

CIRTRAN CORP
Form 10-Q
July 29, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended March 31, 2014

TRANSITION REPORT PURSUANT TO 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

(Exact name of registrant as specified in its charter)

Nevada

68-0121636

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

4125 South 6000 West, West Valley City, Utah 84128

(Address of principal executive offices, including zip code)

(801) 963-5112

(Registrant's telephone number, including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 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 (§ 232.405 of this chapter) 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 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.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. **As of July 29, 2014, issuer had 4,498,891,910 outstanding shares of common stock, par value \$0.001.**

CIRTRAN CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 2014

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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CIRTRAN CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 180	\$ 281
Trade accounts receivable, net of allowance for doubtful accounts of \$338,880 and \$832,093, respectively	35,884	6,561
Inventory, net of reserve of \$2,255,041	177,215	188,634
Other	66,053	52,555
Total current assets	279,332	248,031
Investment in securities, at cost	300,000	300,000
Long-term receivable, net of allowance of \$1,582,895	-	-
Property and equipment, net	31,797	39,856
Other assets, net	40,257	40,733
Total assets	\$ 651,386	\$ 628,620
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Checks written in excess of bank balance	\$ 511	\$ 41,925
Accounts payable	4,153,682	4,169,641
Related-party payable	1,250,701	1,193,901
Short-term advances payable - non-related parties	2,015,597	1,982,212
Short-term advances payable - related parties	754,839	766,939
Accrued liabilities	2,121,686	2,147,729
Accrued payroll and compensation expense	3,138,288	2,961,993
Accrued interest	1,602,852	1,482,181
Deferred revenue	2,542,991	2,592,170
Derivative liability	170,741	158,396
Convertible debenture	2,390,528	2,390,528
Current maturities of long-term debt	414,085	414,085
Current liabilities to non-controlling interest holders	2,738,556	2,728,556
Note payable to stockholders and members	151,833	151,833
Total current liabilities	23,446,890	23,182,089
Total liabilities	23,446,890	23,182,089
Stockholders' deficit		
CirTran Corporation stockholders' deficit:		

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Common stock, par value \$0.001; authorized 4,500,000,000 shares; issued and outstanding shares: 4,498,891,910 and 4,457,991,910	4,498,892	4,457,992
Additional paid-in capital	29,246,170	29,270,710
Subscription receivable	(17,000)	(17,000)
Accumulated deficit	(47,861,145)	(47,674,008)
Total CirTran Corporation and subsidiaries stockholders' deficit	(14,133,083)	(13,962,306)
Non-controlling interest	(8,662,421)	(8,591,163)
Total stockholders' deficit	(22,795,504)	(22,553,469)
Total liabilities and stockholders' deficit	\$651,386	\$628,620

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

CIRTRAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended	
	March 31,	
	2014	2013
Net sales	\$351,743	\$868,152
Cost of sales	(20,557) (234,515
Royalty Expense	-	(37,494
)
Gross profit	331,186	596,143
Operating expenses		
Selling, general and administrative expenses	414,904	833,452
Non-cash compensation expense	5,633	29,872
Total operating expenses	420,537	863,324
Loss from operations	(89,351) (267,181
)
Other income (expense)		
Interest expense	(136,123) (209,495
Gain (loss) on settlement of debt	(20,576) 38,352
Gain (loss) on derivative valuation	(12,345) 5,844
Total other expense, net	(169,044) (165,299
)
Net loss	(258,395) (432,480
)
Net loss attributable to non-controlling interest	71,258	326,904
Net loss attributable to CirTran Corporation and subsidiaries	\$(187,137) \$(105,576
)
Basic and diluted loss per common share	\$(0.00) \$(0.00
Basic and diluted weighted-average common shares outstanding	4,470,859,326	2,864,128,141

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

CIRTRAN CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

For the Three Months Ended March 31,	2014	2013
Cash flows from operating activities		
Net loss	\$(258,395)	\$(432,480)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,059	15,138
Inventory reserves	-	(176)
Non-cash compensation expense	-	-
Gain on derivative valuation	12,345	5,844
Gain on settlement of debt	20,576	38,352
Loan fees	-	-
Changes in assets and liabilities:		
Trade accounts receivable	(29,323)	79,183
Inventory	11,419	88,659
Other current assets	(13,498)	(73,249)
Other assets	476	114,714
Accounts payable	21,210	(51,262)
Related-party payable	56,800	61,712
Accrued liabilities	(26,043)	56,059
Accrued payroll and compensation expense	176,295	149,071
Refundable customer deposits	-	(201)
Accrued interest	185,066	184,986
Deferred revenue	(49,179)	(390,369)
Net cash provided by (used in) operating activities	115,808	(154,019)
Cash flows from financing activities		
Proceeds from notes payable	-	-
Checks written in excess of bank balance	(41,414)	(8,194)
Proceeds from non-controlling interest	-	113,134
Proceeds from short-term advances	28,900	117,365
Payments on convertible debenture accrued interest	(64,395)	(26,854)
Payments on short-term advances non-related parties	(8,000)	(8,949)
Payments on short-term advances related parties	(31,000)	(29,650)
Net cash provided by (used in) financing activities	(115,909)	156,852
Net increase (decrease) in cash and cash equivalents	(101)	2,833
Cash and cash equivalents at beginning of period	281	7,883
Cash and cash equivalents at end of period	\$180	\$10,716
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$23,000	\$26,851

Noncash investing and financing activities:

Debt and accrued liabilities converted to equity	\$16,360	\$1,050,508
Conversion of short-term advances, related parties for current liabilities to non-controlling interest holders	10,000	-

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

CIRTRAN CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of CirTran Corporation and its subsidiaries (the “Company”). These financial statements have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. These statements should be read in conjunction with the Company’s annual financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. In particular, the Company’s significant accounting policies were presented as Note 2 to the consolidated financial statements in that Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements for the three months ended March 31, 2014, are not necessarily indicative of the results that may be expected for the 12 months ending December 31, 2014.

