventories	(438,877)	166,657
Prepaid expenses and other current assets	(328,643)	(9,408)
Accounts payable	844,821	791,646
Accrued liabilities	2,749,117	886,147
Deferred revenue	1,688,915	427,204
Customer deposits	859,853	688,080
Net cash used in operating activities	(485,406)	(4,594,742)
Cash flows from investing activities		
Intangibles purchased with cash	-	(204,946)
Royalties received in estate settlement	-	17,105
Purchase of property and equipment	-	(9,333)
Net cash used in investing activities	-	(197,174)
Cash flows from financing activities		
Proceeds from notes payable to related party	4,611	1,100,000
Payments on notes payable to related party	(22,434)	(171,640)
Proceeds from stock issued in private placement	-	204,000
Principal payments on long-term debt	(106,854)	(75,000)
Checks written in excess of bank balance	83,970	133,391
Proceeds from long-term deposits	-	1,000,000
Proceeds from short-term advances	1,885,300	2,527,105

Payments on short-term advances	(1,359,300)	-
Net cash provided by financing activities	485,293	4,717,856
Net decrease in cash and cash equivalents	(113)	(74,060)
Cash and cash equivalents at beginning of year	8,701	82,761
Cash and cash equivalents at end of year	$8,588	$8,701

The accompanying notes are an integral part of these consolidated financial statements.

CIRTRAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended December 31,	2009	2008
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$651,203	$37,473
Noncash investing and financing activities:		
Stock issued in payment of notes payable and accrued interest	$199,455	$1,165,369
Exchange AfterBev membership interest for distribution payable	-	863,973
Common stock issued in exchange for advance payable and accrued interest	-	628,790
Related party liability settled through reduction of related party receivable	1,000,000	1,200,000
Debt settled on behalf of Company for issuance of short term advances	1,315,000	-
Accounts receivable settled through offset in short-term liability	100,480	
Accrued liabilities settled on behalf of the Company for issuance of short term advance	1,949,490	
Return of property and equipment	12,400	-

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - CirTran Corporation and its consolidated subsidiaries (the "Company") provide turnkey manufacturing services using surface mount technology, ball-grid array assembly, pin-through-hole, and custom injection molded cabling for leading electronics original equipment manufacturers ("OEMs") in the communications, networking, peripherals, gaming, consumer products, telecommunications, automotive, medical, and semiconductor industries. The Company also designs, develops, manufactures, and markets a full line of local area network products, with emphasis on token ring and Ethernet connectivity. In 2007, the Company began marketing and distributing an energy drink using the Playboy brand under a license agreement with Playboy Enterprises International, Inc. ("Playboy").

In early 2004, the Company incorporated CirTran Asia ("CTA") as a wholly owned subsidiary. Through CTA, we design, engineer, manufacture and supply products in the international electronics, consumer products and general merchandise industries for various marketers, distributors and retailers selling overseas. This subsidiary provides manufacturing services to the direct response and retail consumer markets. Our experience and expertise in manufacturing enables CTA to enter a project at various phases: engineering and design; product development and prototyping; tooling; and high-volume manufacturing. This presence with Asian suppliers helps us maintain an international contract manufacturer status for multiple products in a wide variety of industries, and has allowed us to target larger-scale contracts. We intend to pursue manufacturing relationships beyond printed circuit board assemblies, cables, harnesses and injection molding systems by establishing complete "box-build" or "turn-key" relationships in the electronics, retail, and direct consumer markets. During the last three years from 2007 through 2009, the Company developed several fitness and exercise products and products in the household and kitchen appliance and health and beauty aid markets that are being manufactured in China. We anticipate that offshore contract manufacturing will continue to be an emphasis of the Company.

In December 2005, the Company incorporated CirTran Products Corp. ("CTP"), a Utah corporation, as a wholly owned subsidiary. CTP was formed to offer products for sale at wholesale and retail. This division is run from the Company's Los Angeles, California, office. During 2006 CTP was wholesaling the True Ceramic Pro Flat Iron under the terms of an exclusive marketing agreement with two direct marketing companies. The product was produced in China and shipped directly to the customer. The Company also sells its own proprietary and branded products through CTP.

In March 2006, the Company formed CirTran Media Corp. ("CMC"), formerly known as Diverse Media Group, to provide end-to-end services to the direct response and entertainment industries. The Company is developing marketing production services, and preparing programs where CMC will operate as the marketer, campaign manager and/or distributor for beauty, entertainment, software, and fitness consumer products. In May 2006, CMC entered into an agreement with Diverse Talent Group, Inc., a California corporation ("DTG"), whereby DTG would provide outsourced talent agency services in exchange for growth financing provided by the Company. In March 2007, the Company terminated the agreement, and assigned to DTG the name "Diverse Media Group." In terminating the agreement with DTG, now known as Diverse Media Group, Inc. ("DMG"), the Company received 9 million shares of DMG common stock, to be held in escrow for one year and subject to certain other restrictions. The Company still holds the shares as of December 31, 2009, however, the value of these shares was fully impaired during 2009.

During the first quarter of 2007, the Company formed CirTran Online Corp. ("CTO"), to sell products via the Internet, to offer training, software, marketing tools, web design and support, and other e-commerce related services to entrepreneurs, and to telemarket directly to customers. As part of CTO's business plan, the Company entered into an agreement with Global Marketing Alliance, LLC, a Utah limited liability company and related party, along with certain of its affiliates ("GMA") that specialize in providing services to e-bay sellers, conducting internet marketing seminars, and developing and hosting web sites. In connection with this agreement, the Company also hired the

owner of GMA to be CTO's Vice-President.

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

Basis of Presentation - CirTran Corporation, together with its subsidiaries collectively, the “Company" or "CirTran" consolidates all of its majority-owned subsidiaries and companies over which the Company exercises control through majority voting rights. The Company accounts for its investments in common stock of other Companies that the Company does not control but over which the Company can exert significant influence using the cost method.

Principles of Consolidation - The consolidated financial statements include the accounts of CirTran Corporation, and its wholly-owned subsidiaries Racore Technology Corporation, CTA, CTP, CMC, CTO, CBC, and discontinued PFE Properties, LLC.

The consolidated financial statements also include the accounts of AfterBev, a majority-owned subsidiary. At December 31, 2009, the Company had a four percent share of AfterBev’s profits and losses, but maintained a 52 percent voting control interest. AfterBev has a 51 percent share of the eventual cash distributions of Play Beverages, LLC (“PlayBev”), and the president and one of the directors of the Company own membership interests in PlayBev totaling 28.35 percent. As of September 30, 2008, the members of PlayBev had amended PlayBev’s operating agreement to require a 95 percent membership vote on major managerial and organizational decisions. None of the other members of PlayBev are affiliated with the Company. Accordingly, while the Company president and one of its directors own membership interests and currently hold the executive management positions in PlayBev, the Company or its affiliates nevertheless cannot exercise unilateral control over significant decisions, and the Company has accounted for its investment in PlayBev under the cost method of accounting.

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

Shipping and handling fees are included as part of net sales. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of goods sold.

The Company signed an Assignment and Exclusive Services Agreement with GMA, a related party, whereby revenues and all associated performance obligations under GMA’s web hosting and training contracts were assigned to the Company. Accordingly, this revenue is recognized in the Company’s financial statements when it is collected, along with the revenue of CirTran Online Corporation (see also Note 8).

The Company sold its building in a sale/leaseback transaction, and reported the gain on the sale as deferred revenue to be recognized over the term of lease pursuant to ASC 840-10, Accounting for Leases (see also Note 4).

The Company has entered into a Manufacturing, Marketing and Distribution Agreement with PlayBev, a related party, whereby the Company is the vendor of record in providing initial development, promotional, marketing, and distribution services marketing and distribution services. Accordingly, all amounts billed to PlayBev in connection with the development and marketing of its new energy drink have been included in revenue (see also Note 8).

Cash and Cash Equivalents - The Company considers all highly liquid, short-term investments with an original maturity of three months or less to be cash equivalents. Deposits are made to the Company in connection with distribution agreements. The deposits are either refundable or applied to invoices based on either annual minimum sales requirements and or actual sales shipments, as detailed in the individual distribution agreement.

Accounts Receivable - Accounts receivable are carried at the original invoice amount, less an estimate made for doubtful accounts based on a review of outstanding amounts. Specific reserves are estimated by management based

on certain assumptions and variables, including the customer's financial condition, age of the customer's receivable, and changes in payment histories. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

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

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

Preproduction Design and Development Costs - The Company incurs certain costs associated with the design and development of molds and dies for its contract-manufacturing segment. These costs are held as deposits on the balance sheet until the molds or dies are finished and ready for use. At that point, the costs are included as part of production equipment in property and equipment and are amortized over their useful lives. The Company holds title to all molds and dies used in the manufacture of its various products. The Company held $2,010 in deposits at December 31, 2009 and 2008. The capitalized cost, net of accumulated depreciation, associated with molds and dies included in property and equipment at December 31, 2009 and 2008, was $397,594 and $561,467, respectively.

