

CYBERLUX CORP
Form 10-K
May 18, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended: December 31, 2008

Commission file number 000-33415

CYBERLUX CORPORATION
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

91-2048978
(I.R.S. Employer
Identification No.)

4625 Creekstone Drive, Suite 130
Research Triangle Park
Durham, North Carolina
(Address of principal executive offices)

27703
(zip code)

Issuer's Telephone Number: (919) 474-9700

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

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, \$.001 par value
(Title if Class)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Yes No Delinquent filers are disclosed herein.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

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

Total revenues for Fiscal Year 2008 were \$632,529, with an unfulfilled order backlog of \$249,781.

The aggregate market value of the Common Stock held by non-affiliates (as affiliates are defined in Rule 12b-2 of the Exchange Act) of the registrant, computed by reference to the average of the high and low price on May 15, 2009, was \$11,572,283.

As of May 15, 2009 there were 999,955,532 shares of issuer's common stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

CYBERLUX CORPORATION
ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended December 31, 2007

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This Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are necessarily based on certain assumptions and are subject to significant risks and uncertainties. These forward-looking statements are based on management's expectations as of the date hereof, and the Company does not undertake any responsibility to update any of these statements in the future. Actual future performance and results could differ from that contained in or suggested by these forward-looking statements as a result of factors set forth in this Form 10-K (including those sections hereof incorporated by reference from other filings with the Securities and Exchange Commission), in particular as set forth in the "Management's Discussion and Analysis and Results of Operation" under Item 6.

In this Form 10-K references to "Cyberlux", "the Company", "we," "us," and "our" refer to Cyberlux Corporation.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW

We are principally devoted to designing, developing and marketing advanced lighting systems that utilize white (and other) light emitting diodes as illumination elements.

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 including portable illumination systems for military and Homeland Security, retail products, commercial task and accent lighting, emergency and security lighting. We believe our solid-state lighting technology offers extended light life, greater energy efficiency and greater overall cost effectiveness than other existing forms of illumination. Our business model is to address the large lighting industry market segments with solid-state lighting products and technologies, including our proprietary hybrid lighting technology, that includes military and Homeland Security applications, direct and indirect task and accent lighting applications, indoor/outdoor downlighting applications, commercial and residential lighting applications..

For the military and Homeland Security portable illumination 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. For our retail products, our target customers include the home improvement and consumer goods retailers and name-brand companies that we would supply products to as the original equipment manufacturer.

REGULATION

Our advertising and sales practices concerning our products are regulated by the Federal Trade Commission and state consumer protection laws. Such regulations include restrictions on the manner that we promote the sale of our products. We believe we are in material compliance with such regulations. We believe that we will be able to comply in all material respects with laws and regulations governing the conduct of business operations in general. We are not aware of any pending government regulations that may adversely affect our business.

RESEARCH AND DEVELOPMENT ACTIVITIES

We anticipate continuing to incur research and development expenditures in connection with the development of our portable illumination system and new 2009 commercial product lines during the next twelve months. In addition, we will continue to incur research and development expenditures in connection with the commercialization of our Hybrid Lighting Technology.

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.

Employees

We currently have 13 full time employees and eight firms acting as sales and business development agents. Our employees are primarily at the executive level based upon our role in coordination of outsource contracts for manufacturing and other production considerations. Currently, there exist no organized labor agreements or union agreements between us and our employees. We believe that our relations with our employees are good.

ITEM 2. DESCRIPTION OF PROPERTY

We maintain our principal office at 4625 Creekstone Drive, Suite 130, Research Triangle Park, Durham, North Carolina 27703. Our telephone number at that office is (919) 474-9700 and our facsimile number is (919) 474-9712. We lease 7,472 square feet of office space. The lease expires on December 31, 2012. The monthly rent is \$11,002.52, subject to an annual cost of living increase. We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us. We maintain websites at www.cyberlux.com and www.luxSel.com. The information contained on those websites is not deemed to be a part of this annual report.

ITEM 3. 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.