NOTE 2 – REALIZATION OF ASSETS

The accompanying condensed consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern. The Company had a net loss of \$258,395 and of \$432,480 for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, the Company had an accumulated deficit of \$47,861,145. In addition, the Company had cash provided by operations in the amount of \$74,423 during the three months ended March 31, 2014 and used cash from operations in the amount of \$154,019 during the three months ended March 31, 2013. The Company also had a negative working capital balance of \$23,167,558 as of March 31, 2014, and \$22,934,058 as of December 31, 2013. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

The Company’s ability to continue energy drink distribution, its principal source of revenue, is subject to interruption or termination because of ongoing disputes respecting the status of the Play Beverages, LLC, or PlayBev, license to market Playboy-licensed energy drinks. The Company is continuing its suit against Playboy Enterprises, Inc., or Playboy, in Illinois in an effort to enjoin Playboy’s termination of the license so the Company will be able to continue its beverage distribution segment. If the Playboy licensing dispute is not resolved satisfactorily through a negotiated settlement or litigation in such proceeding, PlayBev would be required to terminate its beverage distribution activities, which are currently the principal source of the Company’s revenues. Such termination may require the Company to

cease its activities and seek protection from creditors.

In view of the matters described in the preceding paragraphs, 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.

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The Company believes that its beverage business segment has the potential to have a substantial impact on its overall 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's goal is to provide customers with manufacturing solutions for both new and more mature products, as well as across product generations.

The Company provides product marketing services to the direct response and retail markets for both proprietary and nonproprietary products. This segment provides campaign management and marketing services for the beverage distribution, direct response, and retail 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. The Company intends to serve the electronics assembly and manufacturing industries, although it anticipates that its focus will shift more to providing services on a subcontract basis.

NOTE 3 – INVENTORIES

Inventories are stated at the lower of average cost or market and consisted of the following:

	March 31, 2014	December 31, 2013
Raw Materials	\$1,733,462	\$ 1,682,099
Work in Process	242,981	255,934
Finished Goods	455,813	505,642
Allowance / Reserve	(2,255,041)	(2,255,041)
Totals	\$177,215	\$ 188,634

NOTE 4 – RELATED-PARTY TRANSACTIONS

Transactions Involving Officers, Directors, and Stockholders - In 2007, the Company appointed Fadi Nora to its Board of Directors. In addition to compensation the Company normally pays to nonemployee members of the Board, Mr. Nora is entitled to a quarterly bonus equal to 0.5% of any gross sales earned by the Company directly through Mr. Nora's efforts. As of March 31, 2014, the Company owed \$71,130 under this arrangement. As of March 31, 2014, the Company owed Mr. Nora \$616,773 in the form of unsecured advances. These advances and short-term bridge loans were approved by the Board of Directors under a 5% borrowing fee. The borrowing fees were waived by Mr. Nora on these loans. In addition, the Company owed Mr. Nora \$327,595 in accrued liabilities as of March 31, 2014, for selling, general, and administrative expenses that were paid for by Mr. Nora on a personal credit card.

The Company has agreed to issue 2,400,000 options to Mr. Nora as compensation for services provided as a Director of the Company. The terms of the director agreement require the Company to grant to Mr. Nora options to purchase 2,400,000 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. During the three months ended March 31, 2014, the Company accrued for 2,400,000 stock options relating to the director agreement with Mr. Nora. The fair market value of the options was \$719, using the following assumptions: 7.0-year term, estimated volatility of 246.35%, and a discount rate of 0.0% (see also Note 10).

In 2007, the Company issued a 10% 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 three months ended March 31, 2014, the Company made no payments towards the outstanding note. At March 31, 2014, the principal amount owing on the note was \$151,833. 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 5% borrowing fee. The notes were due April 30, 2008, after which they were due on demand, with interest accruing at 12% per annum. During the three months ended March 31, 2014, the Company made no payments towards the outstanding notes. The principal balance owing on the promissory notes as of March 31, 2014, totaled \$41,416.

On April 2, 2009, the Company President and a Director of the Company borrowed from a third party a total of \$890,000 in the form of four short-term promissory notes. The Company President and the Director of the Company signed personally for the notes. Because the loans were used to pay obligations of the Company, the Company has assumed full responsibility for the notes. Two of the notes were for a term of 60 days, with a 60-day grace period; a third note was for a term of 90 days; and a fourth note was for 24 days. Loan fees totaling \$103,418 were incurred with the issuance of the notes and are payable upon maturity of the notes. During 2012, two of the notes with a combined balance of \$411,912 were converted from short-term advances to a notes payable on CirTran's books, with the intent to convert the liability to membership interest in Play Beverages, LLC, a consolidated variable interest entity. As of March 31, 2014, the notes have been restructured and signed directly with the Company without our president and director's personal guaranty.

The Company has agreed to issue 6,000,000 options each year to the Company President as compensation for services provided as an officer of the Company. The terms of the employment agreement require the Company to grant to the Company President options to purchase 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. During the three months ended March 31, 2014, the Company accrued for 6,000,000 stock options relating to the employee agreement with Mr. Hawatmeh. The fair market value of the options was \$1,798, using the following assumptions: estimated 7.0-year term, estimated volatility of 246.35%, and a discount rate of 0.0% (see also Note 10).

As of March 31, 2014, the Company owed the Company President a total of \$138,066 in short-term advances payable and 42,000,000 stock options with an aggregated fair value at time of grant of \$166,496. These advances and short-term bridge loans were approved by the Board of Directors under a 5% borrowing fee. The borrowing fees were waived by the Company's President on these loans.