Investment in Securities – The aggregate cost of the Company's cost-method investments totaled $1,050,000 at December 31, 2009. Investments with an aggregate cost of $750,000 were not evaluated for impairment because (a) the investment is in a nonpublic entity and the Company is exempt from estimating fair value under ASC 825-10, Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, and (b) the Company did not identify any events or changes in circumstances that
may have had a significant adverse effect on the fair value of those investments. The remaining cost-method investments consist of an investment in a private digital multi-media technology company and an investment in a company traded on the pink sheets in the talent agency industry with a carrying value of $300,000. An evaluation of the $300,000 found no impairment as of December 31, 2009. The investment in the talent agency was evaluated for impairment because of an adverse change in the market condition of companies in the talent agency industry and the trading volume and volatility of the investment. As a result of that evaluation, the Company identified an impairment of the investment and realized a loss of $452,000, resulting in $0 of carrying value at December 31, 2009.

Property and Equipment - Depreciation expense is recognized in amounts equal to the cost of depreciable assets over estimated service lives. Leasehold improvements are amortized over the shorter of the life of the lease or the service life of the improvements. The straight-line method of depreciation and amortization is followed for financial reporting purposes. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operating results.

Depreciation expense for the years ended December 31, 2009 and 2008, was $216,485 and $221,926, respectively.

Patents - Legal fees and other direct costs incurred in obtaining patents in the United States and other countries are capitalized. Patent costs are amortized over the estimated useful life of the patent.

Impairment of Long-Lived Assets -The Company reviews its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. At each balance sheet date, the Company evaluates whether events and circumstances have occurred that indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable.

Long-lived asset costs are amortized over the estimated useful life of the asset, which is typically 5 to 7 years. Amortization expense was $444,455 and $423,026 for the years ended December 31, 2009 and 2008, respectively.

Financial Instruments with Derivative Features - The Company does not hold or issue derivative instruments for trading purposes. However, the Company has financial instruments that are considered derivatives, or contain embedded features subject to derivative accounting. Embedded derivatives are valued separate from the host instrument and are recognized as derivative liabilities in the Company's balance sheet. The Company measures these instruments at their estimated fair value, and recognizes changes in their estimated fair value in results of operations during the period of change. The Company has estimated the fair value of these embedded derivatives using the Black-Scholes model. The fair values of the derivative instruments are measured each quarter.

Registration Payment Arrangements - On January 1, 2007, the Company adopted ASC 815-40 Accounting for Registration Payment Arrangements. Under ASC 815-40, and ASC 450-10, Accounting for Contingencies, a registration payment arrangement is an arrangement where (a) the Company has agreed to file a registration statement for certain securities with the SEC and have the registration statement declared effective within a certain time period; and/or (b) the Company will endeavor to keep a registration statement effective for a specified period of time; and (c) transfer of consideration is required if the Company fails to meet those requirements. When the Company issues an instrument coupled with these registration payment requirements, the Company estimates the amount of consideration likely to be paid under the agreement, and offsets such amount against the proceeds of the instrument issued. The estimate is then reevaluated at the end of each reporting period, and any changes recognized as a registration penalty in the results of operations. As further described in Note 9, the Company has instruments that contain registration payment arrangements. The effect of implementing this has not had a material effect on the financial statements because the Company considers probability of payment under the terms of the agreements to be remote.

Advertising Costs - The Company expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2009 and 2008, were $21,002 and $230,130, respectively.

Stock-Based Compensation – The Company has outstanding stock options to directors and employees, which are described more fully in Note 16. The Company accounts for its stock options in accordance with ASC 718-10, Accounting for Stock Issued to Employees, which requires the recognition of the cost of employee services received in exchanged for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. ASC 718-10 also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period).

Stock-based employee compensation incurred for the years ended December 31, 2009 and 2008, was $98,281 and $94,336, respectively.

Income Taxes - The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and the tax basis of assets, liabilities, the carryforward of operating losses and tax credits, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. An allowance against deferred tax assets is recorded when it is more likely than not that such tax benefits will not be realized. Research tax credits are recognized as utilized.

Use of Estimates - In preparing the Company’s financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Concentrations of Risk - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade accounts receivable. The Company sells substantially to recurring customers, wherein the customer’s ability to pay has previously been evaluated. The Company generally does not require collateral. Allowances are maintained for potential credit losses, and such losses have been within management’s expectations. At December 31, 2009 and 2008, this allowance was $290,806 and $108,162, respectively.

During the year ended December 31, 2009, sales to three customers accounted for 30 percent, 18 percent and 10 percent of net sales, respectively. Sales from the largest of these customers are included as part of the marketing and media segment. The other two customers are included in contract manufacturing and electronics manufacturing segments. Accounts receivable from one customer was 87 percent of total accounts receivable at December 31, 2009,

which created a concentration of credit risk.

During 2008, sales to three customers accounted for 29 percent, 7 percent and 7 percent of net sales, respectively. Sales from the largest of these customers are included as part of the marketing and media segment. The other two customers are included in contract manufacturing and electronics manufacturing segments. Accounts receivable from one customer was 91 percent of total accounts receivable at December 31, 2008, which created a concentration of credit risk.

Fair Value of Financial Instruments - The carrying amounts reported in the accompanying consolidated financial statements for cash, accounts receivable, notes payable and accounts payable approximate fair values because of the immediate or short-term maturities of these financial instruments. The carrying amounts of the Company’s debt obligations approximate fair value.

Loss Per Share - Basic loss per share is calculated by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted loss per share is similarly calculated, except that the weighted-average number of common shares outstanding would include common shares that may be issued subject to existing rights with dilutive potential when applicable. The Company had 748,731,491 and 2,385,544,000 in potentially issuable common shares at December 31, 2009 and 2008, respectively. These potentially issuable common shares were excluded from the calculation of diluted loss per share because the effects were anti-dilutive.

Reclassifications - Certain reclassifications have been made to the financial statements to conform to the current year presentation.

Recent Accounting Pronouncements

FASB Accounting Codification - In June 2009, the Financial Accounting Standards Board ("FASB") issued an accounting pronouncement found under ASC 105, previously referred to as SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162,” which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with GAAP. ASC 105 explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. This statement does not change existing GAAP, but reorganizes GAAP into Topics. In circumstances where previous standards require a revision, the FASB will issue an Accounting Standards Update ("ASU") on the Topic. ASC 105 was effective for financial statements issued for interim and annual reporting periods ending after September 15, 2009. The Company's adoption of this standard during the quarter ended September 30, 2009, did not have any impact on the Company's consolidated financial statements.

Fair Value Measures and Disclosures - ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. In February 2008, the FASB issued a one-year deferral for non-financial assets and liabilities to comply with ASC 820, previously referred to as SFAS No. 157. The Company adopted ASC 820 on January 1, 2009 and the adoption had no material effect on the Company's financial statements.

Business Combinations - In December 2007, the FASB issued guidance, as codified in ASC 805-10 Business Combinations (previously SFAS No. 141(R), Business Combinations). ASC 805-10 requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. ASC 805-10 also requires additional disclosure of information surrounding a business combination, such that users of the entity’s financial statements can fully understand the nature and financial impact of the business combination. The Company's adoption of ASC 805-10 on January 1, 2009, did not have a material impact on its consolidated statements.

Accounting for Collaborative Arrangements - In December 2007, the FASB ratified an accounting pronouncement found under ASC 808-10-15, previously referred to as Emerging Issues Task Force No. 07-1, "Accounting for Collaborative Agreements.” ASC 808-10-15 provides guidance regarding financial statement presentation and

disclosure of collaborative arrangements, as defined therein. The Company adopted ASC 808-10-15 effective January 1, 2009, and the adoption had no impact on the Company's financial position or results of operations.

Disclosures about Derivative Instruments - On January 1, 2009, the Company adopted the requirements of guidance codified in ASC 815-10 Derivatives and hedging (previously FASB Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement No. 133). ASC 815-10 requires additional quantitative disclosures (provided in tabular form) and qualitative disclosures for derivative instruments. The required disclosures include how derivative instruments affect an entity’s financial position, financial performance, and cash flows; relative volume of derivative activity; and the objectives and strategies for using derivative instruments. ASC 815-10 does not change the accounting treatment for derivative instruments. The Company’s adoption of ASC 815-10 did not have a material impact on its consolidated financial statements.

Useful Life of Intangible Assets - On January 1, 2009, the Company adopted the guidance codified in ASC 350-30, Intangibles - Goodwill and Other (previously FASB FAS 142-3, Determination of Useful Life of Intangible Assets). ASC 350-30 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset also requires expanded disclosure related to the determination of intangible asset useful lives and is effective for fiscal years beginning after December 15, 2008. The Company's adoption of ASC 350-30 did not have a material impact on its consolidated financial statements.

Convertible Debt Instruments - ASC 470-20, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("ASC 470-20") requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. ASC 470-20 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company adopted ACS 470-20 on January 1, 2009. Its adoption did not have a material effect on the financial statements.

Instruments With Imbedded Features - ASC 815-40, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("ASC 815-40"), provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock and it applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative, ASC 815-40 also applies to any freestanding financial instrument that is potentially settled in an entity's own stock. The Company adopted ACS 815-40 on January 1, 2009. Its adoption did not have a material effect on the financial statements.

Subsequent Events - In May 2009, the FASB issued an accounting pronouncement found under ASC 855-10, previously referred to as SFAS No. 165, "Subsequent Events," which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. ASC 855-10 is effective for financial statements issued for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 855-10 did not have an impact on the Company's financial position or results of operations. ACS 855-10 is effective for the fiscal quarter ending June 30, 2009. The Company's adoption of ACS 855-10 did not have a material impact on the interim or annual consolidated financial statements or the disclosures in those financial statements.