On April 16, 2007, Casey Tool and Machine Co. filed a complaint against us in the Circuit Court for the Fourth Judicial District, Shelbyville, Illinois, alleging breach of contract for failure to pay \$14,222 on an account payable. We intend to resolve this matter in a judicious manner.

On September 5, 2007, we announced that we had commenced an action against AJW Partners, LLC, AJW Offshore, LTD., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLC, (the "Defendants") in the United States District Court for the Southern District of New York for violations of the anti-fraud provisions of the Securities Act of 1934, fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, breach of implied covenant of good faith and fair dealing and conversion. The complaint alleges that the Defendants utilized an illegal trading scheme involving deceptive secured loan financings to convert shares of Company's common stock for the Defendants' own use and benefit. The trading scheme involved the Defendants manipulating the Company's stock price downward by short sales. In addition the complaint seeks declaratory, injunctive and monetary relief. On September 17, 2007, AJW Partners, LLC, AJW Offshore, LTD., AJW Qualified Partners, LLC, New Millennium Capital Partners II, LLC and AJW Master Fund, LTD, filed an action against us in the Supreme Court of the State of New York, County of New York alleging breach of contract. On September 26, 2007, we removed the state law complaint to federal court to join the federal court complaint. On March 17, 2008, the federal court having determined that it lacked subject matter jurisdiction over the state court complaint, remanded the case back to state court. On May 1, 2008, we filed our answer and affirmative and separate defenses and our counterclaims for declaratory, injunctive and monetary relief. This litigation is currently in the discovery phase.

On September 13, 2007, Britannia Law Office commenced an action against us and our President, Mark D. Schmidt, in the General Court of Justice, Superior Court Division, Durham County, North Carolina, alleging breach of contract, additional payments due under contract, unjust enrichment, fraud and unfair trade practices arising out of a consultant agreement. Plaintiff seeks compensation pursuant to a consulting agreement of \$30,000 and the issuance of five

million shares of the Company's common stock. These motions are currently pending. On March 12, 2009, the parties executed a mutual settlement and release agreement.

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ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board under the symbol "CYBL".

For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

| | High(\$) | Low (\$) |
|--------------------|----------|----------|
| 2004 | | |
| First Quarter | 0.53 | 0.19 |
| Second Quarter | 0.85 | 0.27 |
| Third Quarter | 0.55 | 0.23 |
| Fourth Quarter | 0.35 | 0.06 |
| 2005 | | |
| First Quarter | 0.07 | 0.02 |
| Second Quarter | 0.20 | 0.05 |
| Third Quarter | 0.15 | 0.05 |
| Fourth Quarter | 0.15 | 0.06 |
| 2006 | | |
| First Quarter | 0.12 | 0.06 |
| Second Quarter | 0.08 | 0.06 |
| Third Quarter | 0.07 | 0.04 |
| Fourth Quarter | 0.05 | 0.02 |
| 2007 | | |
| First Quarter | 0.04 | 0.01 |
| Second Quarter | 0.02 | 0.01 |
| Third Quarter | 0. | |
| Fourth Quarter | 0083 | 0.0021 |
| | 0.037 | 0.0195 |
| 2008 | | |
| First Quarter | 0.0215 | 0.021 |
| Second Quarter | 0,129 | 0.0048 |
| Third Quarter | 0.009 | 0.0021 |
| Fourth Quarter | 0.042 | 0.003 |
| 2009 | | |
| First Quarter | 0.0045 | 0.001 |
| Second Quarter (1) | 0.0035 | 0.001 |

(1) As of May 14, 2009

DESCRIPTION OF SECURITIES

Common Stock

We are authorized to issue up to 1,450,000,000 shares of common stock, par value \$.001. As of May 15, 2009, there were 999,955,532 shares of common stock outstanding. Holders of the common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefore. Upon the liquidation, dissolution, or winding up of our company, the holders of common stock are entitled to share ratably in all of our assets which are legally available for distribution after payment of all debts and other liabilities and liquidation preference of any outstanding common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