Sublease - In an effort to operate more efficiently and focus resources on higher margin areas of the Company's business, on March 5, 2010, the Company and Katana Electronics, LLC, a Utah limited liability company ("Katana"), entered into certain agreements (collectively, the "Agreements") to reduce the Company's costs. 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 agreed to sublease a certain portion of the Company's 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 was for two 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 the Agreements signed, the Company continues to have rights to operate as a contract manufacturer in the future in the U.S. and offshore. On July 1, 2011, Katana had assumed the full lease payment, and the Company agreed to pay Katana \$5,000 per month for the use of office space and utilities. The Company recorded a rent expense of \$15,000 and \$15,000 for the three months ended March 31, 2014 and 2013, respectively.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Litigation and Claims - Various vendors and service providers have notified the Company that they believe they have claims against the Company totaling approximately \$2,250,000. 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.

PlayBev Petition for Relief under Chapter 11 - On, August 12, 2011, Play Beverages, LLC (“PlayBev”), a consolidated entity of the Company, filed petitions under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Utah. Under Chapter 11, certain claims against PlayBev in existence before the filing of the petitions for relief under the federal bankruptcy laws are stayed while PlayBev continues business operations as Debtor-in-possession (see also Note 4). These claims are included in the December 31, 2011, balance sheet and are considered liabilities subject to compromise. Additional claims (liabilities subject to compromise) may arise after the filing date resulting from rejection of executory contracts, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims against PlayBev (secured claims) were stayed, although the holders of such claims had the right to move the court for relief from the stay. PlayBev continued as a debtor-in-possession and thereafter worked to resolve the claims of creditors and to resolve disputes about its nonalcoholic beverage distribution license with Playboy.

Playboy initially sought to terminate its product license agreement with PlayBev, but thereafter stipulated to suspend further proceedings pending the exploration of settlement. PlayBev reached a settlement with Playboy that would have provided for a new license, conditioned on bankruptcy court approval of PlayBev’s reorganization plan, PlayBev’s payment of \$2.0 million to Playboy, and other provisions, but PlayBev was unable to obtain the funding needed to pay Playboy the initial amount or otherwise implement the reorganization plan, so the plan was abandoned and the settlement agreement and the new Playboy license did not become effective.

On December 6, 2012, the bankruptcy court dismissed PlayBev’s bankruptcy case and all other pending motions and proceedings, and the automatic stay terminated. PlayBev is precluded from filing for bankruptcy court protection for 180 days after the dismissal.

Registration Rights Agreements - In connection with the Company’s issuance of convertible debentures to YA Global Investments, L.P., formerly known as Cornell Capital Partners, L.P. (“YA Global”), the Company granted to YA Global certain registration rights, pursuant to which the Company agreed to file a registration statement to register the resale of shares of the Company’s common stock issuable upon conversion of the debentures. The Company agreed to keep the registration statement effective until all of the shares issuable upon conversion of the debenture have been sold. The Company has not accrued a liability for potential losses.

Previously, YA Global has agreed to extensions of the filing deadlines inherent in the terms of the convertible debentures mentioned above. On January 24, 2011, the Company and YA Global entered into a forbearance agreement related to the convertible debentures issued by the Company to YA or its predecessor entities.

YA Global Forbearance Agreements - On September 25, 2010, YA Global filed a lawsuit against the Company asserting claims for breach of contract, breaches of the uniform commercial code, and replevin. YA Global sought a judgment in the amount of \$4,193,380, plus interest and attorney's fees, as well as a writ of replevin to compel the Company to turn over equipment and other property that YA Global claims was pledged as collateral to secure obligations owing to YA Global.

On January 24, 2011, the Company entered into a forbearance agreement with YA Global, including a confession of judgment in its favor. On February 23, 2011, the court entered judgment based on the confession of judgment against the Company in the principal amount of \$3,161,354, plus interest of \$825,858.

On July 22, 2011, YA Global filed a motion in the ABS lawsuit (discussed below) seeking an order clarifying its position with respect to ABS and staying enforcement of that court's order that the Company pay approximately \$35,000 in legal fees to ABS. In its motion, YA Global notified the Company that it intended to conduct a secured party's public auction of all of the Company's assets. YA Global also informed the Company that it had defaulted under the January 2011 Forbearance Agreement and declared that all of the Company's obligations to YA Global were immediately due and owing. Further, YA Global stated that it intended to commence action to collect on the Company's obligations and instructed it to assemble its assets.

At a hearing held on August 3, 2011, in the ABS reorganization proceeding on YA Global's motion to stay enforcement, YA Global noted that the date of the proposed secured party's public auction was August 30, 2011. At the same time, YA Global notified the Company that the proposed sale of assets would be held on August 30, 2011.

At the hearing in the ABS matter, the Bankruptcy Court denied YA Global's motion to stay the payment of attorneys' fees by the Company. Subsequently, the parties to the January 2011 settlement with YA Global entered into an agreement whereby YA Global agreed to cancel the proposed asset sale without waiver.

On September 30, 2011, YA Global directed the Company to assemble the collateral in order to enable it to take possession on or before October 6, 2011. Following negotiations with YA Global, the Company confirmed its indebtedness to YA Global and arranged for it to take possession of collateral on October 17, 2011, on which date, all accounts receivable, collections, and other proceeds and products of the collateral would be held in trust by the Company for YA Global and immediately forwarded to it. Before the Company was required to surrender possession of the collateral, it initiated negotiations to obtain YA Global's forbearance from collection.

On March 22, 2012, the Company entered into a formal forbearance agreement with YA Global, dated as of March 1, 2012 (the "2012 YA Global Forbearance Agreement"), in which it ratified its previous obligations under the debentures and agreed to pay the debentures under the following payment plan: \$25,000 at signing the 2012 YA Global

Forbearance Agreement, \$25,000 per month in March through June 2012, \$50,000 per month in July through September 2012, \$75,000 in the months of October and November 2012, \$100,000 per month in the months of December 2012 through May 2013, \$125,000 per month in the months of June through December 2013, and the balance in December 2014 (the "Extended Termination Date"). In addition to the above minimum payments to YA Global, the Company is required to pay monthly excess cash flow, to the extent cumulatively available, consisting of consolidated earnings before interest, taxes, depreciation and amortization, less cash deposits for product orders received but not yet shipped, actual cash taxes paid, actual cash principal and interest paid, and reasonable out-of-pocket cash paid together with reasonable cash reserves in an amount not to exceed 5% of total net sales, provided that such excess cash flow payments shall not to exceed \$50,000 in March 2012 and \$25,000 per month in April through September 2012.

