

Edgar Filing: CYBERLUX CORP - Form 10QSB

CYBERLUX CORP  
Form 10QSB  
November 14, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2006.

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

For the Period Ended September 30, 2006  
Commission file number 000-33415

CYBERLUX CORPORATION  
(Name of Small Business Issuer in Its Charter)

Nevada  
(State of Incorporation)

91-2048178  
(IRS Employer Identification No.)

4625 Creekstone Drive  
Suite 100  
Research Triangle Park  
Durham, NC 27703

(Address of Principal Executive Offices)

(919) 474-9700

Issuer's Telephone Number

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

As of November 13, 2006, the Company had 111,229,157 shares of its par value \$0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes  No

# Edgar Filing: CYBERLUX CORP - Form 10QSB

## CYBERLUX CORPORATION

Quarterly Report on Form 10-QSB for the  
Quarterly Period Ending September 30, 2006

### Table of Contents

#### PART I. FINANCIAL INFORMATION

##### Item 1. Financial Statements

Condensed Consolidated Balance Sheets: September 30, 2006 (Unaudited) and December 31, 2005 (Audited)	3
Condensed Consolidated Statements of Losses: Three and Nine Months Ended September 30, 2006 and 2005 (Unaudited)	4
Condensed Consolidated Statements of Cash Flows: Nine Months Ended September 30, 2006 and 2005 (Unaudited)	5
Notes to Unaudited Condensed Consolidated Financial Information: September 30, 2006	6-21

Item 2. Management Discussion and Analysis	22
--	----

Item 3. Controls and Procedures	16
---------------------------------	----

#### PART II. OTHER INFORMATION

Item 1. Legal Proceedings	17
---------------------------	----

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	18
---	----

Item 3. Defaults Upon Senior Securities	19
---	----

Item 4. Submission of Matters to a Vote of Security Holders	19
---	----

Item 5. Other Information	19
---------------------------	----

Item 6. Exhibits	19
------------------	----

Signatures	20
------------	----

## CYBERLUX CORPORATION CONDENSED BALANCE SHEETS

	(Unaudited) September 30, 2006	December 31, 2005
	-----	-----
ASSETS		
Current assets:		

Edgar Filing: CYBERLUX CORP - Form 10QSB

Cash & cash equivalents	\$ 75,106	\$ 475,656
Accounts receivable, net of allowance for doubtful accounts of \$ -0-	175,003	9,424
Inventories, net of allowance of \$111,052 and \$110,821, respectively	235,094	338,097
Other current assets	32,420	42,814
	-----	-----
Total current assets	517,623	865,991
Property, plant and equipment, net of accumulated depreciation of \$136,236 and \$118,105, respectively	58,448	63,133
	-----	-----
Total Assets	\$ 576,071	\$ 929,124
	=====	=====
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 396,877	\$ 657,930
Accrued liabilities	1,593,041	782,586
Short-term notes payable - related parties	353,595	366,594
Short-term notes payable	862,897	542,783
	-----	-----
Total current liabilities	3,206,410	2,349,893
	-----	-----
Long-term liabilities:		
Notes payable	1,639,398	351,419
Derivative liability relating to convertible debentures	6,886,518	6,809,449
Warrant liability relating to convertible debentures	4,119,442	3,352,025
	-----	-----
Total long-term liabilities	12,645,358	10,512,893
	-----	-----
Total liabilities	15,851,768	12,862,786
	-----	-----
Commitments and Contingencies Series A convertible preferred stock, \$0.001 par value; 200 shares designated, 39.4806 and 59.8606 issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	197,400	299,303
	-----	-----
DEFICIENCY IN STOCKHOLDERS' EQUITY		
Class B convertible preferred stock, \$0.001 par value, 800,000 shares designated; shares issued and outstanding for September 30, 2006 and December 31, 2005	800,000	
	800	800
Common stock, \$0.001 par value, 300,000,000 shares authorized; 98,004,157 and 75,608,334 shares issued		

Edgar Filing: CYBERLUX CORP - Form 10QSB

and outstanding as of September 30, 2006 and December 31, 2005, respectively	98,004	75,607
Subscription receivable	(335,406)	--
Additional paid-in capital	8,752,526	6,382,569
Accumulated deficit	(23,989,021)	(18,691,941)
Deficiency in stockholders' equity	(15,473,097)	(12,232,965)
Total liabilities and (deficiency) in stockholders' equity	\$ 576,071	\$ 929,124

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

3

CYBERLUX CORPORATION  
CONDENSED STATEMENTS OF OPERATIONS  
Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005 As restated- Note K	2006	2005 As restated- Note K
REVENUE:	\$ 222,855	\$ 12,434	\$ 353,081	\$ 26,202
Cost of goods sold	(178,483)	(75,503)	(253,150)	(104,989)
Gross margin (loss)	44,373	(63,069)	99,931	(78,787)
OPERATING EXPENSES:				
Marketing and advertising	29,548	97,717	146,763	235,389
Impairment Loss	--	--	--	30,544
Depreciation and amortization	5,024	5,893	18,131	19,073
Research and development General and administrative expenses	45,760 1,220,626	142,537 539,263	160,123 3,470,136	262,117 1,364,494
Total operating expenses	1,300,958	785,410	3,795,153	1,911,617
NET LOSS FROM OPERATIONS	(1,256,586)	(848,479)	(3,695,222)	(1,990,404)

Edgar Filing: CYBERLUX CORP - Form 10QSB

Other income/(expense) Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities	(2,723,742)	13,385,414	435,515	(4,546,600)
Interest income	27	49	65	349
Debt forgiveness	--	--	36,799	--
Interest expense	(569,062)	(300,009)	(2,047,686)	(1,019,107)
Debt acquisition costs	(17,072)	(107,144)	(26,551)	(201,474)
Net Income (loss) before provision for income taxes	(4,566,435)	12,129,831	(5,297,080)	(7,757,236)
Income taxes (benefit)	--	--	--	--
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ (4,566,435)	\$ 12,129,831	\$ (5,297,080)	\$ (7,757,236)
Weighted average number of common shares outstanding-basic	97,176,885	72,881,110	88,702,751	47,503,678
Weighted average number of common shares outstanding-fully diluted	97,176,885	72,881,110	88,702,751	47,503,678
Net income/(loss) per share - basic	\$ (0.05)	\$ 0.17	\$ (0.06)	\$ (0.16)
Net income/(loss) per share-fully diluted	\$ (0.05)	Note A	\$ (0.06)	\$ (0.16)
Preferred dividend	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000

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

4

CYBERLUX, INC  
CONDENSED STATEMENTS OF CASH FLOW  
Unaudited

Nine months ended  
September 30,  
2006                      2005

-----  
Restated-  
See note K

## Edgar Filing: CYBERLUX CORP - Form 10QSB

### CASH FLOWS FROM OPERATING ACTIVITIES:

Net (loss) available to common stockholders	\$ (5,297,080)	\$ (7,757,236)
Adjustments to reconcile net income (loss) to cash used in operating activities		
Depreciation	18,131	19,073
Warrants issued in connection with services rendered	--	14,160
Fair value of options issued to officers and employees	721,500	--
Common stock issued in connection with services rendered	1,201,889	126,000
Common stock issued in settlement of debt	31,655	420,608
Accretion of convertible notes payable	1,208,694	547,762
Unrealized (gain) loss on adjustment of derivative and warrant liability to fair value of underlying securities	(435,515)	4,546,600
Impairment loss on patent (Increase) decrease in:	--	30,544
Accounts receivable	(165,579)	(2,454)
Inventories	103,003	(443,312)
Prepaid expenses and other assets Increase (decrease) in:	55,079	(31,316)
Accounts payable	(266,740)	566,331
Accrued liabilities	810,455	113,600
	-----	-----
Net cash (used in) operating activities	(2,014,507)	(1,849,640)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(13,446)	(35,867)
	-----	-----
Net cash used in investing activities:	(13,446)	(35,867)
	-----	-----
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of convertible debenture	1,240,000	1,500,000
Net proceeds from borrowing on long term basis	399,403	--
Net proceeds (payments) to notes payable, related parties	(12,000)	(12,485)
	-----	-----
Net cash provided by (used in) financing activities:	1,627,403	1,487,515
	-----	-----
Net increase (decrease) in cash and cash equivalents	(400,550)	(397,992)
Cash and cash equivalents at beginning of period	475,656	415,375

Edgar Filing: CYBERLUX CORP - Form 10QSB

Cash and cash equivalents at end of period	----- \$ 75,106 =====	----- \$ 17,383 =====
Supplemental disclosures:		
Interest Paid	\$ 39,349	\$ 82,470
Income Taxes Paid	--	--
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unrealized (gain) loss in adjustment of derivative and warrant liability to fair value of underlying securities	(435,515)	4,546,600
Fair value of options issued to officers and employees	721,500	--
Common stock issued for services rendered	1,201,889	126,000
Common stock issued in settlement of debt	31,655	420,608
Warrants issued for services rendered	--	14,160

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

5

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

NOTE A-SUMMARY OF ACCOUNTING POLICIES

GENERAL

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three and nine month periods ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. The unaudited condensed financial statements should be read in conjunction with the December 31, 2005 financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2005.