NOTE 2 – REALIZATION OF ASSETS

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company sustained losses of $5,814,653 and $3,911,212 for the years ended December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, the Company had an accumulated deficit of $39,140,068 and $33,325,415, respectively. In addition, the Company used, rather than provided, cash in its operations in the amounts of $485,406 and $4,594,743 for the years ended December 31, 2009 and 2008, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheets is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain or replace present financing, to acquire additional capital from investors, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

The Company feels that its beverage business has the potential to have a substantial impact on its business. The Company plans to focus on the beverage business and the contract manufacturing business. For the beverage business, the Company plans to sell existing products and develop new products under the license agreement with Playboy to a globally expanding market. With regard to contract manufacturing, the Company goal is to provide customers with manufacturing solutions for both new and more mature products, as well as across product generations.

The Company currently provides product marketing services to the direct response and retail markets for both proprietary and non-proprietary products. This segment provides campaign management and marketing services for both the Direct Response, Retail and Beverage Distribution markets. The Company intends to continue to provide marketing and media services to support its own product efforts, and offer to customers marketing service in channels involving television, radio, print media, and the internet.

With respect to electronics assembly and manufacturing, the Company intends to continue to serve these industries, although it anticipates that its focus will shift more to providing services on a sub-contract basis.

NOTE 3 – INVENTORY

Inventory consists of the following:

	December 31, 2009	December 31, 2008
Raw Materials	$ 1,638,256	$ 1,625,322
Work in Process	313,302	221,079
Finished Goods	967,550	633,831
Allowance / Reserve	(2,045,458)	(1,028,957)
Totals	$ 873,650	$ 1,451,275

During 2009 and 2008, write downs of $1,016,502 and $320,685, respectively, were recorded to reduce items considered obsolete or slow moving to their market value.

NOTE 4 – SALE OF PROPERTY

In May 2007, PFE Properties LLC ("PFE"), a Utah limited liability company and wholly owned subsidiary of the Company, sold and the Company leased back the land and building where the Company presently has its headquarters and manufacturing facility. The sales proceeds were $2,500,000. With those proceeds, the Company repaid PFE’s mortgage of $1,033,985, along with taxes, fees, and commissions aggregating $199,303.

The Company then agreed to lease back the property from the buyer, an individual who later became one of the Company’s directors for a period of time. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. The monthly lease payment is $17,083. The Company also recorded a gain on the sale of the property of $810,736, which is being deferred over the life of the lease. The Company recognized $81,074 and $81,581 of the deferral during the years ending December 31, 2009 and 2008, respectively.

NOTE 5 – ADVANCE BEAUTY SOLUTIONS RECEIVABLE

In June 2006, the Company and Advance Beauty Solutions (“ABS”) signed an agreement to settle certain disputed claims the Company had against ABS. Pursuant to the settlement of ABS's bankruptcy proceedings and the terms of the agreement, the Company obtained an allowed claim against ABS in the amount of $2,350,000. Of this amount, $750,000 was credited to the purchase of substantially all of ABS's assets under the terms of a separate asset purchase agreement (see below). Pursuant to the settlement, the Company was allowed to participate as a general unsecured creditor of ABS in the remaining amount of $1,600,000. ABS also has a $2,100,000 general unsecured claim of certain insiders of ABS. Both of these claims are subject to the prior payment of certain other secured, priority, and non-insider claims in the amount of $1,507,011. The settlement also resolved a related dispute with Inventory Capital Group (“ICG”), in which ICG assigned $65,000 of its secured claim against ABS to the Company.

Pursuant to the terms of the asset purchase agreement, in 2006 the Company acquired substantially all of ABS's assets in exchange for a cash payment of $1,125,000, a reduction by $750,000 in the amount owing to the Company, and the obligation to pay to ABS a royalty equal to $3.00 per True Ceramic Pro (“TCP”) flat iron unit sold by the Company.

The minimum royalty amount the Company will pay is $435,000, and this amount was included with other long-term obligations of the Company (see Note 10). Only after this initial $435,000 is paid can the Company begin sharing in the benefit, as one of ABS’s creditors, of the royalty obligation paid to the ABS estate. The realization of the total $1,665,000 receivable due the Company from the ABS estate depends on the Company selling approximately one million TCP units in the future, and gradually offsetting the Company’s proportionate share of the resultant royalty

obligation against the receivable.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment and estimated service lives consist of the following:

	2009	2008	Estimated Service Lives in Years
Production equipment	$ 4,038,818	$ 4,051,218	5-10
Leasehold improvements	997,714	997,714	7-10
Office equipment	240,472	240,472	5-10
Other	53,208	53,208	3-7
Total property and equipment	5,330,212	5,342,612	
Less accumulated depreciation	(4,785,507)	(4,569,021)	
Property and equipment, net	$ 544,705	$ 773,591	

NOTE 7 – INTELLECTUAL PROPERTY

Intellectual property and estimated service lives consist of the following:

	2009	2008	Estimated Service Lives in Years
Infomercial development costs	$ 61,445	$ 217,786	7
Patents	38,056	38,056	7
ABS Infomerical	1,186,382	1,186,382	5
Trademark	1,227,673	1,227,673	7
Copyright	115,193	115,193	7
Website Development Costs	150,000	150,000	5
Total intellectual property	2,778,749	2,935,090	
Less accumulated amortization	(1,508,391)	(1,063,937)	
Intellectual property, net	$ 1,270,358	$ 1,871,153	

The estimated amortization expenses for the next five years are as follows:

Year Ending December 31,	
2010	$ 462,749
2011	356,783
2012	254,916
2013	142,063
2014	32,418
Thereafter	21,429
Total	$ 1,270,358

NOTE 8 – RELATED PARTY TRANSACTIONS

Play Beverages, LLC

During 2006, Playboy Enterprises International, Inc. (“Playboy”), entered into a licensing agreement with Play Beverages, LLC (“PlayBev”), then an unrelated Delaware limited liability company, whereby PlayBev agreed to internationally market and distribute a new energy drink carrying the Playboy name and “Rabbit Head” logo symbol. In May 2007, PlayBev entered into an exclusive agreement with the Company to arrange for the manufacture, marketing and distribution of the energy drinks, other Playboy-licensed beverages, and related merchandise through various distribution channels throughout the world.

In an effort to finance the initial development and marketing of the new drink, the Company with other investors formed After Bev Group LLC ("AfterBev"), a California limited liability company and partially owned, consolidated subsidiary of the Company. The Company contributed its expertise in exchange for an initial 84 percent membership interest in AfterBev. The other initial AfterBev members contributed $500,000 in exchange for the remaining 16 percent. The Company borrowed an additional $250,000 from an individual, and contributed the total $750,000 to PlayBev in exchange for a 51 percent interest in PlayBev's cash distributions. The Company recorded this $750,000 amount as an investment in PlayBev, accounted for under the cost method. PlayBev then remitted these funds to Playboy as part of a guaranteed royalty prepayment. Along with the membership interest granted the Company, PlayBev agreed to appoint the Company's president and one of the Company's directors to two of PlayBev's three executive management positions. Additionally, an unrelated executive manager of PlayBev resigned, leaving the remaining two executive management positions occupied by the Company president and one of the Company's directors. On August 23, 2008, PlayBev's members agreed to amend its operating agreement to change the required membership vote on major managerial and organizational decisions from 75 percent to 95 percent. Since 2007, the two affiliates personally purchased membership interests from PlayBev directly and from other Playbev members constituting an additional 23.1 percent, which aggregated 34.35 percent. Despite the combined 90.5 percent interest owned by these affiliates and the Company, the Company cannot unilaterally control significant operating decisions of PlayBev, as the amended operating agreement requires that various major operating and organizational decisions be agreed to by at least 95 percent of all members. The other members of PlayBev are not affiliated with the Company. Accordingly, while PlayBev is now a related party, the Company cannot unilaterally control significant operating decisions of PlayBev, and therefore has not accounted for PlayBev's operations as if it was a consolidated subsidiary.

PlayBev has no operations, so under the terms of the exclusive manufacturing and distribution agreement, the Company was appointed as the master manufacturer and distributor of the beverages and other products that PlayBev licensed from Playboy. In so doing, the Company assumed all the risk of collecting amounts owed from customers, and contracting with vendors for manufacturing and marketing activities. In addition, PlayBev is owed a royalty from the Company equal to the Company’s gross profits from collected beverage sales, less 20 percent of the Company’s related cost of goods sold, and 6 percent of the Company’s collected gross sales. The Company incurred $745,121 and $782,296 in royalty expenses due to PlayBev during the years ended December 31, 2009 and 2008, respectively.

The Company also agreed to provide services to PlayBev for initial development, marketing, and promotion of the new beverage. These services are billed to PlayBev and recorded as an account receivable from PlayBev. The Company initially agreed to carry up to a maximum of $1,000,000 as a receivable due from PlayBev in connection with these billed services. On March 19, 2008 the Company agreed to increase the maximum amount it would carry as a receivable due from PlayBev, in connection with these billed services, from $1,000,000 to $3,000,000. The Company has advanced amounts beyond $3,000,000 in order to continue the market momentum internationally. As of March 19, 2008 the Company also began charging interest on the outstanding amounts owing at a rate of 7 percent per annum. PlayBev has agreed to repay the receivable and accrued interest out of the royalties due PlayBev. The Company has billed PlayBev for marketing and development services totaling $3,776,101 and $5,044,741 for the years ending December 31, 2009 and 2008, respectively, which have been included in revenues for our marketing and media segment. As of December 31, 2009, the interest accrued on the balance owing from PlayBev totaled $735,831. The net amount due the Company from PlayBev for marketing and development services, after netting the royalty owed to PlayBev, totaled $6,955,817 at December 31, 2009.