The Company continues to have the right, subject to the consent of YA Global, to pay all or any portion of the payments listed above in common stock, with the conversion price to be used to determine the number of shares being equal to the lowest closing bid price of the Company's common stock during the 20 trading days prior to the payment date. The amount applied as a payment on the note and accrued interest will be adjusted to the value of the actual proceeds from the sale of the stock by YA Global, less costs associated with the sale.

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 Company's default under the 2012 YA Global Forbearance Agreement or the Extended Termination Date.

On February 22, 2013, the Company entered into a Ratification Agreement with YA Global (the "2013 Ratification Agreement"). Under the 2013 Ratification Agreement, the Company ratified the obligations under three existing Convertible Debentures dated May 26, 2005, December 30, 2005, and August 23, 2006, and agreed to amend, restate, and consolidate the obligations evidenced thereby into a Consolidated Debenture.

The 2013 Ratification Agreement also provides for a new payment schedule under the Consolidated Debenture that replaces the payment schedule that had been agreed to in a March 1, 2012, Forbearance Agreement among the parties. Under the 2013 Ratification Agreement payment schedule, the Company is required to make monthly payments, to be applied first to accrued interest and then to principal, in the amount of \$100,000 per month, commencing in April 2013. The amount of the Company's required monthly cash payment shall be reduced in an amount equal to the amount credited to the lender against the obligation as a result of the lender's exercise of the right to convert the outstanding balance due under the debentures into common stock, as provided in the original convertible debentures as well as in the Consolidated Debenture. Any amount credited against the debenture obligation in excess of \$100,000 per month shall be credited against the amounts due in the next succeeding month.

During the three months ended March 31, 2014, the Company did not issued common stock towards the required payments.

Delinquent Payroll Taxes, Interest, and Penalties - In November 2004, the IRS 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 five 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 of \$1,455,767. In June 2013, the Company entered into a partial installment agreement to pay \$768,526 in unpaid 2009 payroll taxes. The installment agreement requires the Company to pay the IRS 5% of cash deposits. The monthly payments are to continue until the account balances are paid in full or until the collection statute of limitation expires on October 6, 2020.

Disputed Account Payable - The Company is in disagreement with its former legal counsel over the amount due to this provider for billed services, charges, and interest expense. The Company is vigorously working with this provider to settle the outstanding balance. Management assesses the likelihood to be remote that it will not be able to settle the balance at or below the currently accrued balance.

Employment Agreements - On August 1, 2009, the Company entered into a new employment agreement with Mr. Hawatmeh, the Company's 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% of the Company's earnings before interest, taxes, depreciation, and amortization for the applicable quarter; bonus(es) equal to 1.0% 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% 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. During the three months ended March 31, 2014 and 2013, the Company incurred \$1,798 and \$10,171, respectively, of non-cash compensation expense related to accrual for employee stock options to be awarded per the employment contract with the president of the Company.

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 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 Mr. Hawatmeh if employed; (ii) within 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 30 months of annual base salary; (iii) bonus(es) owing under the employment agreement for the two-year period after the date of termination (net of any bonus amounts paid as Accrued Obligations) based on actual results for the applicable quarters and fiscal years; and (iv) within 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 30 months of annual base salary; provided that if Mr. Hawatmeh is terminated without cause in contemplation of, or within one year, after a change in control, then two times such annual base salary and bonus payment amounts.

On May 1, 2009, PlayBev, a consolidated variable interest entity, entered into compensation agreements with its managers, Mr. Hawatmeh and Mr. Nora. The agreed compensation consists of a monthly fee of \$10,000 for each manager, reimbursement of reasonable expenses on its behalf, and a car allowance for Mr. Nora of \$1,000 per month to cover the cost of use, fuel, and repairs. The Company has accrued \$1,242,000 in compensation, which is included in related-party payables as of March 31, 2014.

Advanced Beauty Solutions, LLC - In connection with prior litigation with Advanced Beauty Solutions, or ABS, ABS claimed nonperformance by the Company and filed an adversary proceeding in its 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.

On September 8, 2010, the Company executed an Assignment of Copyrights, thereby assigning Copyright Registration No. TX-6-064-955, Copyright Registration No. TX-6-064-956, and Copyright to the True Ceramic Pro - Live Ops (TCPS) infomercial and related master tapes (collectively the "Copyrights") to ABS, without reservation or exclusion, making ABS the owner of the Copyrights.

On February 23, 2011, the Company filed a Motion to Declare Judgment Fully Satisfied or Alternatively to Recoup Mutual Debts, requesting that the court determine that its assignment of the Copyrights resulted in full satisfaction of the ABS judgment. On March 3, 2011, ABS brought a Motion for Order to Show Cause re Civil Contempt alleging that the Company had failed to make payments on ABS's judgment in violation of the court's orders. At the hearing on April 6, 2011, the court denied the motion to declare the judgment fully satisfied and granted ABS's motion, but did not hold the Company in civil contempt. The court also set a hearing on the ABS Motion for the Order to Show Cause for July 8, 2011, regarding the Company's compliance with collection orders, which the parties stipulated should be postponed until August 3, 2011. The parties attended mediation on July 11, 2011, but no formal settlement resulted. At the hearing in August, the court found that a basis existed to hold the Company in contempt and set an evidentiary hearing for October 6, 2011, to determine whether to issue a contempt citation. The Company appealed the denial of its motion to declare judgment satisfied.