BUSINESS AND BASIS OF PRESENTATION

Cyberlux Corporation (the "Company") is incorporated on May 17, 2000 under the laws of the State of Nevada. Until December 31, 2004, the Company was a development state enterprise as defined under Statement on Financial Accounting Standards No.7, Development Stage Enterprises ("SFAS No.7"). The Company

## Edgar Filing: CYBERLUX CORP - Form 10QSB

develops, manufactures and markets long-term portable lighting products for commercial and industrial users. While the Company has generated revenues from its sale of products, the Company has incurred expenses, and sustained losses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. As of September 30, 2006, the Company has accumulated losses of \$23,989,021.

### REVENUE RECOGNITION

Revenues are recognized in the period that products are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At September 30, 2006 and December 31, 2005, the Company did not have any deferred revenue.

SAB 104 incorporates Emerging Issues Task Force 00-21 ("EITF 00-21"), MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS. EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company's financial position and results of operations was not significant.

### RECLASSIFICATION

Certain reclassifications have been made to prior periods' data to conform to the current presentation. These reclassifications had no effect on reported losses.

### CONCENTRATIONS OF CREDIT RISK

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At September 30, 2006 and December 31, 2005, allowance for doubtful receivable was \$0.



## Edgar Filing: CYBERLUX CORP - Form 10QSB

### STOCK-BASED COMPENSATION

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123(R). This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company had to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006. The Company implemented SFAS No. 123(R) on January 1, 2006 using the modified prospective method. The fair value of each option grant issued after January 1, 2006 will be determined as of grant date, utilizing the Black-Scholes option pricing model. The amortization of each option grant will be over the remainder of the vesting period of each option grant.

As more fully described in the financial statements included in Form 10-KSB for the year ended December 31, 2005, the Company granted stock options over the years to employees of the Company under a non-qualified employee stock option plan. As of December 31, 2005, 34,000,000 stock options were outstanding and exercisable.

In prior years, the Company applied the intrinsic-value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for the issuance of stock options to employees and accordingly compensation expense related to employees' stock options were recognized in the prior year financial statements to the extent options granted under stock incentive plans had an exercise price less than the market value of the underlying common stock on the date of grant.

Had compensation for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and loss per share would be as follows:

	For the three months ended September 30, 2005-As restated Note K	For end 2005-
Net Income (loss) attributable to common stockholders -as reported	\$ 12,129,831	\$
Add. Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	--	
Deduct Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	(478,800)	
Net Income (loss) -Pro Forma	\$ 12,129,831	\$
Net Income (loss) attributable to common stockholders - Pro forma	\$ (8,236,036)	

## Edgar Filing: CYBERLUX CORP - Form 10QSB

Basic (and assuming dilution) loss per share -as reported	\$	0.17	\$
Basic (and assuming dilution) loss per share - Pro forma	\$	0.17	\$

For the nine months ended September 30, 2006, the Company granted 14,430,000 stock options to employees with an exercise price of \$0.04 per share expiring ten years from date of issuance. The fair value of the options was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield: 0%; volatility 364%; risk free interest rate 5.04%. The fair value of \$721,500 was recorded as a current period charge to earnings.

7

CYBERLUX CORPORATION  
 NOTES TO CONDENSED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION (CONTINUED)

In determining the compensation cost of stock options granted to employees during the nine months ended September 30, 2005, as specified by SFAS No. 123, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model and the weighted average assumptions used in these calculations are summarized as follows:

	Nine Months Ended September 30, 2005 -----
Risk-free interest rate	2%
Expected life of options Granted	6 yrs
Expected Volatility	250%
Expected dividend yield	0%

(a)The expected option life is based on contractual expiration dates.

NET INCOME (LOSS) PER COMMON SHARE  
 -----

The Company computes earnings per share under Financial Accounting Standard No. 128, "Earnings Per Share" ("SFAS 128"). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the year. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible preferred shares and the exercise of the Company's stock options and warrants (calculated using the treasury stock method). For the three months ended September 31, 2005, common stock equivalents derived from shares issuable in conversion of the Callable Secured Convertible Notes are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per share.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

### PATENTS

During the year ended December 31, 2005, the Company management preformed an evaluation of its intangible assets (Patents) for purposes of determining the implied fair value of the assets at December 31, 2005. The test indicated that the recorded remaining book value of its patents exceeded its fair value, as determined by discounted cash flows. As a result, upon completion of the assessment, management recorded a non-cash impairment charge of \$30,544, net of tax, or \$0.00 per share during the nine month period ended September 30, 2005 to reduce the carrying value of the patents to \$0. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

### RECENT PRONOUNCEMENTS

In February 2006, the FASB issued SFAS No. 155. "Accounting for certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140," or SFAS No. 155. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS 155 to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2006, the FASB issued FASB Statement No. 156, Accounting for Servicing of Financial Assets - an amendment to FASB Statement No. 140. Statement 156 requires that an entity recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. The new standard is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No.156 did not have a material impact on the Company's financial position and results of operations.

8

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

### NOTE A-SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### RECENT PRONOUNCEMENTS (CONTINUED)

In July 2006, the FASB issued Interpretation No. 48 (FIN 48). "Accounting for uncertainty in Income Taxes". FIN 48 clarifies the accounting for Income Taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties,

## Edgar Filing: CYBERLUX CORP - Form 10QSB

accounting in interim periods, disclosure and transition and clearly scopes income taxes out of SFAS 5, "Accounting for Contingencies". FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet evaluated the impact of adopting FIN 48 on our consolidated financial position, results of operations and cash flows.

In September 2006 the Financial Account Standards Board (the "FASB") issued its Statement of Financial Accounting Standards 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. FAS 157 effective date is for fiscal years beginning after November 15, 2007. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows.

In September 2006 the FASB issued its Statement of Financial Accounting Standards 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The effective date for an employer with publicly traded equity securities is as of the end of the fiscal year ending after December 15, 2006. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows

### NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES

Notes payable at September 30, 2006 and December 31, 2005 are as follows:

	September 30, 2006 -----
10% convertible note payable, unsecured and due September, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert note principal together with accrued and unpaid interest to the Company's common stock at a rate of \$0.50 per share. The Company is in violation of the loan covenants	\$2,500
10% convertible notes payable, unsecured and due March, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of \$0.50 per share.	-
4.99% note payable, unsecured and due March 2009, accrued and unpaid interest due at maturity. Shareholders secured debt with shares of Company's common stock-See Note L	152,400

## Edgar Filing: CYBERLUX CORP - Form 10QSB

4.99% note payable, unsecured and due June 2009, accrued and unpaid interest due at maturity. Shareholders secured debt with shares of Company's common stock-See Note L 103,403

4.99% note payable, unsecured and due June 2009, accrued and unpaid interest due at maturity. Shareholders secured debt with shares of Company's common stock-See Note L 168,600

9

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (CONTINUED)

September 30, 2006  
-----

10% convertible debenture, due two years from the date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.72 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below) 860,397

10% convertible debenture, due three years from date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.03 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below) 673,790

10% convertible debenture, due October 2008 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.6 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below) 249,132

8% convertible debenture, due December 2008 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.10 or b) 35% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion

Edgar Filing: CYBERLUX CORP - Form 10QSB

date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights (see below) 176,438

8% convertible debenture, due March 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 55% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below) 85,388

6% convertible debenture, due July 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below) 29,224

10

CYBERLUX CORPORATION  
 NOTES TO CONDENSED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (CONTINUED)

September 30, 2006  
 -----

6% convertible debenture, due September 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)	1,023 -----
Less: current maturities	2,502,295 (862,897) -----
Notes payable and convertible debentures-long term portion	\$1,639,398 =====

The Company entered into a Securities Purchase Agreement with four accredited investors on September 23, 2004 for the issuance of an aggregate of \$1,500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes

## Edgar Filing: CYBERLUX CORP - Form 10QSB

were warrants to purchase 2,250,000 shares of the Company's common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due two years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.72 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of September 30, 2006, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for net proceeds of \$1,186,281. The proceeds that the Company received were net of prepaid interest of \$50,000 and related fees and costs of \$263,719.