After Bev Group, LLC

Following AfterBev’s organization in May 2007, the Company entered into consulting agreements with two individuals, one of whom had loaned the Company $250,000 when the Company invested in PlayBev, and the other one was a Company director. The agreements provided that the Company assign to each individual approximately one-third of the Company’s share in future AfterBev cash distributions, in exchange for their assistance in the initial

AfterBev organization and planning, along with their continued assistance in subsequent beverage development and distribution activities. The agreements also provided that as the Company sold a portion of its membership interest in AfterBev, the individuals would each be owed their proportional assigned share distributions in the proceeds of such a sale. The actual payment of the distributions depended on what the Company did with the sale proceeds. If the Company used the proceeds to help finance beverage development and marketing activities, the payment of distributions would be deferred, pending collections from customers once beverage product sales eventually commenced. Otherwise, the proportional assigned share distributions would be due to the two individuals.

Throughout the balance of 2007, as energy drink development and marketing activities progressed, the Company raised additional funds by selling portions of its membership interest in AfterBev to other investors, some of whom were Company stockholders. In some cases, the Company sold a portion of its membership interest, including voting rights. In other cases, the Company sold merely a portion of its share of future AfterBev profits and losses. By the end of 2007, after taking into account the two interests it had assigned, the Company had retained a net 14 percent interest in AfterBev's profits and losses, but had retained 52 percent of all voting rights in AfterBev. The Company recorded the receipt of these net funds as increases to its existing minority interest in AfterBev, and the rest as amounts owing as distributable proceeds payable to the two individuals with assigned interests of the Company's original share of AfterBev.

At the end of 2007, the Company agreed to convert the amount owing to one of the individuals into a promissory note. In exchange, the individual agreed to relinquish his approximately one-third portion of the Company's remaining share of AfterBev's profits and losses. Instead, the individual received a membership interest in AfterBev. In January 2008, the other assignee, which is one of the Company's directors, similarly agreed to relinquish the distributable proceeds owed to him, in exchange for an interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, by the end of December 31, 2008, the director had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, the director loaned $834,393 to the company in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. During the year ended December 31, 2009, the director advanced an additional $500,000 to the Company for his purchase of an additional 3 percent interest in PlayBev, which resulted in a reduction of $500,000 of amounts owed by PlayBev to the Company. As of December 31, 2009, the Company still owed the director $64,719 in the form of an unsecured advance. In addition, during the year ended December 31, 2009, one of the directors of the Company and the Company president purchased 6 percent and 5 percent of AfterBev shares, respectively, in private sales from existing shareholders of Afterbev. AfterBev has had no operations since its inception.

Global Marketing Alliance

The Company entered into an agreement with Global Marketing Alliance ("GMA"), and hired GMA's owner as the Vice President of CTO, one of the Company's subsidiaries. Under the terms of the agreement, the Company outsources to GMA the online marketing and sales activities associated with the Company's CTO products. In return, the Company provides bookkeeping and management consulting services to GMA, and pays GMA a fee equal to five percent of CTO's online net sales. In addition, GMA assigned to the Company all of its web-hosting and training contracts effective as of January 1, 2007, along with the revenue earned thereon, and the Company also assumed the related contractual performance obligations. The Company recognizes the revenue collected under the GMA contracts, and remits back to GMA a management fee approximating their actual costs. The Company recognized net revenues from GMA related products and services in the amount of $2,572,955 and $3,234,588 for the years ended December 31, 2009 and 2008, respectively.

Transactions involving Officers, Directors, and Stockholders

Don L. Buehner was appointed to the Company's Board of Directors during 2007. Prior to his appointment as a director, Mr. Buehner bought the Company's building in a sale/leaseback transaction. The term of the lease is for 10 years, with an option to extend the lease for up to three additional five-year terms. The Company pays Mr. Buehner a monthly lease payment of $17,083, which is subject to annual adjustments in relation to the Consumer Price Index. Mr. Buehner retired from the Company's Board of Directors following the Company's Annual Meeting of Shareholders on June 18, 2008.

Sublease

In an effort to operate more efficiently and focus resources on higher margin areas, on March 5, 2010, the Company and Katana Electronics, LLC, a Utah limited liability company ("Katana") entered into certain agreements to reduce its costs (discussed more fully in Note 19). The Agreements include an Assignment and Assumption Agreement, an Equipment Lease, and a Sublease Agreement relating to the Company's property. Pursuant to the terms of the Sublease, the Company will sublease a certain portion of the Premises to Katana consisting of the warehouse and office space used as of the close of business on March 4, 2010. The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month. The Sublease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights. Under Agreements signed, the Company continues to have rights to operate as a contract manufacturer in the future in the US and off shore.

In 2007, the Company appointed Fadi Nora to its Board of Directors. In addition to compensation the Company normally pays to non-employee members of the Board, Mr. Nora is entitled to a quarterly bonus equal to 0.5 percent of any gross sales earned by the Company directly through Mr. Nora's efforts. As of December 31, 2009, the Company owed $18,565 under this arrangement. Mr. Nora also is entitled to a bonus equal to five percent of the amount of any investment proceeds received by the Company that are directly generated and arranged by him if the following conditions are satisfied: (i) his sole involvement in the process of obtaining the investment proceeds is the introduction of the Company to the potential investor, but that he does not participate in the recommendation, structuring, negotiation, documentation, or selling of the investment, (ii) neither the Company nor the investor are otherwise obligated to pay any commissions, finders fees, or similar compensation to any agent, broker, dealer, underwriter, or finder in connection with the investment, and (iii) the Board in its sole discretion determines that the investment qualifies for this bonus, and that the bonus may be paid with respect to the investment. During 2008 and 2009, Mr. Nora has received no compensation under this arrangement, and at December 31, 2009, the Company did not owe him any amounts under the arrangement.

In 2007, the Company also entered into a consulting agreement with Mr. Nora, whereby the Company assigned to him approximately one-third of the Company's share in future AfterBev cash distributions. In return, Mr. Nora assisted in the initial AfterBev organization and planning, and continued to assist in subsequent beverage development and distribution activities. The agreement also provided that as the Company sold a portion of its membership interest in AfterBev, Mr. Nora would be owed his proportional assigned share distribution in the proceeds of such a sale. Distributable proceeds due to Mr. Nora at the end of 2007 were $747,290. In January 2008, he agreed to relinquish this amount, plus an additional $116,683, in exchange for a 24 percent interest in AfterBev's profits and losses. Accordingly, he purchased a 24 percent interest in AfterBev's profits and losses in exchange for foregoing $863,973 in amounts due to him. Of this 24 percent, through the end of December 31, 2008, Mr. Nora had sold or transferred 23 percent to unrelated investors and retained the remaining 1 percent interest in AfterBev's profits and losses. In turn, Mr. Nora loaned $834,393 to the Company in the form of unsecured advances. Of the amounts loaned, $600,000 was used to purchase a 6 percent interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. During 2009, Mr. Nora advanced an additional $500,000 to the Company for his purchase of an additional 3 percent interest in Playbev, which resulted in a reduction of $500,000 of amounts owed by PlayBev to the Company. As of December 31, 2009, the Company still owed Mr. Nora $64,719 in the form of unsecured advances.

Prior to his appointment with the Company, Mr. Nora was also involved in the ANAHOP private placement of common stock. On April 11, 2008, Mr. Nora disassociated himself from the other principals of ANAHOP, and as part of the asset settlement relinquished ownership to the other principals of 12,857,144 shares of CirTran Corporation common stock, along with all of the warrants previously assigned to him.

In addition, on July 14, 2009, the Company entered into a Stock Purchase Agreement with Mr. Nora to purchase 75,000,000 shares of common stock of the Company at a purchase price of $.003 per share, for a total of $225,000, payable through the conversion of outstanding loans made by the director to the Company. Mr. Nora and the Company acknowledged in the purchase agreement that the Company did not have sufficient shares to satisfy the issuances, and agreed that the shares would be issued once the Company has sufficient shares to do so. As of December 31, 2009, the Company showed the balance of $225,000 as an accrued liability on the balance sheet.

In 2007, the Company issued a 10 percent promissory note to a family member of the Company president in exchange for $300,000. The note was due on demand after May 2008. During the years ended December 31, 2009 and 2008, the Company repaid principal and interest totaling $22,434 and $8,444, respectively. At December 31, 2009, the principal amount owing on the note was $208,014. On March 31, 2008, the Company issued to this same family member, along with four other Company shareholders, promissory notes totaling $315,000. The family member's note was for $105,000. Under the terms of all the notes, the Company received total proceeds of $300,000, and agreed to

repay the amount received plus a five percent borrowing fee. The notes were due April 30, 2008, after which they were due on demand, with interest accruing at 12 percent per annum. During the year ended December 31, 2008, the Company paid two of the notes in full for a total of $105,000. In addition, the Company repaid $58,196 in principal to the family member during the year ended December 31, 2008. During 2009, the Company paid $52,000 towards the outstanding notes, of which $10,000 was paid in principal to the family member. The principal balance owing on the promissory notes as of December 31, 2009, totalled $104,415.