On March 22, 2012, the Company and ABS entered into a formal forbearance agreement, dated as of March 1, 2012 (the "ABS Forbearance Agreement"), whereby ABS agreed to take no further judgment enforcement actions in consideration of the payment of \$25,000 upon execution of the definitive ABS Forbearance Agreement and satisfaction of applicable conditions precedent. The ABS Forbearance Agreement calls for the Company to pay \$7,500 per month for 46 consecutive months (except for a payment of \$15,000 in December 2012), commencing in March 2012, with the unpaid balance, as finally determined as provided below, due and payable in January 2016. No interest on the principal would accrue unless the note is in default, in which case, it would bear interest at 10% per annum from the date of the ABS Forbearance Agreement. In addition, the Company stipulated to an additional judgment for attorney's fees incurred in negotiating the ABS Forbearance Agreement and entering into the related definitive agreements and in related post-judgment collection efforts. The obligation to pay \$1,835,000 under the ABS Forbearance Agreement would be secured by an encumbrance on all of the Company's assets, subject to a prior lien and encumbrance in favor of YA Global.

The principal amount of \$1,835,000 due under the ABS Forbearance Agreement would be reduced by the greater of the amount of credit granted in the bankruptcy proceedings for the value of the intellectual property the Company previously conveyed to ABS and the amount received by ABS from the sale of such intellectual property to a third party during the term of the ABS Forbearance Agreement, plus the amount of any distribution to which the Company is entitled as a creditor of ABS, provided, however, that in no event would the amount due under the ABS Forbearance Agreement be reduced below \$90,000, which is the amount payable during the first 12 months under the ABS Forbearance Agreement. ABS entered into a subordination agreement subordinating the obligation under the ABS Forbearance Agreement in favor of the obligations and first-priority security interest of YA Global. The Company conveyed to ABS the trademarks and intellectual property previously conveyed by ABS to the Company.

The Company's appeal of the approximately \$1.8 million judgment has been remanded in the ABS bankruptcy proceedings to conclusively determine the amount of credit due the Company for the conveyance of the intellectual property. Except for the determination of the fair market value of the intellectual property and any enforcement or collection proceedings that may be required under the ABS Forbearance Agreement, all litigation and disputes between ABS and its affiliates, on the one hand, and the Company and its affiliates, on the other hand, would be dismissed, including the pending order to show cause regarding contempt against the Company, its subsidiaries, and its President.

The Company has assigned to ABS its creditor claim against the estate of ABS, to the extent of the balance due under the ABS Forbearance Agreement. Any distribution from the ABS estate in excess of the adjusted amounts due under the ABS Forbearance Agreement will be paid to the Company. Pending the determination of the amount of the credit due for the value of the intellectual property conveyed, the Company accrued a balance of \$90,000 for the minimum required payment under the ABS Forbearance Agreement. It is reasonably possible that this estimate may change in the near future based on the events of the ABS settlement.

The Company entered into a forbearance agreement with ABS on March 1, 2012. As part of that agreement, among other things, the Company agreed to a settlement amount that is to be reduced by any distribution to which the Company was entitled as a creditor of ABS. Under the ABS Forbearance Agreement the minimum amount due ABS is \$90,000, which is the amount payable during the first 12 months under the ABS Forbearance Agreement. The Company accrued \$90,000 as of December 31, 2011 and made payments of \$0 and 45,000 during the three months ended March 31, 2014 and 2013, respectively. The royalty accrual as of March 31, 2014 and 2013 was \$0 and \$45,000, respectively.

NOTE 6 – NOTES PAYABLE

Notes payable consisted of the following at March 31, 2014 and December 31, 2013:

	2014	2013
Settlement note, ten monthly payments, no interest, in default.	\$59,120	\$59,120
Promissory note to a stockholder, 10% stated interest rate, unsecured, interest due quarterly, due on demand to related party.	151,833	151,833
Promissory note to a member of AfterBev, 10% stated interest, interest payable quarterly. Due on demand, in default.	75,000	75,000
Promissory notes to 3 investors, 12% stated interest, 5% borrowing fee, due on demand to related party, in default.	72,465	72,465
Promissory note to a member of Playbev, 10% stated interest, interest payable quarterly, unsecured. Due on demand, in default.	100,000	100,000
Promissory note to an investor, 10% stated interest, interest payable quarterly, unsecured. Due on demand.	7,500	7,500
Promissory note to an investor, 0% stated interest, interest payable quarterly, unsecured. Due on demand, in default.	100,000	100,000
Total	565,918	565,918
Less current maturities	(565,918)	(565,918)
Long-term portion of notes payable	\$-	\$-

In January 2012, the Company issued a 10%, 5-year, \$175,000 promissory note to an investor. The promissory note outstanding was \$7,500 as of March 31, 2014 and December 31, 2013.

In February 2012, the Company issued an 18% interest, 90-day, \$30,000 promissory note to an investor. The principal balance included a \$5,000 borrowing fee. The promissory note along with accrued interest was converted to 32,000,000 shares of stock in January 2013. There was no outstanding balance as of March 31, 2013.

As of March 31, 2014 and December 31, 2013, the Company had accrued interest owed on the notes payable in the amounts of \$385,863 and \$362,435, respectively. The Company recorded interest expense of \$23,428 and \$244,137 for the three months March 31, 2014 and 2013, respectively. During the three months ended March 31, 2014, the Company paid \$0 of accrued interest on the notes.

Short-term advances payable

As of March 31, 2014 and December 31, 2013, the Company had \$2,015,597 and \$1,982,212 in short-term advances payable to unrelated parties, respectively. The short term advances to unrelated parties also had accrued interest expense of \$92,219 and \$79,864 as of March 31, 2014 and December 31, 2013, respectively.

During the three months ended March 31, 2014, the company made cash payments of \$8,000 and accrued an additional \$41,385 in short-term advances. The additional accrual is included in the loss on settlement of debt.