The Company entered into a Securities Purchase Agreement with four accredited investors on April 23, 2005 for the issuance of an aggregate of \$1,500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 25,000,000 shares of the Company's common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.03 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of September 30, 2006, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for total proceeds of \$1,352,067. The proceeds that the Company received were net of prepaid interest of \$72,933 representing the first eight month's interest and related fees and costs of \$75,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on October 24, 2005 for the issuance of \$800,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 800,000 shares of the Company's common stock. The Convertible Note accrues interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.06 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of September 30, 2006, the Company issued to investors of the Convertible Notes a total amount of \$800,000 in exchange for total proceeds of \$775,000. The proceeds that the Company received were net of related fees and costs of \$25,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on December 28, 2005 for the issuance of \$700,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 700,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 35% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of September 30, 2006, the Company issued to investors of the Convertible Notes a total amount of \$700,000 in exchange for total proceeds of \$675,000. The proceeds that the Company received were net of related fees and costs of \$25,000.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

The Company entered into a Securities Purchase Agreement with four accredited investors on March 31, 2006 for the issuance of \$500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 19,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 55% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of September 30, 2006, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$460,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

11

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (CONTINUED)

The Company entered into a Securities Purchase Agreement with four accredited investors on July 28, 2006 for the issuance of \$500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 15,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of September 30, 2006, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$490,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on September 26, 2006 for the issuance of \$280,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 10,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of September 30, 2006, the Company issued to investors of the Convertible Notes a total amount of \$280,000 in exchange for total proceeds of \$259,858. The proceeds that the Company received were net of related fees and costs of \$20,142.

These transactions, to the extent that it is to be satisfied with common stock



## Edgar Filing: CYBERLUX CORP - Form 10QSB

of the Company would normally be included as equity obligations. However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host debt conversion feature, the Company is required to record a liability relating to both the detachable warrants and embedded convertible feature of the notes payable (included in the liabilities as a "derivative liability").

The accompanying financial statements comply with current requirements relating to warrants and embedded derivatives as described in FAS 133, EITF 98-5 and 00-27, and APB 14 as follows:

- o The Company allocated the proceeds received between convertible debt and detachable warrants based upon the relative fair market values on the dates the proceeds were received.
- o Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula and the increase in the intrinsic value of the embedded derivative in the conversion feature of the convertible debentures are accrued as adjustments to the liabilities at September 30, 2006 and December 31, 2005, respectively.
- o The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives (noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.
- o Accreted principal of \$2,075,392 and \$866,701 as of September 30, 2006 and December 31, 2005, respectively.

The following table summarizes the various components of the convertible debentures as of September 30,, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	-----	-----
Convertible debentures	\$ 2,502,295	\$ 894,201
Warrant liability	3,682,678	2,013,188
Derivative liability	6,886,518	6,809,449
	-----	-----
	13,071,491	9,716,838
Cumulative adjustment of derivative and warrant liability to fair value	(4,789,197)	(4,322,637)
Cumulative unrealized loss relating to conversion of convertible notes to common shares charged to interest expense	(597,194)	(565,539)
Cumulative accretion of principal related to convertible debentures	(2,075,392)	(866,701)
	-----	-----
	\$ 5,609,708	\$ 3,961,961
	=====	=====

## Edgar Filing: CYBERLUX CORP - Form 10QSB

### NOTE C-WARRANT LIABILITY

Total warrant liability as of September 30, 2006 and December 31, 2005 are comprised of the following:

	September 30, 2006	December 31, 2005
	-----	-----
Fair value of warrants relating to convertible debentures	\$ 3,682,678	\$ 2,013,188
Fair value of warrants relating to preferred stock-class A	108,565	1,147,334
Fair value of other outstanding warrants	328,199	191,504
	-----	-----
Total	\$ 4,119,442	\$ 3,352,026
	=====	=====

### NOTE D -STOCKHOLDER'S EQUITY

#### SERIES A - CONVERTIBLE PREFERRED STOCK

The Company has also authorized 5,000,000 shares of Preferred Stock, with a par value of \$.001 per share.

On December 30, 2003, the Company filed a Certificate of Designation creating a Series A Convertible Preferred Stock classification for 200 shares.

The Series A Preferred stated conversion price of \$.10 per shares is subject to certain anti-dilution provisions in the event the Company issues shares of its common stock or common stock equivalents below the stated conversion price. Changes to the conversion price are charged to operations and included in unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities.

In December, 2003, the Company issued 155 shares of its Series A Preferred stock, valued at \$5,000 per share. The stock has a stated value of \$5,000 per share and a conversion price of \$0.10 per share and warrants to purchase an aggregate of 15,500,000 shares of our common stock.

In May, 2004, the Company issued 15.861 shares of its Series A Preferred stock, valued at \$5,000 per share. The stock has a stated value of \$5,000 per share and a conversion price of \$0.10 per share and warrants to purchase an aggregate of 1,600,000 shares of our common stock.

As of December 31, 2004, 7 of the Series A Preferred shareholders exercised the conversion right and exchanged 19 shares of Series A Preferred for 950,000 shares of the Company's common stock.

As of December 31, 2005, 20 of the Series A Preferred shareholders exercised the conversion right and exchanged 92 shares of Series A Preferred for 4,600,000 shares of the Company's common stock.

As of September 30, 2006, 6 of the Series A Preferred shareholders exercised the conversion right and exchanged 20.3 shares of Series A Preferred for 1,019,032 shares of the Company's common stock

The holders of the Series A Preferred shall have the right to vote, separately as a single class, at a meeting of the holders of the Series A Preferred or by such holders' written consent or at any annual or special meeting of the stockholders of the Corporation on any of the following matters: (i) the creation, authorization, or issuance of any class or series of shares ranking on

## Edgar Filing: CYBERLUX CORP - Form 10QSB

a parity with or senior to the Series A Preferred with respect to dividends or upon the liquidation, dissolution, or winding up of the Corporation, and (ii) any agreement or other corporate action which would adversely affect the powers, rights, or preferences of the holders of the Series A Preferred.

The holders of record of the Series A Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$5,000 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series A Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series A Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. As of the period ended September 30, 2006, \$0 in dividends were accumulated.

Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after payment of any senior liquidation preferences of any series of Preferred Stock and before any distribution or payment is made with respect to any Common Stock, holders of each share of the Series A Preferred shall be entitled to be paid an amount equal in the greater of (a) the face value denominated thereon subject to adjustment for stock splits, stock dividends, reorganizations, reclassification or other similar events (the "Adjusted Face Value") plus, in the case of each share, an amount equal to all dividends accrued or declared but unpaid thereon, computed to the date payment thereof is made available, or (b) such amount per share of the Series A Preferred immediately prior to such liquidation, dissolution or winding up, or (c) the liquidation preference of \$5,000.00 per share, and the holders of the Series A Preferred shall not be entitled to any further payment, such amount payable with respect to the Series A Preferred being sometimes referred to as the "Liquidation Payments."

13

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

NOTE D - STOCKHOLDER'S EQUITY

SERIES A - CONVERTIBLE PREFERRED STOCK (CONTINUED)

Because the Series A Shares include a redemption feature that is outside of the control of the Company and the stated conversion price is subject to reset, the Company has classified the Series A Shares outside of stockholders' equity in accordance with Emerging Issues Task Force ("EITF") Topic D-98, "Classification and Measurement of Redeemable Securities." In accordance with EITF Topic D-98, the fair value at date of issuance was recorded outside of stockholders' equity in the accompanying balance sheet. Dividends on the Series A Shares are reflected as a reduction of net income (loss) attributable to common stockholders.

In connection with the issuance of the Series A Preferred and related warrants, the holders were granted certain registration rights in which the Company agreed

## Edgar Filing: CYBERLUX CORP - Form 10QSB

to timely file a registration statement to register the common shares and the shares underlying the warrants, obtain effectiveness of the registration statement by the SEC within ninety-five (95) days of December 31, 2003, and maintain the effectiveness of this registration statement for a preset time thereafter. In the event the Company fails to timely perform under the registration rights agreement, the Company agrees to pay the holders of the Series A Preferred liquidated damages in an amount equal to 1.5% of the aggregate amount invested by the holders for each 30-day period or pro rata for any portion thereof following the date by which the registration statement should have been effective. The initial registration statement was filed and declared effective by the SEC within the allowed time, however the Company has not maintained the effectiveness of the registration statement to date. Accordingly, the Company issued 203,867 shares of common stock as liquidated damages on December 10, 2004. The Company has not been required to pay any further liquidated damages in connection with the filing or on-going effectiveness of the registration statement.