Preferred Stock

Our Articles of Incorporation authorize the issuance of 10,000,000 shares of preferred stock, \$0.001 par value per share, the designation and rights of which are to be determined by our Board of Directors. Our Board of Directors has authority, without action by the shareholders, to issue all or any portion of the authorized but unissued preferred stock in one or more series and to determine the voting rights, preferences as to dividends and liquidation, conversion rights, and other rights of such series. We consider it desirable to have preferred stock available to provide increased flexibility in structuring possible future acquisitions and financing and in meeting corporate needs which may arise. If opportunities arise that would make desirable the issuance of preferred stock through either public offering or private placements, the provisions for preferred stock in our Articles of Incorporation would avoid the possible delay and expense of a shareholder's meeting, except as may be required by law or regulatory authorities. Issuance of the preferred stock could result, however, in a series of securities outstanding that will have certain preferences with respect to dividends and liquidation over the common stock which would result in dilution of the income per share and net book value of the common stock.

Issuance of additional common stock pursuant to any conversion right which may be attached to the terms of any series of preferred stock may also result in dilution of the net income per share and the net book value of the common stock. The specific terms of any series of preferred stock will depend primarily on market conditions, terms of a proposed acquisition or financing, and other factors existing at the time of issuance. Our Board of Directors may issue additional preferred stock in future financing, but has no current plans to do so at this time. The issuance of Preferred Stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

As of May 15, 2009, we had 26,9806 shares of our Series A Convertible Preferred Stock issued and outstanding. Each share is convertible into 50,000 shares of common stock. The Series A Convertible Preferred have the following designations and rights:

Maturity: Perpetual Preferred

Dividend: 12% per annum. The dividend shall be payable semi-annually in cash or common stock at our option.

Fixed Conversion Price: The Series A Convertible Preferred shall be convertible into common stock at \$0.10 per share.

Stated Value: \$5,000 per share

Mandatory Conversion: Beginning 180 days from the effective date of a registration statement, if the closing bid price for our common stock exceeds \$1.50 for a period of 10 consecutive trading days, we have the right to force the holders to convert the Series A Convertible Preferred into common stock at the applicable conversion price.

Limitations on Conversion. Each holder of the Series A Convertible Preferred shares shall not convert the shares into common stock such that the number of shares of common stock issued after the conversion would exceed, when aggregated with all other shares of common stock owned by such holder at such time, in excess of 4.99% of our then issued and outstanding shares of common stock.

No Voting Rights. The holders of the Series A convertible shares have no voting rights until their shares are converted to common shares.

The Board of Directors, pursuant to our Articles of Incorporation and By-Laws, authorized Series B Convertible Preferred Stock which was issued to officers and directors in order to convert accrued management fees and other liabilities into 4,650,000 shares of the Series B Preferred Stock. The Series B Convertible Preferred Stock has the following designations and rights:

Term: Perpetual Preferred

Dividend: 12% per annum

Conversion: Each share of the Series B Convertible Preferred Stock may be converted to 10 shares of our common stock at the option of the bearer.

Voting Rights: Except with respect to transactions upon which the Series B Preferred stock shall be entitled to vote separately, the Series B Preferred Stock shall have superior voting rights equal to ten times the number of shares of Common Stock such holder of Series B Preferred Stock would receive upon conversion of such holder's shares of Series B Preferred Stock. The conversion price is \$0.10 per share.

Series C – Convertible Preferred stock

On November 13, 2006, the Company filed a Certificate of Designation creating a Series C Convertible Preferred Stock classification for 100,000 shares. Subsequently amended on January 11, 2007 to 700,000 shares. There are currently 150,000 Series C Convertible Preferred shares outstanding.

Term: Perpetual Preferred

Dividend: 5% per annum

Conversion: The shares of the Series C Preferred are convertible, at the option of the holder into common shares one year from issuance.

No Voting Rights. The holders of the Series A convertible shares have no voting rights until their shares are converted to common shares.

Common stock

Options

There are currently options outstanding that have been issued to our officers and directors to purchase 235,452,307 shares of our common stock.