During the three months ended March 31, 2014, the company recorded interest expense of \$27,356 and paid \$15,000 of accrued interest on the unrelated party short-term advances.

NOTE 7 – CONVERTIBLE DEBENTURES

Convertible Debentures consisted of the following as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
Convertible debenture, 5% stated interest rate, secured by all of the Company's assets, due on December 31, 2014.	\$2,390,528	\$2,390,528
	2,390,528	2,390,528
Less current maturities	(2,390,528)	(2,390,528)
Long-term portion of convertible debentures	\$-	\$-

The convertible debentures and accrued interest are convertible into shares of the Company's common stock at the lowest bid price for the 20 trading days prior to conversion (\$0.0002 as of December 31, 2013). As of December 31, 2010, the Company was in default on the all three convertible debentures. On January 24, 2011, the Company entered into an Amended and Restated Forbearance Agreement that requires the Company to make payments according to the agreement (see Note 5). The Company subsequently defaulted under the terms of the agreement and the debenture holders are seeking their rights as secured creditors. See Note 12 regarding the actions taken by the holder of the convertible debentures in connection with the Company's noncompliance with the Amended and Restated Forbearance Agreement.

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As of March 31, 2014 and December 31, 2013, the Company had accrued interest owed on the convertible debentures in the amounts of \$688,364 and \$654,344, respectively. The Company recorded interest expense of \$29,472 during the three months ended March 31, 2014. During the three months ended March 31, 2014 there were no payments or conversions.

As of March 31, 2014 and December, 2013, the fair value of the conversion feature for the convertible debt and associated warrants was determined to be \$170,741 and \$158,396, respectively which has been recorded as a derivative liability on the balance sheet.

NOTE 8 – FINANCIAL INSTRUMENTS

The Company has financial instruments that are considered derivatives or contain embedded features subject to derivative accounting. Embedded derivatives are valued separately 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 for convertible debentures and associated warrants using a multinomial lattice model as of March 31, 2014, and December 31, 2013. The fair values of the derivative instruments are measured each quarter, which resulted in a gain of \$12,345 and \$5,844 during the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, and December 31, 2013, the fair market value of the derivatives aggregated \$170,741 and \$158,396, respectively.

NOTE 9 – FAIR VALUE MEASUREMENTS

For asset and liabilities measured at fair value, the Company uses the following hierarchy of inputs:

Level one — Quoted market prices in active markets for identical assets or liabilities;

Level two — Inputs other than level one inputs that are either directly or indirectly observable; and

Level three — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Liabilities measured at fair value on a recurring basis at March 31, 2014, are summarized as follows:

	Level 1	Level 2	Level 3	Total
Fair value of derivatives	\$ -	\$170,741	\$ -	\$170,741

Liabilities measured at fair value on a recurring basis at December 31, 2013, are summarized as follows:

	Level 1	Level 2	Level 3	Total
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Fair value of derivatives \$ - \$158,396 \$ - \$158,396

NOTE 10 – STOCKHOLDERS’ DEFICIT

The Company’s stockholders’ deficit increased by \$187,137 as a result of the net loss attributable to CirTran Corporation for the three months ended March 31, 2014. Noncontrolling interest in consolidated subsidiaries increased stockholders’ deficit by \$71,258 for the three months ended March 31, 2014, due to the operating losses of the non-controlling subsidiary.

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 3,210,783,000 and 3,176,228,000 in potentially issuable common shares at March 31, 2014, and December 31, 2013, respectively. These potentially issuable common shares were excluded from the calculation of diluted loss per share because the effects were antidilutive.

NOTE 11 – CAPITAL STOCK

During the three months ending March 31, 2014, the Company issued 40,900,000, shares of common stock for conversion of liabilities to multiple non related parties for convertible notes and liabilities of \$16,360.

NOTE 12 – STOCK OPTIONS AND WARRANTS

Stock Incentive Plans - As of March 31, 2014, a total of 201,000,000 shares of common stock had been issued from the 2012 Stock Incentive Plan, out of which a maximum of 403,000,000 can be issued. The Company's Board of Directors administers the plan and has discretion in determining the employees, directors, independent contractors, and advisors who receive awards, the type of awards (stock, incentive stock options, nonqualified stock options, or share purchase rights) granted, and the term, vesting, and exercise prices.

Employee Options - During the three months ended March 31, 2014 and 2013, the Company did not grant options to purchase shares of common stock to employees.

During 2013, the Company accrued for 18,800,000 employee options relating to the employment contract of the Company president, directors and officers. The fair market value of the options accrued aggregated \$28,423, using the following assumptions: seven-year term, volatility of 212.05% and a discount rate of 1.31%.

During 2014, the Company accrued for 18,800,000 employee options relating to the employment contract of the Company president, directors and officers. The fair market value of the options accrued aggregated \$5,634, using the following assumptions: seven-year term, volatility of 246.35% and a discount rate of 2.42%.

As of March 31, 2014, and December 31, 2013, the Company had a total of 125,600,000 and 106,800,000 options not issued but accrued, respectively.

Warrants - 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 12), 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. On January, 24, 2011, as part of the Forbearance Agreement, a warrant to purchase 25,000,000 shares of common

stock was issued to YA Global. The warrant had an exercise price of \$0.02 per share and vested immediately.

NOTE 13 – 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 PlayBev. The beverage distribution segment manufactures, markets, and distributes Playboy-licensed energy drinks domestically and internationally.

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
Three Months Ended March 31, 2014					
Sales to external customers	\$ -	\$ 39,243	\$ -	\$ 312,500	351,743
Segment income (loss)	(89,275)	12,810	-	334,860	258,395
Segment assets	289,526	6,605	-	355,255	651,386
Depreciation and amortization	4,039	4,020	-	-	8,059
Three Months Ended March 31, 2013					
Sales to external customers	\$ -	\$ 31,132	\$ -	\$ 837,020	868,152
Segment income (loss)	21,509	(12,454)	-	423,425	432,480
Segment assets	338,589	37,089	-	218,337	594,015
Depreciation and amortization	4,331	10,807	-	-	15,138

NOTE 14 – GEOGRAPHIC INFORMATION

The Company currently maintains \$7,842 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.