The Company is required to record a liability relating to the detachable warrants as described in FAS 133, EITF 98-5 and 00-27, and APB 14. As such:

- o Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula, are accrued as adjustments to the liabilities at September 30, 2006 and December 31, 2005, respectively.
- o The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants (noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.

The fair value of the detachable warrants as of September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	December 31, 2005
	-----	-----
Fair value of warrants relating to issuance of convertible preferred stock:	\$108,565	\$1,147,334

The Company recorded an Unrealized Gain (Loss) on the change in fair value of these detachable warrants of \$1,038,769 and \$(452,242) for the nine months ended September 30, 2006 and 2005, respectively.

### SERIES B - CONVERTIBLE PREFERRED STOCK

On February 19, 2004, the Company filed a Certificate of Designation creating a Series B Convertible Preferred Stock classification for 800,000 shares.

In January, 2004, the Company issued 800,000 shares of its Series B Preferred in lieu of certain accrued management service fees payable and notes payable including interest payable thereon totaling \$800,000 to officers of the company. The shares of the Series B Preferred are non voting and convertible, at the option of the holder, into common shares at \$0.10 per share per share. The shares issued were valued at \$1.00 per share, which represented the fair value of the common stock the shares are convertible into. In connection with the transaction, the Company recorded a beneficial conversion discount of \$800,000 - preferred dividend relating to the issuance of the convertible preferred stock. None of the Series B Preferred shareholders have exercised their conversion right and there are 800,000 shares of Series B Preferred shares issued and outstanding at September 30, 2006 and December 31, 2005.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

The holders of the Series B Preferred shall have the right to vote, separately as a single class, at a meeting of the holders of the Series B Preferred or by such holders' written consent or at any annual or special meeting of the stockholders of the Corporation on any of the following matters: (i) the creation, authorization, or issuance of any class or series of shares ranking on a parity with or senior to the Series B Preferred with respect to dividends or upon the liquidation, dissolution, or winding up of the Corporation, and (ii) any agreement or other corporate action which would adversely affect the powers, rights, or preferences of the holders of the Series B Preferred.

14

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

NOTE D - STOCKHOLDER'S EQUITY (CONTINUED)

SERIES B - CONVERTIBLE PREFERRED STOCK (CONTINUED)

The holders of record of the Series B Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$1.00 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series B Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series B Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. For the period ended September 30, 2006 \$ 264,000 in dividends were accumulated.

Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after payment of any senior liquidation preferences of any series of Preferred Stock and before any distribution or payment is made with respect to any Common Stock, holders of each share of the Series B Preferred shall be entitled to be paid an amount equal in the greater of (a) the face value denominated thereon subject to adjustment for stock splits, stock dividends, reorganizations, reclassification or other similar events (the "Adjusted Face Value") plus, in the case of each share, an amount equal to all dividends accrued or declared but unpaid thereon, computed to the date payment thereof is made available, or (b) such amount per share of the Series B Preferred immediately prior to such liquidation, dissolution or winding up, or (c) the liquidation preference of \$1.00 per share, and the holders of the Series B Preferred shall not be entitled to any further payment, such amount payable with respect to the Series B Preferred being sometimes referred to as the "Liquidation Payments."

COMMON STOCK

The Company has authorized 300,000,000 shares of common stock, with a par value of \$.001 per share. As of September 30, 2006 and December 31, 2005, the Company has 98,004,157 and 75,608,334 shares issued and outstanding, respectively.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

During the nine months ended September 30, 2006, holders converted 20.3 shares of preferred stock - Class A into 1,019,032 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In January, 2006, the Company issued 3,000,000 shares of its common stock at \$0.084 per share in exchange for services.

In January, 2006, the Company issued 100,000 shares of its common stock at \$0.113 per share in exchange for services.

In February, 2006, the Company issued 10,000 shares of its common stock at \$0.095 per share in exchange for services.

In February, 2006, the Company issued 1,500,000 shares of its common stock at \$0.092 per share in exchange for services.

In February, 2006, the Company issued 791,369 shares of its common stock at \$0.04 per share on conversion of notes payable.

In March, 2006, the Company issued 4,000,000 shares in conjunction with the exercise of employee stock options at \$0.09 per share.

In April 2006, the Company issued 492,752 shares of its common stock at \$0.073 per share in exchange for services.

In May 2006, the Company issued 2,772,206 shares in conjunction with the exercise of employee stock options at \$0.081 per share

In May 2006, the Company issued 600,000 shares of its common stock at \$0.08 per share in exchange for services.

In June 2006, the Company issued 1,481,484 shares of its common stock at \$0.08 per share in exchange for services.

In June 2006, the Company issued 6,000,000 shares of its common stock in conjunction with the exercise of employee stock options at \$0.056 per share.

In July 2006, the Company issued 50,000 shares of its common stock at \$0.042 per share in exchange for services.

In August 2006, the Company issued 541,667 shares of its common stock for approximately \$0.05 per share in exchange for services.

In September 2006, the company issued 37,313 shares of its common stock at \$0.067 per share in exchange for services.

15

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

### NOTE E-STOCK OPTIONS AND WARRANTS

#### Class A Warrants

## Edgar Filing: CYBERLUX CORP - Form 10QSB

The following table summarizes the changes in warrants outstanding and related prices for the shares of the Company's common stock issued to shareholders at September 30, 2006:

Exercise Price	Number Outstanding	Warrants Outstanding		Number Exercisable
		Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	
\$0.01	100,000	2.25	\$0.01	100,000
0.03	26,500,000	3.67	0.03	26,500,000
0.06	25,000,000	6.99	0.06	25,000,000
0.10	20,641,500	6.17	0.10	20,641,500
0.20	1,845,000	1.00	0.20	1,845,000
0.25	10,301,564	0.47	0.25	10,301,564
0.50	2,300,000	2.65	0.50	2,300,000
1.05	10,193,064	.47	1.05	10,193,064

Transactions involving the Company's warrant issuance are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2004	21,931,128	\$ 0.90
Granted	26,500,000	0.03
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2005	48,431,128	0.42
Granted	48,750,000	0.11
Exercised	--	--
Canceled or expired	(300,000)	(0.50)
Outstanding at September 30, 2006	96,881,128	0.27

Warrants granted during the period ended December 31, 2005 totaling 26,499,500 were issued in connection with debt financing. The warrants are exercisable until five years after the date of issuance at a purchase price of \$0.03 per share on 25,000,000 warrants, \$0.10 per share on 800,000 warrants and \$0.15 per share on 699,500 warrants.

For the nine months ended September 30, 2006, warrants totally 44,000,000 were issued in connection with debt financing. The warrants are exercisable until seven years after date of issuance with 19,000,000 at a purchase price of \$0.10 per share, 25,000,000 at \$0.06 per share. The 19,000,000 warrants have a reset provision should the Company issue shares below \$0.10 per share excluding conversion of related debt.

For the nine months ended September 30, 2006, following warrants were issued in connection with services rendered:

	purchase price	
Number of warrant	per share:	Term (years)

Edgar Filing: CYBERLUX CORP - Form 10QSB

1,550,000	\$0.10	2.75
1,550,000	\$0.25	2.75
1,550,000	\$1.05	2.75
100,000	\$0.01	2.75

16

CYBERLUX CORPORATION  
 NOTES TO CONDENSED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

NOTE E-STOCK OPTIONS AND WARRANTS (CONTINUED)

Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan at September 30, 2006:

Exercise Prices	Number Outstanding	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price
\$0.2125	2,000,000	7.21	\$0.2125	2,000,000	\$	
0.2125	2,000,000	7.62	0.2125	2,000,000		
0.10	9,502,307	8.29	0.10	9,502,307		
0.0295	4,000,000	8.85	0.0295	4,000,000		
0.04	14,430,000	9.82	0.04	14,430,000		

Transactions involving stock options issued to employees are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2004:	16,000,000	\$0.2125
Granted	18,000,000	0.058
Exercised	-	-
Canceled or expired	-	-
Outstanding at December 31, 2005:	34,000,000	\$0.076
Granted	14,430,000	\$0.04
Exercised	(16,497,693)	0.037
Canceled or expired	-	-
Outstanding at September 30, 2006:	31,932,307	\$0.07815

During the nine months ended September 30, 2006, the Board of Directors voted to exercised 16,497,693 of their options cashlessly to provide 12,772,206 share of



## Edgar Filing: CYBERLUX CORP - Form 10QSB

the Company's common stock to be used as collateral in support of short-term financing.

The weighted-average fair value of stock options granted to employees during the year ended December 31, 2005 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

For the year ended December 31, 2005:

Significant assumptions (weighted-average):	
Risk-free interest rate at grant date	2%
Expected stock price volatility	255%
Expected dividend payout	-
Expected option life-years (a)	7
7	

(a) The expected option life is based on contractual expiration dates.