During the year ended December 31, 2008, the Company president advanced the Company $778,600. Of the amounts advanced, $600,000 was used to purchase a 6 percent interest in PlayBev directly which resulted in a reduction of $600,000 of amounts owed by PlayBev to the Company. During 2009 the Company president advanced an additional $500,000 to the Company for his purchase of an additional 3 percent interest in Playbev, which resulted in a reduction of $500,000 of amounts owed by Playbev to the Company. As of December 31, 2009, the Company owed the Company president a total of $341,600 in unsecured advances.

On July 14, 2009, the Company entered into a Stock Purchase Agreement with the president of the Company to purchase 50,000,000 shares of common stock of the Company at a purchase price of $.003 per share, for a total amount of $150,000, payable through the conversion of outstanding loans made by the president of the Company to the Company. Mr. Hawatmeh and the Company acknowledged in the purchase agreement that the Company did not have sufficient shares to satisfy the issuances, and agreed that the shares would be issued once the Company has sufficient shares to do so. As of December 31, 2009, the Company showed the balance of $150,000 as an accrued liability on the balance sheet.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Guthy-Renker – In 2006, the Company filed a lawsuit against Guthy-Renker (“Guthy”), alleging breach of a 2005 manufacturing and distribution agreement, and seeking unspecified damages in excess of several million dollars. On March 25, 2008, the parties settled the matter, and Guthy paid the Company $300,000 under the settlement agreement to resolve all claims.

Litigation and Claims - Various vendors and service providers have notified the Company that they believe they have claims against the Company totaling approximately $1,500,000. The Company has determined the probability of realizing any loss on these claims is remote. The Company has made no accrual for these claims and is currently in the process of negotiating the dismissal of these claims.

Registration rights agreements – In May 2005, in connection with the Company’s issuance of a convertible debenture to Highgate House Funds, Ltd. (“Highgate”) (see Note 11), the Company granted to Highgate registration rights pursuant to which the Company agreed to file, within 120 days of the closing of the purchase of the debenture, a registration statement to register the resale of shares of the Company’s common stock issuable upon conversion of the debenture. The Company also agreed to use its best efforts to have the registration statement declared effective within 270 days after filing the registration statement. The Company agreed to register the resale of up to 100,000,000 shares, and to keep such registration statement effective until all of the shares issuable upon conversion of the debenture were sold. The Company filed the registration statement in September 2005, and the registration statement was declared effective in August 2006.

In December 2005, in connection with the Company’s issuance of a convertible debenture to YA Global Investments, L.P., formerly known as Cornell Capital Partners, L.P. (“YA Global”) (see Note 11), the Company granted to YA Global registration rights, pursuant to which the Company agreed to file, within 120 days of the closing of the purchase of the debenture, a registration statement to register the resale of shares of the Company’s common stock issuable upon conversion of the debenture. The Company also agreed to use its best efforts to have the registration statement declared effective within 270 days after filing the registration statement. The Company agreed to register the resale of up to 32,608,696 shares and 10,000,000 warrants, and to keep the registration statement effective until all of the shares issuable upon conversion of the debenture have been sold.

In August 2006, in connection with the Company’s issuance of a second convertible debenture to YA Global (See Note 8), the Company granted YA Global registration rights, pursuant to which the Company agreed to file, within 120 days of the closing of the purchase of the debenture, a registration statement to register the resale of shares of the

Company's common stock issuable upon conversion of the debenture. The Company also agreed to use its best efforts to have the registration statement declared effective within 270 days after filing the registration statement. The Company agreed to register the resale of up to 74,291,304 shares and 15,000,000 warrants, and to keep such registration statement effective until all of the shares issuable upon conversion of the debenture have been sold.

Previously, YA Global has agreed to extensions of the filing deadlines inherent in the terms of the two convertible debentures mentioned above, and in February 2008 agreed to extend the filing deadlines to December 31, 2008. On August 11, 2009, the Company and YA Global entered into a forbearance agreement related to the three convertible debentures issued by the Company to YA or its predecessor entities (See Note 11 – Convertible Debentures):

Under the terms of the agreement, the Company agreed to waive any claims against YA, entered into a Global Security Agreement (discussed below), a Global Guaranty Agreement (discussed below), and an amendment of a warrant granted to YA in connection with the issuance of the August Debenture; agreed to seek to obtain waivers from the Company's landlords at its properties in Utah, California, and Arkansas; agreed to seek to obtain deposit account control agreements from the Company's banks and depository institutions; and to repay the Company's obligations under the Debentures.

The repayment terms of the Forbearance Agreement required an initial payment of $125,000 upon signing the agreement. Beginning September 1, 2009 through May 1, 2010 monthly payments ranging from $150,000 to $300,000 are due for total payments of $2,825,000. The remaining balance is due July 1, 2010.

Pursuant to the Forbearance Agreement, the Company, subject to the consent of YA, may choose to pay all or any portion of the monthly payments in common stock, at a conversion price used to determine the number of shares of common stock equal to 85 percent of the lowest closing bid price of the Company's common stock during the ten trading days prior to the payment date.

YA agreed to forbear from enforcing its rights and remedies as a result of the existing defaults and/or converting the Debentures into shares of the Company's common stock, until the earlier of the occurrence of a Termination Event (as defined in the Forbearance Agreement), or July 1, 2010.

The Company, YA, and certain of the Company's subsidiaries also entered into a Global Security Agreement (the "GSA") in connection with the Forbearance Agreement. Under the GSA, the Company and the participating subsidiaries pledged and granted to YA a security interest in all assets and personal property of the Company and each participating subsidiary as security for the payment or performance in full of the obligations set forth in the Forbearance Agreement.

Additionally, the Company, YA, and certain of the Company's subsidiaries also entered into a Global Guaranty Agreement (the "GGA") in connection with the Forbearance Agreement. Under the GGA, the Company and the participating subsidiaries guaranteed to YA the full payment and prompt performance of all of the obligations set forth in the Forbearance Agreement.

The Company currently has issued and outstanding options, warrants, convertible notes and other instruments for the acquisition of the Company's common stock in excess of the available authorized but non-issued shares of common stock provided for under the Company's Articles of Incorporation, as amended. As a consequence, in the event that the holders of such instruments requiring the issuance, in the aggregate, of a number of shares of common stock that would, when combined with the previously issued and outstanding common stock of the Company exceed the authorized capital of the Company, seek to exercise their rights to acquire shares under those instruments, the Company will be required to increase the number of authorized shares or effect a reverse split of the outstanding shares in order to provide sufficient shares for issuance under those instruments.

Employment Agreements –

On August 1, 2009, we entered into a new employment agreement with Mr. Hawatmeh, our President. The term of the employment agreement continues until August 31, 2014, and automatically extends for successive one year

periods, with an annual base salary of $345,000. The employment agreement also grants to Mr. Hawatmeh options to purchase a minimum of 6,000,000 shares of the Company's stock each year, with the exercise price of the options being the market price of the Company's common stock as of the grant date. The Employment Agreement also provides for health insurance coverage, cell phone, car allowance, life insurance, and director and officer liability insurance, as well as any other bonus approved by the Board. The employment agreement includes additional incentive compensation as follows: a quarterly bonus equal to 5 percent of the Company's earnings before interest, taxes, depreciation and amortization for the applicable quarter; bonus(es) equal to 1.0 percent of the net purchase price of any acquisitions completed by the Company that are directly generated and arranged by Mr. Hawatmeh; and an annual bonus (payable quarterly) equal to 1 percent of the gross sales, net of returns and allowances of all beverage products of the Company and its affiliates for the most recent fiscal year.

Pursuant to the employment agreement, Mr. Hawatmeh's employment may be terminated for cause, or upon death or disability, in which event the Company is required to pay Mr. Hawatmeh any unpaid base salary and unpaid earned bonuses. In the event that Mr. Hawatmeh is terminated without cause, the Company is required to pay to Mr. Hawatmeh (i) within thirty (30) days following such termination, any benefit, incentive or equity plan, program or practice (the "Accrued Obligations") paid when the bonus would have been paid Employee if employed; (ii) within thirty (30) days following such termination (or on the earliest later date as may be required by Internal Revenue Code Section 409A to the extent applicable), a lump sum equal to thirty (30) month's annual base salary, (iii) bonus(es) owing under the employment agreement for the two year period after the date of termination (net of an bonus amounts paid as Accrued Obligations) based on actual results for the applicable quarters and fiscal years; and (iv) within twelve (12) months following such termination (or on the earliest later date as may be required by Internal Revenue Code Section 409A to the extent applicable), a lump sum equal to thirty (30) month's Annual Base Salary; provided that if Employee is terminated without cause in contemplation of, or within one (1) year, after a change in control, then two (2) times such annual base salary and bonus payment amounts.