NOTE 15 – RECLASSIFICATIONS

Certain immaterial reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. \$45,000 was reclassified from short-term advances payable – non-related parties to accrued liabilities.

NOTE 16 – SUBSEQUENT EVENTS

These financial statements considered subsequent events through July 29, 2014, the date the financial statements were available to be issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Overview

We manufacture, market, and distribute internationally an energy drink under a license, now in dispute, with Playboy Enterprises, Inc., or Playboy, and in the U.S., we provide a mix of high- and medium-volume turnkey manufacturing services and products using various high-tech applications for leading electronics OEMs (original equipment manufacturers) 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 are engaged in the following business segments.

Beverage Distribution (89% and 96% of total revenue during three months ended March 31, 2014 and 2013, respectively)

CirTran Beverage manufactures, markets, and distributes Playboy-branded energy drinks in accordance with an agreement we entered into with Play Beverages, LLC, or PlayBev, a consolidated variable interest entity, which holds the Playboy license.

Contract Manufacturing (11% and 4% of total revenue during the three months ended March 31, 2014 and 2013, respectively)

CirTran Products pursues contract-manufacturing relationships in the U.S. consumer products markets, including licensed merchandise sold in the sports and entertainment markets.

CirTran Asia manufactures and distributes electronics, consumer products, and general merchandise to companies selling in international markets.

Marketing and Media (no revenues during the three months ended March 31, 2014 and 2013, respectively)

CirTran Online sells products via the Internet and provides services and support to Internet retailers.

CirTran Media provides end-to-end services to the direct-response and entertainment industries.

Electronics Assembly (no revenues during the three months ended March 31, 2014 and 2013, respectively)

CirTran Corporation (“CirTran USA”) provides low-volume electronics assembly activities consisting primarily of placing and attaching electronic and mechanical components on printed circuit boards and flexible (i.e., bendable) cables.

Forward-Looking Statements

The statements contained in this report that are not purely historical are considered to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act. These statements represent our expectations, hopes, beliefs, anticipations, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases such as “believes,” “expects,” “anticipates,” “should,” “plans,” “estimates,” and “potential,” among others. Forward-looking statements include, but are not limited to, statements contained in Management’s Discussion and Analysis of Financial Condition and Results of Operations regarding our financial performance, revenue, and expense levels in the future and the sufficiency of our existing assets to fund future operations and capital spending needs. Readers are cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in these forward-looking statements. The forward-looking statements contained in this report are made as of the date of this report, and we assume no obligation to update them or to update the reasons why our actual results could differ from those that we have projected in such forward-looking statements. We expressly disclaim any obligation or intention to update any forward-looking statement.

Results of Operations

Comparison of the Three Months Ended March 31, 2014 and 2013

Sales and Cost of Sales

Net sales decreased to \$351,743 for the three months ended March 31, 2014, as compared to \$868,152 for the three months ended March 31, 2013. The decrease is primarily attributable to our ability to manage the disruption we experienced in 2013 and into 2014 with the unexpected bankruptcy proceedings initiated against PlayBev, the continuing uncertainty created by Playboy in relation to the interference with our beverage distributors, and our defenses against numerous lawsuits. Net sales in the contract manufacturing segment increased \$8,111 in the three months ended March 31, 2014, as compared to the same period in 2013. Beverage distribution revenue decreased to \$312,500 for the three months ended March 31, 2014, as compared to \$837,020 for the quarter ended March 31, 2013. The decrease was driven by decreases in product sales and royalty revenues, as well as recognition of deferred revenue. During the three months ended March 31, 2014, and 2013, we recognized approximately \$0, respectively, in revenue from prepayments under contracts that were in default and/or were terminated due to nonperformance.

Cost of sales, including royalty expense, as a percentage of sales, decreased to 6% from 27% for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, respectively. Consequently, the gross profit margin increased to 94% from 69%, for the three months ended March 31, 2014 and 2013, respectively. The

increase in gross profit margin is attributable to an increase in revenues from royalty agreements that have an overall lower cost and the settlement of royalty expense contracts during 2013.

The following charts present comparisons of sales, cost of sales, and gross profits generated by our two operating segments, beverage distribution and contract manufacturing during the three months ended March 31, 2014 and 2013:

Three Months Ended March 31:

Segment	Year	Sales	Cost of Sales	Royalty Expense	Gross Loss / Margin
Beverage Distribution	2014	\$312,500	\$ 20,557	\$ -	\$291,943
	2013	837,020	234,414	37,494	565,112
Contract Manufacturing	2014	39,243	-	-	39,243
	2013	31,132	101	-	31,031
Electronics Assembly	2014	-	-	-	-
	2013	-	-	-	-
Marketing / Media	2014	-	-	-	-
	2013	-	-	-	-

Selling, General, and Administrative Expenses

During the three months ended March 31, 2014, selling, general, and administrative expenses decreased by \$418,548 to \$414,904 from \$833,452 for the same period during 2013. The decrease in selling, general, and administrative expenses was driven primarily by a decrease in consulting and accounting fees of \$77,200, a decrease of legal fees of \$237,056, a decrease in travel expense of \$23,381, a decrease in bad debt expense of \$29,324, and a decrease in sales commission expense of \$33,854.

Noncash Compensation Expense

Compensation expense in connection with accounting for options owed or granted to employees to purchase common stock was \$5,633 for the three months ended March 31, 2014, as compared to \$29,872 for the three months ended March 31, 2013, as a result of the employee stock options accrued for per the respective employment agreements.