During the nine months ended September 30, 2006, the Company granted 14,430,000 employee stock options with an exercise price of \$0.04 expiring ten years from issuance. The fair value (determined as described below) of \$721,500 was charged to current period earnings.

The weighted-average fair value of stock options granted to employees during the nine months ended September 30, 2006 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

17

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

### NOTE E-STOCK OPTIONS AND WARRANTS (CONTINUED)

For the nine months ended September 30, 2006:

Risk-free interest rate at grant date	5.04%
Expected stock price volatility	364%
Expected dividend payout	-
Expected option life-years (a)	10

(a) The expected option life is based on contractual expiration dates.

### NOTE F -RELATED PARTY TRANSACTIONS

From time to time, the Company's principal officers have advanced funds to the Company for working capital purposes in the form of unsecured promissory notes, accruing interest at 12% per annum. As of September 30, 2006 and December 31, 2005, the balance due to the officers was \$353,595 and \$366,595, respectively.

### NOTE G -COMMITMENTS AND CONTINGENCIES

Consulting Agreements

## Edgar Filing: CYBERLUX CORP - Form 10QSB

The Company has consulting agreements with outside contractors, certain of whom are also Company stockholders. The Agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either the Company or Consultant terminates such engagement by written notice.

### Operating Lease Commitments

The Company leases office space in Durham, NC on a five year lease expiring April, 2008 for an annualized rent payment of \$43,127. Additionally the Company leases warehouse space on a month to month basis for \$550 per month. At December 31, 2005, schedule of the future minimum lease payments is as follows:

2006	\$43,127
2007	43,127
2008	14,376
2009	-
2010	-

### Litigation

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. Listed below is a brief description of pending litigation:

On May 17, 2005, Zykrnix, Inc., a Colorado corporation, filed a complaint against us and our President, Mark Schmidt, in the District Court, City and County of Denver, State of Colorado (Case No. 05CV3704) claiming damages in the amount of \$211,323.75 and costs for breach of contract, unjust enrichment and fraud by Mark Schmidt. We previously entered into a contract with Zykrnix for them to produce prototypes for several of our new products, which we believe they never satisfactorily completed.

On June 22, 2005, we filed our Answer and Counterclaim against Zykrnix, claiming damages and costs in the amount of \$2,850,000 for breach of contract, unjust enrichment and negligent misrepresentation. At the same time, Mark Schmidt filed a Motion to Dismiss since Zykrnix failed to adequately plead a claim for fraud. On August 24, 2005, the Motion to Dismiss was denied. The case is currently in discovery. We believe that their claims are without merit and we will vigorously defend these claims.

18

CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006  
(UNAUDITED)

### NOTE G -COMMITMENTS AND CONTINGENCIES

#### LITIGATION (CONTINUED)

On January 26, 2006, the parties signed a Mutual Release and Settlement Agreement and Stipulation for Dismissal with Prejudice. Under the terms of the Mutual Release and Settlement, the Company paid Zykrnix \$50,000 and Zykrnix returned our prototypes and design files.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

On February 6, 2006 the Court entered an Order for Dismissal with Prejudice, with Reservation of Limited Jurisdiction for the purpose of enforcing the Mutual Release and Settlement Agreement. The terms of the Mutual Release and Settlement Agreement have been met to the satisfaction of both parties.

On July 27, 2005, Alliance Care Services, Inc. d/b/a Alliance Advisors, a New York corporation, filed a complaint against us in the Supreme Court of the State of New York, County of New York, claiming damages in the amount of not less than \$500,000 and costs for breach of contract, breach of duty of good faith and fair dealing and unjust enrichment. We filed our answer on October 4, 2005 denying all claims. This case is currently in discovery. We believe that their claims are without merit and we intend to vigorously defend these claims.

On October 21, 2005, Greenfield Capital Partners LLC filed a statement of claim against us in arbitration before the National Association of Securities Dealers, Inc. Greenfield claims damages and costs in the amount of \$107,000 for breach of contract, fraud, fraudulent concealment and misrepresentation. We believe that their claims are without merit and we intend to vigorously defend these claims.

### NOTE H- LOSS PER SHARE

The following table presents the computation of basic and diluted (loss) income per share:

	For the nine months ended September 30,	
	2006	2005 As restated Note K
	-----	-----
Net (loss) available to common stockholders	\$ (5,297,080)	\$ (7,757,236)
Basic and diluted (loss) per share	(0.06)	(0.16)
Weighted average common shares outstanding	88,702,751	47,503,678

As of September 30, 2006 and 2005, 241,386,485 and 230,583,333 potential shares were excluded from the shares used to calculate loss per share as their inclusion would reduce net loss per share.

### NOTE I - BUSINESS CONCENTRATION

Sales to 3 major customers approximated \$109,476 or 49% of total sales for the three months ended September 30, 2006.

Purchases from the Company's 3 major suppliers accounted for 93% of total purchases for the three months ended September 30, 2006.

### NOTE J- GOING CONCERN MATTERS

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, as of September 30, 2006, the Company incurred accumulated losses of \$23,989,021. The Company's current liabilities exceeded its current assets by \$2,688,787 as of September 30, 2006. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

If operations and cash flows continue to improve through these efforts, management believes that the Company can continue to operate. However, no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems.

The Company's existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through the continued developing, marketing and selling of its services and additional equity investment in the Company. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

19

CYBERLUX CORPORATION  
 NOTES TO CONDENSED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

NOTE K-RESTATEMENT

During 2005, it was determined the correct application of accounting principles had not been applied in the 2004 and 2003 accounting for convertible debentures and detachable warrants (See note B above).

The original accounting for the debentures and detachable warrants, the Company recognized an imbedded beneficial conversion feature present in the convertible note and allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. Accordingly, the proceeds attributed to the common stock, convertible debt and warrants have been restated to reflect the relative fair value method.

The accounting principles on the aforementioned transactions are currently reflected in the accompanying September 30, 2006 financial statements in accordance with SFAS 154. The necessary corrections to apply the impact to the previously issued September 30, 2005 financial statements are as follows: For the nine months ended September 30, 2005:

	September 30, 2005 financial statement balance prior to restatement -----	September 30, 2005 financial statement post restatement -----	Amount increase (decrease) in September 30, 2005 financial statements -----
Net (loss)	\$ (2,799,717)	\$ (7,757,236)	\$ (4,957,519)
Loss per share-basic and fully diluted	\$ (0.06)	\$ (0.16)	\$ (0.10)

For the three months ended September 30, 2005:

	September 30, 2005	Amount increase (decrease) in
September 30,	September 30, 2005	Amount increase (decrease) in

Edgar Filing: CYBERLUX CORP - Form 10QSB

	2005 financial statement balance prior to restatement	financial statement post restatement	September 30, 2005 financial statements
	-----	-----	-----
Net Income (loss)	\$ (1,442,462)	\$ 12,129,831	\$ 13,572,293
Income (Loss) per share-basic and fully diluted-See note A	\$ (0.02)	\$ 0.17	\$ 0.19

The resulting effects on the prior period adjustments on the September 30, 2005 cash flows by area are as follows:

	September 30, 2005 cash flow statement balance prior to restatement	September 30, 2005 cash flow statement post restatement	Amount increase (decrease) in September 30, 2005 cash flow statement
	-----	-----	-----
Net cash from operating activities	\$ (1,849,640)	\$ (1,849,640)	--
Net cash from investing activities	(35,867)	(35,867)	--
Net cash from financing activities	1,487,515	1,487,515	--

NOTE L - SUBSEQUENT EVENTS.

On November 9, 2006, the Company was notified it is in default of the loan agreements dated March and June 2006. Shareholders have secured these convertible notes with shares of the Company's Common stock. The Company is presently reviewing its options to address the default.

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

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties about us, our current and planned products, our current and proposed marketing and sales, and our projected results of operations. There are several important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements. The Company has sought to identify the most significant risks to its business, but cannot predict whether

## Edgar Filing: CYBERLUX CORP - Form 10QSB

or to what extent any of such risks may be realized nor can there be any assurance that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risks before making an investment decision with respect to the Company's stock. The following discussion and analysis should be read in conjunction with the financial statements of the Company and notes thereto. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment from our Management.

### OVERVIEW

We are developing and marketing new product applications of solid-state diodal illumination (TM) that demonstrate added value over traditional lighting systems. Using proprietary technology, we are creating a family of products for task and accent lighting, emergency and security lighting, and specialized lighting systems for military and Homeland Security. Our solid-state lighting technology offers extended light life and greater cost effectiveness than other existing forms of illumination. We are expanding our marketing activity into channels of retail, commercial, institutional and military sales.