NOTE 10 – NOTES PAYABLE

Notes payable consisted of the following at December 31, 2009 and 2008:

	2009	2008
Minimum Royalty Payments note, due in June 2008, in default	$105,050	$119,904
Settlement note, ten monthly payments, no interest	60,000	-
$1 million note due to an AfterBev member, no stated interest rate, discounted by interest imputed at 12%, no stated maturity date, paid in full	-	906,271
Promissory note to a stockholder, 10% stated interest rate, unsecured interest due quarterly, due Februrary 2011	208,014	230,447
Promisory note to an investor, 10% stated interest rate, face value discounted and to be accreted over the life of the note. Due on demand.	430,375	196,615
Promisory note to an unrelated member of AfterBev, 10% stated interest interest payable quarterly. Due on demand.	75,000	75,000
Promisory note to and individual, 12% stated interest, with a 5% borrowing due on demand in May 2008, paid in full in April 2009.	-	315,000
Promisory notes to 3 investors, 12% stated interest, 5% borrowing fee, due on demand.	104,415	151,804
	982,854	1,995,041
Less current maturities	(786,240)	(1,725,416)
Long-term portion of notes payable	$196,614	$269,625

There were no scheduled principal payments on the $1 million note shown above. However, if the Company were to sell any portion of its remaining membership interest in AfterBev, 50 percent of the proceeds of such a sale, up to $530,000, would be payable to the note holder as a principal payment. In any event, at least $530,000 of principal was due by December 2009. Using a presumed two-year period as an estimate, the Company imputed interest at its incremental borrowing rate of 12 percent, and discounted the face amount of the note by $193,548 to $806,452. Inasmuch as the note was issued in settlement of negotiations involving the sale of AfterBev membership interests, the discount was recorded as an increase in minority interest. The discount will be recognized ratably into interest expense over the estimated two-year life of the loan. During the year ended December 31, 2008, a total of $96,907 in interest expense was recognized, which decreased the discount and increased the carrying amount of the note. During 2009, the $1 million note was paid in full and the remaining unamortized discount was recognized as interest expense.

The following is a schedule of future maturities on the notes payable:

Year Ending December 31,	
2010 (including amounts due on demand)	$ 786,240
2011	196,614
Total	$ 982,854

NOTE 11 – CONVERTIBLE DEBENTURES

Highgate House Funds, Ltd. - In May 2005, the Company entered into an agreement with Highgate to issue a $3,750,000, 5 percent Secured Convertible Debenture (the "Debenture"). The Debenture was originally due December 2007, and is secured by all of the Company’s assets. Highgate extended the maturity date of the Debenture to December 31, 2008. As of January 1, 2008 the interest rate increased to 12 percent. On August 11, 2009, the Company and YA Global entered into a forbearance agreement and related agreements. The Company agreed to repay the Company’s obligations under the Debentures per an agreed schedule.

Accrued interest was originally payable at the time of maturity or conversion. Per the Forbearance Agreement, the scheduled payments are to be applied first to outstanding accrued interest. The Company may, at its option, elect to pay accrued interest in cash or shares of our common stock, with the conversion price to be used to determine the number of shares of common stock being equal to 85 percent of the lowest closing bid price of the Company’s common stock during the ten trading days prior to the payment day. Accrued interest paid during the twelve months ended December 31, 2009, totaled $275,000. Interest accrued during the twelve months ending December 31, 2009, totaled $79,059. The balance of accrued interest owed at December 31, 2009, was $54,982.

In consideration of the Company’s performance under the Forbearance Agreement, YA Global agreed to forbear from enforcing its rights and remedies as a result of the existing defaults under the Debenture, and/or converting the Debenture into shares of the Company’s common stock, until the earlier of (i) the occurrence of a termination event (as defined in the Forbearance Agreement), or (ii) the termination date of the Forbearance Agreement. Nothing contained in the Forbearance Agreement constitutes a waiver by YA Global of any default or event of default, whether existing at the time of the Forbearance Agreement or thereafter arising, and/or its right to convert the Debenture into shares of Common Stock. The Forbearance Agreement only constitutes an agreement by YA Global to forbear from enforcing its rights and remedies and/or converting the Debenture into shares of common stock of the Company upon the terms

and conditions set forth in the agreement.

The Company determined that certain conversion features of the Debenture fell under derivative accounting treatment. Since May 2005, the carrying value has been accreted over the life of the debenture until December 31, 2007, the original maturity date. As of that date, the carrying value of the Debenture was $970,136, which was the remaining face value of the debenture.

In connection with the issuance of the Debenture, $2,265,000 of the proceeds was used to repay earlier promissory notes. Fees of $256,433, withheld from the proceeds, were capitalized and were amortized over the life of the note.

During 2006, Highgate converted $1,000,000 of Debenture principal and accrued interest into a total of 37,373,283 shares of common stock. During 2007, Highgate converted $1,979,864 of Debenture principal and accrued interest into a total of 264,518,952 shares of common stock. During the year ended December 31, 2008 Highgate converted $350,000 of debenture principle into a total of 36,085,960 shares of common stock. The carrying value of the Debenture as of December 31, 2009 was $620,136. The fair value of the derivative liability stemming from the debenture's conversion feature was determined to be $0 as of December 31, 2009.

YA Global December Debenture - In December 2005, the Company entered into an agreement with YA Global to issue a $1,500,000, 5 percent Secured Convertible Debenture (the "December Debenture"). The December Debenture was originally due July 30, 2008, and has a security interest in all the Company’s assets, subordinate to the Highgate security interest. YA Global also agreed to extend the maturity date of the December Debenture to December 31, 2008. As of January 1, 2008 the interest rate was increased to 12 percent. The Company agreed to repay the Company’s obligations under the Debentures per an agreed schedule.

Accrued interest was originally payable at the time of maturity or conversion. Per the Forbearance Agreement, the scheduled payments are to be applied first to outstanding accrued interest. The Company may, at its option, elect to pay accrued interest in cash or shares of our common stock, with the conversion price to be used to determine the number of shares of common stock being equal to 85 percent of the lowest closing bid price of the Company’s common stock during the ten trading days prior to the payment day. Accrued interest paid during the twelve months ended December 31, 2009, totaled $350,000. Interest accrued during the twelve months ending December 31, 2009, totaled $186,388. The balance of accrued interest owed at December 31, 2009, was $167,292.

In consideration of the Company’s performance under the Forbearance Agreement, YA Global agreed to forbear from enforcing its rights and remedies as a result of the existing defaults under the December Debenture, and/or converting the December Debenture into shares of the Company’s common stock, until the earlier of (i) the occurrence of a termination event (as defined in the Forbearance Agreement), or (ii) the termination date of the Forbearance Agreement. Nothing contained in the Forbearance Agreement constitutes a waiver by YA Global of any default or event of default, whether existing at the time of the Forbearance Agreement or thereafter arising, and/or its right to convert the December Debenture into shares of Common Stock. The Forbearance Agreement only constitutes an agreement by YA Global to forbear from enforcing its rights and remedies and/or converting the December Debenture into shares of common stock of the Company upon the terms and conditions set forth in the agreement.

The YA Global Debenture was issued with 10,000,000 warrants, with an exercise price of $0.09 per share. The warrants vest immediately and have a three-year life. As a result of the May 2007 1.2-for1 forward stock split, the effective number of vested warrants increased to 12,000,000. On December 31, 2008, all 12,000,000 warrants expired.

The Company also granted YA Global registration rights related to the shares of the Company’s common stock issuable upon the conversion of the December Debenture and the exercise of the warrants. As of the date of this Report, no registration statement had been filed.

The Company determined that the conversion features on the December Debenture and the associated warrants fell under derivative accounting treatment. The carrying value was accreted over the life of the December Debenture until August 31, 2008, a former maturity date, at which time the value of the December Debenture reached $1,500,000.

In connection with the issuance of the December Debenture, fees of $130,000, withheld from the proceeds, were capitalized and are being amortized over the life of the December Debenture.

As of December 31, 2009, YA Global had not converted any of the December Debenture into shares of the Company’s common stock. As a result, the carrying value of the debenture as of December 31, 2009, remains $1,500,000. The fair value of the derivative liability stemming from the December Debenture’s conversion feature as of December 30, 2009, was determined to be $0.

YA Global August Debenture - In August 2006, the Company entered into another agreement with YA Global relating to the issuance by the Company of another 5 percent Secured Convertible Debenture, due in April 2009, in the principal amount of $1,500,000 (the "August Debenture").

Accrued interest was originally payable at the time of maturity or conversion. Per the Forbearance Agreement, the scheduled payments are to be applied first to outstanding accrued interest. The Company may, at its option, elect to pay accrued interest in cash or shares of our common stock, with the conversion price to be used to determine the number of shares of common stock being equal to 85 percent of the lowest closing bid price of the Company's common stock during the ten trading days prior to the payment day. Interest accrued during the twelve months ending December 31, 2009, totaled $132,127. The balance of accrued interest owed at December 31, 2009, was $406,821.

In consideration of the Company's performance under the Forbearance Agreement, YA Global agreed to forbear from enforcing its rights and remedies as a result of the existing defaults under the August Debenture, and/or converting the August Debenture into shares of the Company's common stock, until the earlier of (i) the occurrence of a termination event (as defined in the Forbearance Agreement), or (ii) the termination date of the Forbearance Agreement. Nothing contained in the Forbearance Agreement constitutes a waiver by YA Global of any default or event of default, whether existing at the time of the Forbearance Agreement or thereafter arising, and/or its right to convert the August Debenture into shares of Common Stock. The Forbearance Agreement only constitutes an agreement by YA Global to forbear from enforcing its rights and remedies and/or converting the August Debenture into shares of common stock of the Company upon the terms and conditions set forth in the agreement.

In connection with the August Purchase Agreement, the Company also agreed to grant to YA Global warrants (the "Warrants") to purchase up to an additional 15,000,000 shares of our common stock. The Warrants have an exercise price of $0.06 per share, and originally were to expire three years from the date of issuance. In connection with the Forbearance Agreement, the term of the warrants was extended to August 23, 2010. The Warrants also provide for cashless exercise if at the time of exercise there is not an effective registration statement or if an event of default has occurred. As a result of the May 2007 1.2-for 1 forward stock split, the effective number of outstanding warrants increased to 18,000,000.