Convertible Securities and Warrants

Not including approximately 83,010,628 shares of common stock issuable upon exercise of outstanding options and warrants, approximately 25,939,462 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated September 23, 2004, approximately 50,000,000 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated

April 22, 2005. approximately 22,857,143 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated October 24, 2005 and approximately 22,222,222 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated December 28, 2005.

SEPTEMBER 2004 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on September 23, 2004 for the sale of (i) \$1,500,000 in secured convertible notes, and (ii) warrants to purchase 2,250,000 shares of our common stock. As of March 31, 2006, \$597,194.10 of the secured convertible notes has been converted and \$902,805.90 remains outstanding.

The investors provided us with an aggregate of \$1,500,000 as follows:

- \$500,000 was disbursed on September 23, 2004;
- \$500,000 was disbursed on October 20, 2004; and
- \$500,000 was disbursed on November 18, 2004.

The notes bear interest at 10%, mature two years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

- \$0.72; or
- 50% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.60 per share. Prepayment of the notes is to be made in cash equal to 150% of the outstanding principal and accrued interest.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

The full principal amount of the secured convertible notes are 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 \$0.50 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

APRIL 2005 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on April 22, 2005 for the sale of (i) \$1,500,000 in secured convertible notes, and (ii) warrants to purchase 25,000,000 shares of our common stock.

The investors provided us with an aggregate of \$1,500,000 as follows:

- \$600,000 was disbursed on April 22, 2005;
- \$500,000 was disbursed on May 24, 2005; and

- \$400,000 was disbursed on July 19, 2005.

The notes bear interest at 10%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

- \$0.03; or
- 50% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.03 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

We also have a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.03. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are 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 \$0.03 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

OCTOBER 2005 STOCK PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on October 24, 2005, for the sale of (i) \$800,000 in secured convertible notes, and (ii) warrants to purchase 800,000 shares of our common stock.

The notes bear interest at 10%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

- \$0.06; or
- 50% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.03 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

We also have a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.10. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are 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, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

DECEMBER 2005 STOCK PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on December 28, 2005, for the sale of (i) \$700,000 in secured convertible notes, and (ii) warrants to purchase 700,000 shares of our common stock.

The notes bear interest at 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

- \$0.10; or
- 55% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$0.09 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

We also have a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.13. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured

convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are 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 \$0.15 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

MARCH 2006 STOCK PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on March 27, 2006, for the sale of (i) \$500,000 in secured convertible notes, and (ii) warrants to purchase 19,000,000 shares of our common stock.

The notes bear interest at 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

- \$0.06; or
- 55% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

We also have a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.13. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

JULY 2006 STOCK PURCHASE AGREEMENT

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 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:

- \$0.06; or
- 40% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

We also have a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.13. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

SEPTEMBER 2006 STOCK PURCHASE AGREEMENT

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 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:

- \$0.06; or
- 40% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the

outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

We also have a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.13. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

DECEMBER 2006 STOCK PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on December 20, 2006, for the sale of (i) \$600,000 in secured convertible notes, and (ii) warrants to purchase 20,000,000 shares of our common stock.

The 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:

- \$0.06; or
- 40% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

We also have a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.13. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured

convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

APRIL 2007 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on April 18, 2007, for the sale of (i) \$400,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on April 18, 2007.

The proceeds received from the sale of the secured convertible notes were 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 8%, 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) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board 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 seven years from the date of issuance at a purchase price of \$0.02 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. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. 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. No dividend can be issued while the notes are in effect.

MAY 2007 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on May 1, 2007, for the sale of (i) \$150,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on May 1, 2007.

The proceeds received from the sale of the secured convertible notes were 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 8%, 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) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board 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 seven years from the date of issuance at a purchase price of \$0.02 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. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. 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.

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. No dividend can be issued while the notes are in effect.

JUNE 6, 2007 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on June 6, 2007, for the sale of (i) \$150,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on June 6, 2007.

The proceeds received from the sale of the secured convertible notes were 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 8%, 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) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board 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 seven years from the date of issuance at a purchase price of \$0.02 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. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. 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.

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. No dividend can be issued while the notes are in effect.