With our task and accent lighting, the target markets include kitchen and bath cabinet manufacturers, designer and installation contractors for the residential market. In the commercial markets, our task and accent lighting products and emergency and security lighting products address the lighting needs in hotels, hospitals, nursing homes, airports, shopping centers and multiple family complexes; long-term evacuation solutions for theaters, office and public buildings; reduced maintenance cost solutions for property managers as applied to walkway, corridor or landscape lighting. For our retail products, our target customers include the home improvement and consumer goods retailers. For the military and Homeland Security products, our target markets include all branches of the military and all government organizations providing homeland security services such as border control and airport security.

On July 13, 2006, we announced today that we had received an additional order for our Aeon ProHB lighting from the Center for History, in Wheaton, IL. The Museum placed a new order, valued at \$11,454, after testing the Aeon lights for 30 new custom cases for the Fairways, Greens & Clubs Golf Gallery at the Center.

The Museum chose the Aeon lighting because the technology of the LED lighting does not produce UV rays or heat; both elements can destroy old documents and fabrics. Unlike traditional lighting used in most museums, the Aeon LED lighting can be left on for days without causing harm to fragile items on display. LED lighting showcases Museum quality pieces in color corrected light which brings out the true colors of an item without damaging it.

Our Aeon product line includes the Aeon ProHB products, which produce up to 560 lux of illumination. The Aeon products are energy efficient, generate virtually no heat, and are maintenance-free with an industry-leading light-life guarantee of up to 15 years depending on the model purchased. The Aeon next generation LED lighting technology, based on solid-state semiconductors instead of conventional light bulbs, is an alternative to current halogen and fluorescent lighting.

On July 17, 2006, we announced that Bottom Line Energy Management, Inc. purchased EverOn Lights for installation in Michigan apartment buildings.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

Bottom Line Energy Management, Inc., a Michigan based contractor, is involved in the maintenance of commercial buildings and apartment complexes. Bottom Line Energy Management, Inc. purchased 210 EverOn Lights for an initial installation in closets of apartment buildings after presenting proposals to the building owners and demonstrating the capabilities of the EverOn and the cost savings they could achieve versus running electrical wiring to the closets and installing lighting fixtures.

The EverOn uses the latest solid-state lighting technology that provides more than 60 hours of light using four AA batteries and is 75 percent more energy efficient than conventional incandescent flashlights. Designed originally to provide homeowners with portable, long-lasting, emergency lighting during the hurricane season, the new EverOn is a sturdy, virtually indestructible, lighting product that provides over 60 hours of comfortable room-filling light on the medium setting and over 30 hours of intensely bright white light on the highest setting, all in a 7 inch by 3.5 inch by 2.4 inch package.

The EverOn contains six bright white and four amber diodal(tm) lighting elements that never require replacement. The EverOn has three light settings including a low, nightlight level; a medium, room-filling light level; and a high, spotlight level. The EverOn builds on our patent for lighting systems capable of generating long-term interim lighting, including the lighting device and associated methods for providing emergency or temporary lighting. Specifically, the patent addresses an electrochemical lighting system capable of providing prolonged illumination with the use of light emitting diodes (LEDs) as the illumination source. The patent embodies lighting devices capable of providing long-term interim lighting via an array of LEDs, the means for providing electrical energy to the LED array, the capability of multi-level light intensity consistent with light longevity and power source relationships including conventional A/C, solar, various electrochemical assemblies or all other means of electrical energy support.

On July 26, 2006, we announced that we had recorded our highest sales volume to-date for our EverOn product on our e-commerce site, [www.luxsel.com](http://www.luxsel.com). Over the past ninety days, sales of the EverOn product have increase 58% compared to the prior period. With month-to-month increases of 14% in May, 24% in June and 20% in July, the EverOn product is now being discovered by consumers as an every-day utility light that greatly exceeds the performance of traditional flashlights.

The EverOn has been ordered by hundreds of consumers who refer to the product as 'the marathon light with a life of its own.' The sales increase is largely due to the overall flexibility of the EverOn as a lighting source used during the many blackouts across the country but also as an everyday utilitarian home product. Consumers are raving about the EverOn as a closet light, a camping must-have, a lighting solution for tool sheds, cars, boats or babies' rooms.

On August 2, 2006, we announced a new addition to our growing product line -- the FocusOn(TM). FocusOn(TM) is a patent-pending solid-state lighting product designed to illuminate 'For Sale' signs at night so that home sales continue after dark.

This is a value-added sales tool for property owners and real estate brokerage companies. The product has been previewed with major retailers and selected franchised real estate brokerages. The FocusOn will be sold in hardware stores and home improvement outlets for use by property owners and direct to residential real estate brokerages for agency sales.

The FocusOn(TM) operates on 4 D-Cell batteries, lighting both sides of the

## Edgar Filing: CYBERLUX CORP - Form 10QSB

sign. Using a microprocessor controlled timer, the lights operate for 4 hours per night for more than 30 days on one set of batteries. The FocusOn(TM) features two light heads that fold out to an optimum lighting distance from the sign's face and contain two super-bright energy-efficient solid-state LEDs that illuminate the sign. The unit is encased in a waterproof cylinder that is secured to the horizontal sign support with a clamp channel and plastic tie straps.

On August 9, 2006, we announced the hiring of Lewis Gordon, General Manager, Worldwide Retail Sales. Gordon will focus on global sales for the EverOn; the KeOn; the RelyOn; and the newly introduced FocusOn "for sale sign" illumination product.

22

Gordon has an established track record of leading national sales and business development efforts for consumer product companies. He has a history of increasing market penetration through establishing new channel partnerships and growing business with national retail stores. Most recently, he was with United Storage Technologies as Vice President of Sales/Business Development where he maintained partnerships with major retailers including Wal-Mart and Sam's Club and also brought in new distribution channel partners. Prior to United Storage Technologies, Gordon was with American Tack & Hardware where he led sales and customer service, growing the sales revenue from \$48 million to \$88 million.

Between August 22 and 24, 2006, we showcased our line of emergency management products at the TREXPO (Tactical Response Exposition) East at Dulles Expo & Conference Center in Chantilly, VA. TREXPO East is the nation's most high profile exposition for tactical response equipment, technology, and services for law enforcement, military, security, and federal agencies.

On August 28, 2006, we announced today that the company has entered into an agreement with Clive Christian to showcase the Aeon products in its showrooms worldwide. Clive Christian delivers luxurious, classic kitchen designs, as well as traditional home furnishings.

On September 5, 2006, we announced that the company has entered into an agreement with Kaba Ilco Corporation to distribute its Keon KeyCap throughout North America. The first order has been shipped. Marketed under the KeyCaps brand by Kaba Ilco, our patented Keon is a practical lighting solution for every consumer who carries keys and provides a focused, bright diodal(tm) beam of light that illuminates a path to its corresponding lock or other targeted surfaces. Our Keon directs a beam of bright light down the key shaft onto walkways, stairways, doors and locksets. Each Keon features a pliable neoprene surround containing micro-electronics that fits snugly around standard key heads. The LED light is activated by gently pressing the cap between thumb and forefinger. The product is practically weightless and eliminates bulk from your key-ring.

On September 14, 2006, we announced today that we had entered into an agreement with Cottonwood Fine Kitchen Furniture to include the Aeon products in its cabinetry in dealerships throughout the country. Cottonwood is a manufacture of handcrafted built-to-order fine furniture. The company sells its furniture through 30 dealerships located across the country. They offer kitchen cabinets, bathroom suites, utility rooms, entertainment centers, display cases and other design/build furniture. All furniture is made to order and will now include the Aeon ProHB as an option for customers.



## Edgar Filing: CYBERLUX CORP - Form 10QSB

On September 27, 2006, we announced that we have been selected to provide a new high-performance solid-state LED lighting system for the United States Air Force Air Mobility Battlelab. The new lighting system is a state-of-the-art LED lighting system resulting from the adaptation of two existing commercial-off-the-shelf systems, the WatchDog Portable Covert Illumination System and the BrightEye Portable Visible Illumination System. Both COTS systems are currently available through GSA Schedule 56 and GSA Advantage. The Air Mobility Battlelab (AMB) explores high-payoff concepts, technologies, and tactics to advance the USAF distinctive capabilities of Rapid Global Mobility and Agile Combat Support. The AMB previously selected us to adapt our commercially available portable lighting system to meet AMB requirements and deliver the WatchDog Portable Covert Illumination System as the perimeter covert lighting solution for the protection of landed aircraft assets and attendant personnel. The performance characteristics of the WatchDog system support other potential applications of the technology to reduce mobility response time; reduce deployable support structure; and enable USAF members to do their jobs better, faster and with less expense.