In connection with the issuance of the August Debenture, the Company also granted YA Global registration rights related to the common stock issuable upon conversion of the August Debenture and the exercise of the Warrants. As of the date of this report, no registration statement had been filed.

The Company determined that the conversion features on the August Debenture and the associated warrants fell under derivative accounting treatment. The carrying value will be accreted each quarter over the life of the August Debenture until the carrying value equals the face value of $1,500,000. During the year ended December 31, 2008, YA Global chose to convert $341,160 of the convertible debenture into 139,136,360 shares of common stock.

YA Global chose to convert $117,622 of the convertible debenture into 72,710,337 shares of common stock during the year ended December 31, 2009. As of December 31, 2009, the carrying value of the August Debenture was $1,041,218. The fair value of the derivative liability arising from the August Debenture's conversion feature and warrants was $11,160 as of December 31, 2009.

In connection with the issuance of the August Debenture, fees of $135,000, withheld from the proceeds, were capitalized and are being amortized over the life of the August Debenture.

NOTE 12 – LEASES

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

The Company's facilities in Shenzhen, China, constitute a sales and business office. The Company has no manufacturing facilities in China. The Company's office in Shenzhen is approximately 1,060 square feet. The term of the lease is for two years, beginning May 28, 2007. Under the terms of the lease on the space, the monthly payment is 12,783 China Yuan Renminbi, which was the equivalent of $1,871 on March 27, 2009. The lease in China was not renewed in 2009.

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

In November 2006, the Company signed a two-year lease on a 1,150 square-foot facility in Bentonville, Arkansas, in close proximity to Wal-Mart's world headquarters. Lease payments during the two-year lease term have been $1,470 per month. The Company entered into a new lease agreement, beginning in November 2008 for a facility at a new location in Bentonville. Lease payments for the two-year lease are $715 per month. This office is used for sales and promotions.

The following is a schedule of future minimum lease payments under the operating leases:

Year Ending December 31,	
2010	$ 253,615
2011	205,000
2012	205,000
2013	205,000
2014	205,000
Thereafter	478,333
Total	$ 1,551,948

The building leases provide for payment of property taxes, insurance, and maintenance costs by the Company. Rental expense for operating leases totaled $254,033 and $293,447 for the years ended December 31, 2009 and 2008, respectively.

NOTE 13 – ROYALTY OBLIGATION TO ABS CREDITORS

Under the June 2006 agreement with ABS, which is a part of ABS's bankruptcy proceedings, the Company has an obligation to pay a royalty equal to $3.00 per TCP flat iron unit sold by the Company. The maximum amount of royalties the Company must pay is $4,135,000. Regardless of sales, however, the Company agreed to pay at least $435,000 by June 2008, and included that amount in the Company's long-term obligations (See Note 10). The Company is in default on this agreement. Under the terms of the bankruptcy court-approved agreement, royalties are to be paid to various ABS creditors in a specified order and in specified amounts. Only after the Company pays the total $435,000 to other creditors can it then begin to share pro rata in part of the royalties owed by offsetting amounts owed to reduce its long-term receivable (see Note 5). As of December 31, 2009 the Company has made a total of $329,950 on the long-term note payable. As of December 31, 2009, the note balance totaled $105,050.

NOTE 14 – INCOME TAXES

The Company has paid no federal or state income taxes. The significant components of the Company's deferred tax assets and liabilities at December 31, 2009 and 2008, were as follows:

	2009	2008
Deferred income tax assets:		
Inventory reserve	$ 762,956	$ 383,801
Bad debt reserve	108,470	40,344
Vacation reserve	35,580	35,580
Research and development credits	27,285	27,285
Net operating loss carryforward	12,225,196	11,060,742
Depreciation	121,291	107,591
Intellectual property	415,823	311,997

Derivative liability	195,209	219,753
Total deferred income tax assets	13,891,810	12,187,093
Valuation allowance	(13,891,810)	(12,187,093)
Net deferred income tax asset	$-	$-

The Company has sustained net operating losses in both periods presented in the accompanying consolidated statements of operations. No deferred tax asset or income tax benefits are reflected in the financial statements for net deductible temporary differences or net operating loss carryforwards, because the likelihood of realization of the related tax benefits cannot be established. Accordingly, a valuation allowance has been recorded to reduce the net deferred tax asset to zero, and consequently there is no income tax provision or benefit presented for the years ended December 31, 2009 and 2008.

As of December 31, 2009, the Company had net operating loss carryforwards for tax reporting purposes of approximately $31.9 million. These net operating loss carryforwards, if unused, begin to expire in 2019. Utilization of approximately $1.2 million of the total net operating loss is dependent on the future profitable operation of Racore Technology Corporation, a wholly-owned subsidiary, under the separate return limitation rules and restrictions on utilizing net operating loss carryforwards after a change in ownership. In addition, the realization of tax benefits relating to net operating loss carryforwards is limited due to the settlement related to amounts previously due to the IRS, as discussed below.

In November 2004, the Internal Revenue Service accepted the Company's Amended Offer in Compromise (the "Offer") to settle delinquent payroll taxes, interest and penalties. The acceptance of the Offer required the Company to pay $500,000. Additionally, the Offer required the Company to remain current in its payment of taxes for 5 years, and not claim any net operating losses for the years 2001 through 2015, or until the Company pays taxes on future profits in an amount equal to the taxes waived by the offer in compromise of $1,455,767.

The following is a reconciliation of the amount of tax benefit that would result from applying the federal statutory rate to pretax loss with the benefit from income taxes for the years ended December 31, 2009 and 2008:

	2009	2008
Benefit at statuatory rate (34%)	$ (1,976,982)	$ (1,329,812)
Non-deductible expenses	41,312	60,446
Change in valuation allowance	1,704,717	2,289,173
State tax benefit, net of federal tax benefit	(191,884)	(129,070)
Return to provision	422,837	(890,737)
Net benefit from income taxes	$ -	$ -

NOTE 15 – STOCKHOLDERS' EQUITY

Common Stock Issuances — During the year ended December 31, 2009, the Company issued the following shares of restricted common stock:

72,710,337 restricted shares of common stock to Highgate and YA Global upon conversion of $117,622 of convertible debt and accrued interest and a $81,833 effect of derivative conversion. On each conversion date, the conversion rate was the lower of $0.10 per share, or 100 percent of the lowest closing bid price of our common stock over the 20 trading days preceding the conversion. The average conversion rate was $.002 during 2009.

During the year ended December 31, 2008, the Company issued the following shares of restricted common stock:

175,222,320 restricted shares of common stock to Highgate and YA Global upon conversion of $691,160 of convertible debt and accrued interest and a $474,209 effect of derivative conversion. On each conversion date, the conversion rate was the lower of $0.10 per share, or 100 percent of the lowest closing bid price of our common stock over the 20 trading days preceding the conversion. The average conversion rate was $.004 during 2008.

63,142,857 restricted shares in six separate private placements for a total of $441,000.

3,000,000 restricted shares of common stock to a former employee as part of a final payment of an accrued settlement obligation in the amount of $21,000, which was the fair market value of the shares required to be issued when the settlement was made.

73,635,960 restricted shares were issued in four private placement transactions involving the conversion of $305,900 in advances, which investors had previously loaned to the Company, together with additional proceeds of $25,000. Also included in these transactions was the conversion of accrued liabilities totaling $39,890. All dollar amounts were based on the fair market value on the day the shares were sold as determined by the closing price bid price.

Non-Employee Options – During each of the year ended December 31, 2008, options for 10,000,000 shared of common stock were exercised by the Company’s outside legal counsel for proceeds of $1,000.

NOTE 16 – STOCK OPTIONS AND WARRANTS

Stock Option Plans – As of December 31, 2009, options to purchase a total of 59,200,000 shares of common stock had been issued from the 2006 Stock Option Plan, out of which a maximum of 60,000,000 can be issued. As of December 31, 2009, options and share purchase rights to acquire a total of 22,960,000 shares of common stock had been issued from the 2008 Stock Option Plan, also, out of which a maximum of 60,000,000 can be issued. The Company's Board of Directors administers the plans, and has discretion in determining the employees, directors, independent contractors, and advisors who receive awards, the type of awards (stock, incentive stock options, non-qualified stock options, or share purchase rights) granted, and the term, vesting, and exercise prices.

Employee Options – During the year ended December 31, 2009 the Company did not grant options to purchase shares of common stock to employees. During the year ended 2008, the Company granted options to purchase 12,960,000 shares of common stock to employees. The fair market value of the options granted in 2008 aggregated $105,296.

Option awards to employees are granted with an exercise price equal to the market price of the Company's stock at the date of grant, most granted in the past have vested immediately, and most have had four-year contractual terms.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model, using the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's common stock over the most recent period commensurate with the expected term of the option. Prior to 2007, at times the Company granted options to employees in lieu of salary payments, and the pattern of exercise experience was known. Beginning in 2007, options were granted under different circumstances, and the Company has insufficient historical exercise data to provide a reasonable basis upon which to estimate the expected terms. Accordingly, in such circumstances, the Company in 2007 began using the simplified method for determining the expected term of options granted with exercise prices equal to the stock's fair market value on the grant date. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. As the Company did not grant any employee options during the year ended December 31, 2009, no actual assumptions were applicable for the year ending December 31, 2009.