JUNE 20, 2007 SECURITIES AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on June 20, 2007, for the sale of (i) \$150,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on June 20, 2007.

The proceeds received from the sale of the secured convertible notes were 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 8%, 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) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board 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 seven years from the date of issuance at a purchase price of \$0.02 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. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. 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.

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.

We also has a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.10. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

JULY 2007 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on July 18, 2007, for the sale of (i) \$150,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on July 18, 2007.

The proceeds received from the sale of the secured convertible notes were 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 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.02 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board 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 seven years from the date of issuance at a purchase price of \$0.02 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. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. 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.

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.

We also has a partial call option under the terms of the secured convertible notes in any month in which the current price of our common stock is below \$0.10. Under the terms of the partial call option, we have the right to pay the outstanding principal amount of the secured convertible notes plus one-month's interest for that month, which will stay any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

Penny Stock Regulation.

Shares of our common stock are subject to rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure prepared by the Securities and Exchange Commission, which contains the following:

- A description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- A description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities' laws;
- A brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the "bid" and "ask" price;
 - A toll-free telephone number for inquiries on disciplinary actions;
 - Definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- Such other information and in such form (including language, type, size and format), as the Securities and Exchange Commission shall require by rule or regulation.

Prior to effecting any transaction in a penny stock, the broker-dealer also must provide the customer the following:

- The bid and offer quotations for the penny stock;

- The compensation of the broker-dealer and its salesperson in the transaction;
- The number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and
 - Monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our common stock may have difficulty selling those shares because our common stock will probably be subject to the penny stock rules for an indeterminate period of time.

Recent Sales of Unregistered Securities

In January 2008, holders converted 2 shares of preferred stock – Series A into 100,000 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In January 2008, we issued 100,000 shares of its common stock in exchange for services rendered.

In March 2008, the Company issued 6,763,300 shares of its common stock as security in conjunction with the sale of a warrant.

In March 2008, the Company issued 7,500,000 shares of its common stock in conjunction with the sale of a warrant.

In April 2008, we borrowed an aggregate of \$122,000. In conjunction with the borrowing, we issued a total of 10,000,000 shares of our common stock..

In May 2008, we borrowed an aggregate of \$63,000. In conjunction with the borrowing, we issued a total of 15,000,000 shares of our common stock..

In June 2008, we borrowed an aggregate of \$49,000. In conjunction with the borrowing, we issued a total of 5,000,000 shares of our common stock..

In June 2008, we issued 5,000,000 shares to Donald F. Evans, our former CEO and Chairman of the Board pursuant to a Separation Agreement.

In July 2008, we borrowed an aggregate of \$132,500. In conjunction with the borrowing, we issued a total of 12,500,000 shares of our common stock.

On July 29, 2008, we issued 36,000,000 shares of our common stock to our employees pursuant to an Incentive Stock Grant Plan.

On August 7, 2008, we reissued 3,650,000 shares of Series B Convertible Preferred shares (“Series B shares”) to management. The previously issued Series B shares had been converted to common in a financing transaction.

In August 2008, we borrowed an aggregate of \$127,500. In conjunction with the borrowing, we issued a total of 15,000,000 shares of our common stock.

On August 12, 2008, we issued 6,971,116 shares of common stock to RBSM Advisors, LLC for \$62,740 in services.

On September 9, 2008, we issued 2,200,000 shares of our common stock to D.G. Yarborough, Inc. for \$14,500 in services.

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In September 2008, we borrowed an aggregate of \$56,250. In conjunction with the borrowing, we issued a total of 7,500,000 shares of our common stock.

In October 2008, we borrowed an aggregate of \$146,735. In conjunction with the borrowing, we issued a total of 38,712,121 shares of our common stock.

On October 21, 2008, we issued 2,000,000 shares to David D. Downing for \$7,200 in services.

In October 2008, we issued 8,000,000 shares to Scott Elliott for \$26,400 in services.

On December 2, 2008, we issued 250,000 shares to Matthew Hendrickson for \$375 in services.