The new system is designed as a portable visible and infrared illumination system for force protection, aircraft maintenance, expeditionary airbase force protection, general mission lighting and other high intensity lighting applications. Using advanced battery power and contained in a wheeled carrying case, the objective of the new system is to replace the space-consuming bulk, noise and energy consumption problems of the current generator powered incandescent lighting systems, for appropriate missions, with an easily deployed wheeled case advanced solid-state lighting system.

On Sept. 28, 2006, we announced that the Aeon ProHB under cabinet and interior cabinet lighting will be showcased in two homes in the Fall 2006 Parade of Homes. Sponsored by the Home Builders Association, the Parade of Homes took place September 30 & October 1, 2006, October 6 - 8, 2006, and October 13 - 15, 2006.

23

### RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2005

#### Revenues

Revenues for the nine months ended September 30, 2006 were \$353,081 as compared to \$26,202 for the same period ended September 30, 2005. Our expended sales reflects our greater market penetration compared to the same period last year

#### Operating Expenses

Operating expenses for the nine months ended September 30, 2006 were \$3,795,153 as compared to \$1,911,617 for the same period ended September 30, 2005. Included in the nine months ended September 30, 2006 are \$146,763 in expenses for market development and literature. This compares to \$235,389 for the nine months ended September 30, 2005. Additionally we incurred non cash expenses relating to the fair value of options issued and non cash payment for

## Edgar Filing: CYBERLUX CORP - Form 10QSB

services rendered of \$1,923,389 compared to \$140,160 for the same period last year.

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2005

### Revenues

Revenues for the three months ended September 30, 2006 were \$222,855 as compared to \$12,434 for the same period ended September 30, 2005. Our increased sales reflect our expanded sales efforts and a greater market penetration.

### Operating Expenses

Operating expenses for the three months ended September 30, 2006 were \$1,300,958 as compared to \$785,410 for the same period ended September 30, 2005. Included in the three months ended September 30, 2006 are \$29,548 in expenses for market development and literature. This compares to \$97,717 for the three months ended September 30, 2005.

Additionally, incurred \$721,500 as a non cash expense for the fair value of options issued to officers and key employees as compared to \$-0- in 2005

As a result of limited capital resources and minimal revenues from operations from its inception, we have relied on the issuance of equity securities to non-employees in exchange for services. Our management enters into equity compensation agreements with non-employees if it is in our best interest under terms and conditions consistent with the requirements of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation. In order to conserve our limited operating capital resources, we anticipate continuing to compensate non-employees for services during the next twelve months. This policy may have a material effect on our results of operations during the next twelve months.

### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2006, we had a working capital deficit of \$2,688,787. This compares to a working capital deficit of \$1,483,902 as of December 31, 2005. As a result of our operating losses for the nine months ended September 30, 2006, we generated a cash flow deficit of \$2,014,507 from operating activities. Cash flows used in investing activities was \$13,446 for the nine months ended September 30, 2006. Cash flows from financing activities provided \$1,627,403 from the issuance of convertible notes payable and borrowing on a long term basis, net of repayments for the nine months ended September 30, 2006.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development.

By adjusting our operations and development to the level of capitalization, we believe we have sufficient capital resources to meet projected cash flow deficits through the next twelve months. However, if thereafter, we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of

## Edgar Filing: CYBERLUX CORP - Form 10QSB

operations, liquidity and financial condition.

Our independent certified public accountant has stated in their report included in our December 31, 2005, Form 10-KSB, as amended, that we have incurred operating losses in the last two years, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on July 28, 2006, for the sale of (i) \$500,000 in secured convertible notes and (ii) warrants to purchase 15,000,000 shares of our common stock.

The proceeds received from the sale of the secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and purchasing inventory.

The secured convertible notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.10 or (ii) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

Since the conversion price will be less than the market price of the common stock at the time the secured convertible notes are issued, we anticipate recognizing a charge relating to the beneficial conversion feature of the secured convertible notes during the quarter in which they are issued

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on September 26, 2006, for the sale of (i) \$280,000 in secured convertible notes and (ii) warrants to purchase 10,000,000 shares of our common stock.

The proceeds received from the sale of the secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and purchasing inventory.

The secured convertible notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.10 or (ii) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including the conversion date. The full

## Edgar Filing: CYBERLUX CORP - Form 10QSB

principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

Since the conversion price will be less than the market price of the common stock at the time the secured convertible notes are issued, we anticipate recognizing a charge relating to the beneficial conversion feature of the secured convertible notes during the quarter in which they are issued

We will still need additional investments in order to continue operations to cash flow break even. Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations again.

The proceeds received from the sale of the secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and purchasing inventory.

### CRITICAL ACCOUNTING POLICIES

In February 2006, the FASB issued SFAS No. 155. "Accounting for certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140," or SFAS No. 155. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies

## Edgar Filing: CYBERLUX CORP - Form 10QSB

that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS 155 to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2006, the FASB issued FASB Statement No. 156, Accounting for Servicing of Financial Assets - an amendment to FASB Statement No. 140. Statement 156 requires that an entity recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. The new standard is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No.156 did not have a material impact on the Company's financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48). "Accounting for uncertainty in Income Taxes". FIN 48 clarifies the accounting for Income Taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and clearly scopes income taxes out of SFAS 5, "Accounting for Contingencies". FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet evaluated the impact of adopting FIN 48 on our consolidated financial position, results of operations and cash flows.

In September 2006 the Financial Account Standards Board (the "FASB") issued its Statement of Financial Accounting Standards 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. FAS 157 effective date is for fiscal years beginning after November 15, 2007. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows.

In September 2006 the FASB issued its Statement of Financial Accounting Standards 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The effective date for an employer with publicly traded equity securities is as of the end of the fiscal year ending after December 15, 2006. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows

NON-GAAP FINANCIAL MEASURES

## Edgar Filing: CYBERLUX CORP - Form 10QSB

The financial statements appearing in this quarterly report on Form 10-QSB do not contain any financial measures which are not in accordance with generally accepted accounting procedures.

### INFLATION

In the opinion of management, inflation has not had a material effect on our financial condition or results of its operations.

### OFF-BALANCE SHEET ARRANGEMENTS

We do not maintain off-balance sheet arrangements nor do we participate in non-exchange traded contracts requiring fair value accounting treatment.

26

### PRODUCT RESEARCH AND DEVELOPMENT

We anticipate incurring approximately \$500,000 in research and development expenditures in connection with the development of our portable boundary lighting system, Aeon cabinet lighting and RelyOn Power Light Plant during the next twelve months.

These projected expenditures are dependent upon our generating revenues and obtaining sources of financing in excess of our existing capital resources. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected costs of research and development during the next twelve months.

### ACQUISITION OR DISPOSITION OF PLANT AND EQUIPMENT

We do not anticipate the sale of any significant property, plant or equipment during the next twelve months. We do not anticipate the acquisition of any significant property, plant or equipment during the next 12 months.

### RISK FACTORS

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward-looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other "forward-looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward-looking statements".

Our common shares are considered speculative. Prospective investors should consider carefully the risk factors set out below.

WE HAVE A HISTORY OF LOSSES WHICH MAY CONTINUE, WHICH MAY NEGATIVELY IMPACT OUR

## Edgar Filing: CYBERLUX CORP - Form 10QSB

ABILITY TO ACHIEVE OUR BUSINESS OBJECTIVES.

We incurred net losses of \$9,410,657 for the year ended December 31, 2005 and \$3,103,049 for the year ended December 31, 2004. For the nine months ended September 30, 2006, we incurred a net loss of \$5,297,080. As of September 30, 2006, we had an accumulated deficit of \$23,989,021. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

IF WE ARE UNABLE TO OBTAIN ADDITIONAL FUNDING OUR BUSINESS OPERATIONS WILL BE HARMED AND IF WE DO OBTAIN ADDITIONAL FINANCING OUR THEN EXISTING SHAREHOLDERS MAY SUFFER SUBSTANTIAL DILUTION.

We will require additional funds to sustain and expand our sales and marketing activities. We anticipate that we will require up to approximately \$2,000,000 to fund our continued operations for the next twelve months, depending on revenue from operations. [this number is way too low based upon your losses for the year] Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

27

OUR INDEPENDENT AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN, WHICH MAY HINDER OUR ABILITY TO OBTAIN FUTURE FINANCING.