	2009	2008
Expected dividend yield	n/a	-
Risk free interest rate	n/a	3.0%-5.0%
Expected volatility	n/a	109%-145%
Weighted average volatility	n/a	121%
Expected term (in years)	n/a	0.0-2.5
Weighted average fair value per share	n/a	$0.009

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A summary of the stock option activity under the Plans as of December 31, 2009, and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Excercisable at December 31, 2007	46,800,000	$ 0.013		
Granted	12,960,000	$ 0.018		
Exercised	-	$ 0.000		
Expired	(3,600,000)	$ 0.013		
Outstanding at December 31, 2008	56,160,000	$ 0.014	3.51	$ -
Excercisable at December 31, 2008	54,360,000	$ 0.013	3.54	$ -
Granted	-	$ 0.000		
Exercised	-	$ 0.000		
Expired	(3,000,000)	$ 0.014		
Outstanding at December 31, 2009	53,160,000	$ 0.014	2.48	$ -
Excercisable at December 31, 2009	51,960,000	$ 0.014	2.50	$ -

The weighted-average grant-date fair value of options granted during the year ended December 31, 2008 was $0.018. The total intrinsic value of options exercised during the year ended December 31, 2008 was $0. As of December 31, 2009, vested options totaled 51,960,000, leaving 1,200,000 that have yet to completely vest. As a result, as of December 31, 2009 unrecognized compensation costs related to options outstanding that have not yet vested at year-end that would be recognized in subsequent periods totaled $6,975.

Share Purchase Rights – During 2008, the Company granted share purchase rights to its outside legal counsel to acquire 10,000,000 shares of common stock at a price of $0.0001 per share. The purchase rights were granted in order that the attorneys could sell the underlying shares and thus satisfy amounts due for legal services rendered. Additional legal expense of $130,000 was recognized as the fair market value at the time the stock purchase rights were awarded. Fair market value was estimated using the Black-Scholes valuation model, and using assumptions for volatility and estimated term as being close to zero since it was assumed that the rights would be exercised almost immediately. As a result, the valuation of the stock purchase rights was calculated to be virtually the same as the fair value of the underlying common stock on the date of issuance.

Warrants – In connection with the YA Global convertible debenture issued in December 2005, the Company issued three-year warrants to purchase 10,000,000 shares of the Company’s common stock. The warrants had an exercise price of $0.09 per share, and vested immediately, and had a three-year contractual life. These warrants expired on December 31, 2008.

In May 2006, the Company closed a private placement of shares of its common stock and warrants in which it issued 14,285,715 shares of the Company's common stock to ANAHOP, Inc., a California corporation, and issued warrants to purchase up to 30,000,000 additional shares of common stock to designees of ANAHOP for a price of $1,000,000. The term of these warrants was for five years. With respect to the shares underlying the warrants, the Company granted piggyback registration rights as follows: (A) once all of the warrants with an exercise price of $0.15 per share have been exercised, the Company agreed to include in its next registration statement the resale of those underlying shares; (B) once all of the warrants with an exercise price of $0.25 per share have been exercised, the Company agreed to include in its next registration statement the resale of those underlying shares; and (C) once all of the warrants with an exercise price of $0.50 per share have been exercised, the Company agreed to include in its next registration statement the resale of those underlying shares. The Company did not grant any registration rights with respect to the original 14,285,715 shares of common stock.

In connection with the YA Global convertible debenture issued in August 2006, the Company issued three-year warrants to purchase 15,000,000 shares of the Company's common stock. The initial expiration date of the warrants was August 23, 2009. As part of the Forbearance Agreement (see Note 6), the life of the warrants was extended one year to August 23, 2010. The warrants had an exercise price of $0.06 per share, and vested immediately.

The warrants had an exercise price of $0.06 per share, and vested immediately. In connection with the private placement with ANAHOP, the Company issued five-year warrants to purchase 30,000,000 shares of common stock at prices ranging from $0.15 to $0.50. All of these warrants were subject to adjustment in the event of a stock split. Accordingly, as a result of the 1:1.20 forward stock split that occurred in 2007, there are warrants outstanding at December 31, 2009 to purchase a total of 36,000,000 shares of common stock in connection with these transactions. The exercise price per share of each of the aforementioned warrants was likewise affected by the stock split, in that each price was reduced by 20 percent.

During 2008, in connection with issuing a promissory note, the Company also issued five-year warrants to purchase up to 75,000,000 shares of common stock at exercise prices ranging from $0.02 to $0.50 per share. Also during 2008, in connection with entering into an agreement with an outside consultant, the Company also issued four-year warrants to purchase up to 6,000,000 shares of common stock at an exercise price of $0.0125 per share. The Company accounts for these consultant warrants under the provisions of Accounting Standards Codification ("ASC") 505-50, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services.

The Corporation currently has an insufficient number of authorized shares to enable warrant holders to fully exercise their warrants, assuming all warrants holders desired to do so. Accordingly, the warrants are subject to derivative accounting treatment, and are included in the derivative liability related to the convertible debentures (see Notes 6 and 7).

NOTE 17 –SEGMENT INFORMATION

Segment information has been prepared in accordance with ASC 280-10, Disclosure about Segments of an Enterprise and Related Information. The Company has four reportable segments: Electronics Assembly, Contract Manufacturing, Marketing and Media, and Beverage Distribution. The Electronics Assembly segment manufactures and assembles circuit boards and electronic component cables. The Contract Manufacturing segment manufactures, either directly or through foreign subcontractors, various products under manufacturing and distribution agreements. The Marketing and Media segment provides marketing services to online retailers, along with beverage development and promotional services to Play Beverages, LLC. The Beverage Distribution segment manufactures, markets, and distributes Playboy-licensed energy drinks domestically and internationally. The Beverage Distribution segment continues to grow, and the distribution channels, across the country and internationally, continues to gain traction. The Company anticipates this segment to become more significant in relation to overall Company operations.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies. The Company evaluates performance of each segment based on earnings or loss from operations. Selected segment information is as follows:

	Electronics Assembly	Contract Manufacturing	Marketing and Media	Beverage Distribution	Total
December 31, 2009					
Sales to external customers	$1,263,355	$ 334,762	$6,350,710	$ 1,784,028	$9,732,855
Intersegment sales	-	-	-	-	-
Segment income (loss)	(3,282,578)	(477,987)	(1,633,455)	(420,633)	(5,814,653)
Segment assets	3,043,152	1,277,804	8,661,801	658,464	13,641,221
Depreciation and amortization	379,493	258,030	23,417	-	660,940
December 31, 2008					
Sales to external customers	$1,664,796	$ 1,945,867	$8,564,169	$ 1,500,713	$13,675,545
Intersegment sales	-	-	-	-	-
Segment income (loss)	(2,274,384)	(120,158)	(1,946,990)	430,320	(3,911,212)
Segment assets	4,378,601	1,981,290	6,649,802	59,486	13,069,179
Depreciation and amortization	384,379	258,638	1,935	-	644,952

NOTE 18 – GEOGRAPHIC INFORMATION

The Company currently maintains $408,844 of capitalized tooling costs in China. All other revenue-producing assets are located in the United States of America. Revenues are attributed to the geographic areas based on the location of the customers purchasing the products. The Company's net sales and assets by geographic area are as follows:

	Revenues		Revenue-producing assets	
	2009	2008	2009	2008
United States of America	$ 8,483,572	$ 13,659,073	$ 137,331	$ 195,780
China	-	-	408,844	577,811
Other	1,249,283	16,472	-	-
	$ 9,732,855	$ 13,675,545	$ 546,175	$ 773,591

NOTE 19 – SUBSEQUENT EVENTS

On March 5, 2010 the Company entered into a Separation Agreement ("Agreement") with Shaher Hawatmeh. As of the date of the "Agreement" Shaher Hawatmeh's employment with the Company was terminated and he no longer has any further employment obligations with the Company. In consideration of his execution of this "Agreement" the Company will pay Shaher Hawatmeh's "Separation Pay" of $210,000 in twenty-six bi-weekly payments. The first payment of the Separation Pay was to begin on March 19, 2010. The Company has made the first payment to Shaher Hawatmeh. Additional terms of the separation agreement include payment of all amounts necessary to cover health and medial premiums on behalf of Shaher Hawatmeh, his spouse and dependents through April 20, 2010, all outstanding car allowances and expense ($750) due and owing as of February 28, 2010, satisfaction and payment by the Company (with a complete release of Shaher Hawatmeh) of all outstanding amounts due and owing on the Company Corporate American Express Card (issued in the name of Shaher) and the issuance and delivery to Shaher Hawatmeh of ten million (10,000,000) share of the Company's common stock within a reasonable time following authorization by the Company's shareholders of sufficient shares to cover such issuance.

In an effort to operate more efficiently and focus resources on higher margin areas, on March 5, 2010, the Company and Katana Electronics, LLC, a Utah limited liability company ("Katana") entered into certain agreements to reduce its costs (discussed more fully in Note 19). The Agreements include an Assignment and Assumption Agreement, an Equipment Lease, and a Sublease Agreement relating to the Company's property. Pursuant to the terms of the Sublease, the Company will sublease a certain portion of the Premises to Katana consisting of the warehouse and office space used as of the close of business on March 4, 2010. The term of the Sublease is for two (2) months with automatic renewal periods of one month each. The base rent under the Sublease is $8,500 per month. The Sublease contains normal and customary use restrictions, indemnification rights and obligations, default provisions and termination rights. Under Agreements signed, the Company continues to have rights to operate as a contract manufacturer in the future in the US and off shore.

The Company has performed an evaluation of subsequent events through April 15, 2010, the date of this report.