Other Income and Expense

Interest expense recorded in the Condensed Consolidated Statements of Operations combines both accretion expense and interest expense. The combined interest expense for the three months ended March 31, 2014, was \$136,123, as compared to \$209,495 for the three months ended March 31, 2013, a decrease of 35%. The decrease in the combined interest expense was driven by the reduction in accretion expense recorded for the three months ended March 31, 2014.

We recorded a loss of \$12,345 on our derivative valuation for the three months ended March 31, 2014, as compared to a gain of \$5,844 recorded for the three months ended March 31, 2013. The swing in the derivative valuation is primarily the result of the change in estimating the fair value of convertible debentures and associated warrants from using the Black-Scholes model to a multinomial lattice model, together with the varying market values of our common stock.

We recorded a loss of \$20,576 on our settlement of debt for the three months ended March 31, 2014, as compared to a gain of \$38,352 recorded for the three months ended March 31, 2013. This was a result of settling payable, accrued liabilities and debt for equity offset by an additional accrual of short-term advances payable. See Notes 6 – Notes Payable and 11 – Capital Stock in the notes to the unaudited financial statements above for more details.

As a result of these factors, our overall net loss decreased to \$258,395 for the three months ended March 31, 2014, as compared to net loss of \$432,480 for the three months ended March 31, 2013. The net loss attributable to CirTran Corporation and subsidiaries was \$187,137 for the three months ended March 31, 2014, and a net loss of \$71,258 was attributable to a non-controlling equity interest in PlayBev.

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 \$47,864,145 at March 31, 2014, and \$47,674,008 at December 31, 2013. Our current liabilities exceeded our current assets by \$23,167,558 as of March 31, 2014, and by \$22,934,058 as of December 31, 2013.

Cash

The amount of cash provided by operating activities during the three months ended March 31, 2014, increased by \$269,827, driven primarily by deferred revenue. The amount of cash used in financing activities during the three months ended March 31, 2014, increased by \$272,761, driven primarily from conversion of debt to equity and checks written in excess of bank balance.

Accounts Receivable

Trade accounts receivable, net of allowance for doubtful accounts, increased \$29,323 during the three months ended March 31, 2014. We continue to monitor individual customer accounts and are working to improve collections on trade accounts receivable. We eliminate the receivables associated with PlayBev as part of consolidation in accordance with GAAP treatment as a variable interest entity.

Accounts Payable and Accrued Liabilities

During the three months ended March 31, 2014, accounts payable, accrued liabilities, advances payable, interest payable, and short-term debt increased by \$333,049 to a combined balance of \$15,037,645 as of March 31, 2014. The increase includes a decrease of \$26,043 in accrued liabilities, a \$120,671 increase in interest payable, an increase of \$176,295 in accrued payroll and compensation, and a \$15,959 decrease in accounts payable. The increase in accounts payable activity is a result of continued PlayBev-related services performed during the three months ended March 31, 2014, for beverage development, distribution, marketing, and legal services. At March 31, 2014, we owed \$1,250,701 to various investors from whom we had borrowed funds in the form of either unsecured or short-term advances.

Capital Requirements

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 and with ongoing activities substantially dependent on the outcome of the Playboy litigation, 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. We cannot assure 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.

We cannot assure 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. These conditions raise substantial doubt about our ability to continue as a going concern.

Convertible Debentures

We had outstanding convertible debentures with an aggregate outstanding balance of \$3,078,983 as of March 31, 2014, including accrued interest of \$688,364. We have entered into forbearance agreements following our previous defaults in payments in order to obtain extended payment terms. Under our most recent agreement reached with the lender in the second quarter of 2013, we are required to make monthly payments, to be applied first to accrued interest and then to principal, in the amount of \$100,000 per month, commencing in April 2013. The amount of our required monthly cash payments is reduced in an amount equal to the amount credited to the lender against the obligation as a result of the lender's exercise of the right to convert the outstanding balance due under the debentures into common stock. Any amount credited against the debenture obligation in excess of \$100,000 per month is credited against the amounts due in the next succeeding month. During the three months ended March 31, 2014, we did not issue any common stock towards the required monthly payments. The amount of cash required to meet our payment obligations under the debentures will depend on the lender's decision to convert amounts to common stock, which will in turn depend on the trading market prices and volumes for our common stock, over which we have no control.

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 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 Financial Accounting Standards Board Accounting Standards Codification, or ASC, 840-10, Accounting for Leases. The lease agreement was terminated during 2011 and the remainder of the deferred revenue was recognized upon this termination event.

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

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 separately 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 values of the derivative instruments are measured each quarter.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer / Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2014. Based on our evaluation, our Chief Executive Officer / Chief Financial Officer has concluded that our disclosure controls and procedures were not effective at March 31, 2014, due to the fact that the material weaknesses in our internal control over financial reporting described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, had not been remediated as of March 31, 2014.

These weaknesses are continuing. Management and the Board of Directors are aware of these weaknesses that result because of limited resources and staff. Efforts to design and implement controls and processes 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.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred in the first quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

No material developments.

ITEM 6. EXHIBITS

The following exhibits are filed as a part of this report:

Exhibit Number*	Title of Document	Location
Item 31	Rule 13a-14(a)/15d-14(a) Certifications	
31.01	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Rule 13a-14	This filing.
Item 32	Section 1350 Certifications	
32.01	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer)	This filing.
Item 101	Interactive Data File	
101	Interactive Data File	This filing

All exhibits are numbered with the number preceding the decimal indicating the applicable SEC reference number in *Item 601 and the number following the decimal indicating the sequence of the particular document. Omitted numbers in the sequence refer to documents previously filed as an exhibit.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned thereunto duly authorized.

CIRTRAN CORPORATION
(Registrant)

Date: July 29, 2014 By: */s/ Iehab Hawatmeh*
Iehab Hawatmeh, President,

Chief Financial Officer (Principal Executive Officer, Principal Financial Officer)