In their report dated March 16, 2006, our independent auditors stated that our financial statements for the year ended December 31, 2005 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of losses for the years ended December 31, 2005 and 2004 in the amounts of \$9,410,657 and \$3,103,049, respectively. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

IF WE ARE UNABLE TO RETAIN THE SERVICES OF MESSRS. EVANS, SCHMIDT OR RINGO, OR IF WE ARE UNABLE TO SUCCESSFULLY RECRUIT QUALIFIED MANAGERIAL AND SALES PERSONNEL HAVING EXPERIENCE IN BUSINESS, WE MAY NOT BE ABLE TO CONTINUE OUR OPERATIONS.

Our success depends to a significant extent upon the continued service of Mr. Donald F. Evans, our Chief Executive Officer, Mr. Mark D. Schmidt, our

## Edgar Filing: CYBERLUX CORP - Form 10QSB

President and Mr. John Ringo, our Secretary and Corporate Counsel. Loss of the services of Messrs. Evans, Schmidt or Ringo could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the life of Messrs. Evans or Ringo. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and sales personnel having experience in business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

MANY OF OUR COMPETITORS ARE LARGER AND HAVE GREATER FINANCIAL AND OTHER RESOURCES THAN WE DO AND THOSE ADVANTAGES COULD MAKE IT DIFFICULT FOR US TO COMPETE WITH THEM.

The lighting and illumination industry is extremely competitive and includes several companies that have achieved substantially greater market shares than we have, and have longer operating histories, have larger customer bases, and have substantially greater financial, development and marketing resources than we do. If overall demand for our products should decrease it could have a materially adverse affect on our operating results.

OUR TRADEMARK AND OTHER INTELLECTUAL PROPERTY RIGHTS MAY NOT BE ADEQUATELY PROTECTED OUTSIDE THE UNITED STATES, RESULTING IN LOSS OF REVENUE.

We believe that our trademarks, whether licensed or owned by us, and other proprietary rights are important to our success and our competitive position. In the course of our international expansion, we may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks. We cannot assure that the actions we have taken to establish and protect these trademarks and other proprietary rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks and proprietary rights of others. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent, as do the laws of the United States.

OUR PRINCIPAL STOCKHOLDERS, OFFICERS AND DIRECTORS OWN A CONTROLLING INTEREST IN OUR VOTING STOCK AND INVESTORS WILL NOT HAVE ANY VOICE IN OUR MANAGEMENT.

We have issued 800,000 shares of Series B Convertible Preferred Stock to our officers and directors which are convertible into 8 million shares of common stock and, in the aggregate, have the right to cast 80 million votes in any vote by our shareholders. Combined with the number of shares of common stock held by our officers and directors, they have the right to cast approximately 70% of all votes by our shareholders. As a result, these stockholders, acting together, will have the ability to control substantially all matters submitted to our stockholders for approval, including:

28

- o election of our board of directors;
- o removal of any of our directors;
- o amendment of our certificate of incorporation or bylaws; and
- o adoption of measures that could delay or prevent a change in control or impede a merger, takeover or other business combination involving us.



## Edgar Filing: CYBERLUX CORP - Form 10QSB

As a result of their ownership and positions, our directors and executive officers collectively are able to influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Management's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

WE HAVE ISSUED A LARGE AMOUNT OF STOCK IN LIEU OF CASH FOR PAYMENT OF EXPENSES AND EXPECT TO CONTINUE THIS PRACTICE IN THE FUTURE. SUCH ISSUANCES OF STOCK WILL CAUSE DILUTION TO OUR EXISTING STOCKHOLDERS.

Due to our limited economic resources, we try to issue stock in lieu of cash for payment of expenses and services provided for us. In 2005, we issued 2,783,333 shares of common stock in exchange for expenses and services rendered, and we issued 800,000 shares of series B convertible preferred stock to officers and directors in exchange for the retirement of debt owed to them. We anticipate issuing shares of common stock whenever possible in lieu of cash to conserve our financial position. The number of shares of common stock issued is directly related to our stock price at the time of issuance. In the event that our stock price drops, we will be required to issue larger amounts of shares for expenses and services rendered, if the other party is willing to accept stock at all. The issuance of shares of common stock will have the effect of diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

IF WE FAIL TO REMAIN CURRENT ON OUR REPORTING REQUIREMENTS, WE COULD BE REMOVED FROM THE OTC BULLETIN BOARD WHICH WOULD LIMIT THE ABILITY OF BROKER-DEALERS TO SELL OUR SECURITIES AND THE ABILITY OF STOCKHOLDERS TO SELL THEIR SECURITIES IN THE SECONDARY MARKET.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and
- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

### ITEM 3. CONTROLS AND PROCEDURES

#### (a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of September 30, 2006. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within

## Edgar Filing: CYBERLUX CORP - Form 10QSB

the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

31

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Except as disclosed below, we are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

#### STATEMENT OF CLAIM - ARBITRATION BEFORE THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

On October 21, 2005, Greenfield Capital Partners LLC filed a statement of claim against us in arbitration before the National Association of Securities Dealers, Inc. Greenfield claims damages and costs in the amount of \$107,000 for breach of contract, fraud, fraudulent concealment and misrepresentation. We entered into an agreement with Greenfield Capital Partners LLC in June 2004 to act as financial advisor in connection with and equity offering. On October 27, 2006, we entered into a settlement with Greenfield, pursuant to which we issued 2,700,000 shares of common stock in settlement of all claims.

#### INDEX NUMBER: 602727/05 - SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK

On July 27, 2005, Alliance Care Services, Inc. d/b/a Alliance Advisors, a New York corporation, filed a complaint against us in the Supreme Court of the State of New York, County of New York, claiming damages in the amount of not less than \$500,000 and costs for breach of contract, breach of duty of good faith and fair dealing and unjust enrichment. We entered into an agreement with Alliance Advisors in October 2003 for services to perform, including introduction to investors for the raising of equity capital in exchange for payment of certain fees. We filed our answer on October 4, 2005 denying all claims. This case is currently in discovery. We believe that their claims are without merit and we intend to vigorously defend these claims.

## Edgar Filing: CYBERLUX CORP - Form 10QSB

CASE NO. 2006- CV529 - DISTRICT COURT, BOULDER COUNTY, COLORADO

On May 22, 2006, William Walker filed a complaint against us and our CEO, Donald F. Evans, in District Court, Boulder County, Colorado, claiming unpaid wages in the amount of \$32,972 and an unpaid check not paid when presented in the amount of \$3,675. On July 17, 2006, we filed a counterclaim against Walker for breach of fiduciary duty. We believe his claims are without merit and we intend to vigorously defend these claims.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the three months ended September 30, 2006, we issued 600,000 shares of common stock upon the conversion of 12 shares of Class A preferred stock.

In July 2006, we canceled 8,000,000 shares of common stock which were to be issued pursuant to financing agreement which was terminated.

In July 2006, we issued 50,000 shares of our common stock at \$0.042 per share; in August 2006, we issued 41,667 shares of common stock at \$0.06 per share; and in September 2006, we issued 37,313 shares of common stock at \$0.067 in exchange for services rendered.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

We are currently in default pursuant to secured convertible notes issued pursuant to securities purchase agreements dated September 23, 2004, April 22, 2005 and October 24, 2005, as amended (the "SPAs"). Pursuant to the SPAs, we are obligated to have two times the number of shares that the secured convertible notes are convertible into registered pursuant to an effective registration statement. We filed a registration statement on Form SB-2, as amended, that was declared effective by the Securities and Exchange Commission on November 12, 2004. As a result of the drop in our stock price, the shares of common stock underlying the secured convertible notes that were registered on the SB-2 are not sufficient to cover the conversion of the secured convertible notes issued pursuant to the September 23, 2004 SPA.

32

In addition, pursuant to the April 22, 2005 and October 24, 2005 SPA, we were required to file a registration statement within 45 days of closing and have the registration statement effective within 105 days of closing. On May 20, 2005, we filed a registration statement on Form SB-2 registering shares underlying the convertible notes. This registration statement is currently being review and has not been declared effective.

On November 9, 2006, we were notified that we were in default of the loan agreements dated March and June 2006. Shareholders have secured these convertible notes with shares of our Common stock. We are presently reviewing its options to address the default.

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

None.

### ITEM 5. OTHER INFORMATION.

None.

### ITEM 6. EXHIBITS

Edgar Filing: CYBERLUX CORP - Form 10QSB

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 32.1 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)
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

33

SIGNATURES

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYBERLUX CORPORATION

Date: November 14, 2006

By: /s/ DONALD F. EVANS

-----  
Donald F. Evans  
Chief Executive Officer (Principal  
Executive Officer) and Chairman of the  
Board of Directors

Date: November 14, 2006

By: /s/ DAVID D. DOWNING

-----  
David D. Downing  
Chief Financial Officer (Principal  
Financial Officer and Principal Accounting  
Officer)

34