On December 17, 2008, we issued 25,250,000 shares of our common stock to our employees pursuant to an Incentive Stock Grant Plan.

In December 2008, we borrowed an aggregate of \$29,250. In conjunction with the borrowing, we issued a total of 22,500,000 shares of our common stock.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULT OF OPERATIONS.

This report contains forward-looking statements. Actual results and events could differ materially from those projected, anticipated, or implicit, in the forward-looking statements as a result of the risk factors set forth below and elsewhere in this report.

With the exception of historical matters, the matters discussed herein are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements concerning anticipated trends in revenues and net income, projections concerning operations and available cash flow. Our actual results could differ materially from the results discussed in such forward-looking statements. The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto appearing elsewhere herein.

Overview

We are a Nevada corporation that was incorporated on May 17, 2000. We were founded to design, develop, market and sell advanced lighting systems that utilize light emitting diodes as illumination elements. White diodes are a relatively new phenomenon that offer major advances in illumination technology. Our diodes consume 92% less energy than incandescent counterparts to produce comparable light output. In electrochemical (battery powered) applications, this diminution of energy consumption positions our lighting solutions as more durable and reliable than other interim lighting alternatives. In standard alternating current electrical applications, the calculated life of LEDs as lighting elements is over 20 years versus 750 hours for traditional incandescent light bulbs. These exceptional performance characteristics, diminutive energy consumption and extended life, have prompted diode implementation in traffic lights and automotive brake lights, but have not yet significantly occurred in our area of focus, diodal illumination (tm). Diodal illumination is the production of light through the use of white light emitting diodes. A light emitting diode is a chemical compound that produces a visible light when an electrical current is applied. This production of light through a diode is contrasted with light from a typical light bulb, in which light is produced as a by-product of a burning filament contained within a vacuum globe. The diode uses 92% less energy to produce comparable light to that of a traditional light bulb.

On January 15, 2008, we announced that we had been selected to provide portable task lighting for the City of New York's new 911 Public Safety Answering Center. Selected by Evans Consoles, the manufacturer of the new 911 Dispatch Command Consoles, the Cyberlux Portable LED Task Light will illuminate the work environment of the new 911 public safety call taking and dispatching operators. We received an initial order from Evans Consoles for 355 units valued at over \$64,000.

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The milspec LED Task Light performs for over 50,000 hours without a lighting element replacement, and operates with up to 52% more energy efficiency on low lighting levels and up to 31% more energy efficiency on high lighting levels when compared to traditional fluorescent task lighting. Our milspec LED Task Lighting products provide up to 1000 lumens of illumination with 12 watts of power and utilize a patent-pending thermal management system for optimal lighting performance.

In addition, our milspec LED Task Light is the only LED task light available that is compatible with the Johnson Controls Personal Environments control center. The Johnson Control system is typically used by call center operators, including those in New York City, to control lighting, heating and air conditioning within their personal operating environment. The dual-arm milspec LED Task Light is adjustable and adaptable to any call center operator's lighting needs and is dimmed and controlled using the Johnson Controls system to vary the amount of light according to task.

On February 19, 2008, we announced that we had received the first commitment for 80 BrightEye and 60 WatchDog Visible and Covert Portable Illumination Systems from the United States Air Force (USAF). This initial USAF order for Cyberlux tactical lighting equipment equates to \$3,318,646 in revenue, including spares and maintenance supplies. We projected that operations will be cash flow positive with the fulfillment of these first USAF orders.

The 2008 Department of Defense Appropriations legislation contains \$8.0 million for the equipping of the USAF with our Portable Illumination Systems. As part of this \$8.0 million budget, the USAF Air Mobility Command will first fulfill the requirements of the Operations, Installation and Mission Support commands for the BrightEye and WatchDog systems. The remaining \$4.6 million appropriations will be allocated within the Air Mobility Command and other USAF commands during the remaining Fiscal Year 2008.

The BrightEye Portable Illumination System is designed as a portable visible and night-vision compatible illumination system for general mission tactical lighting, force protection, maintenance lighting, expeditionary base protection, disaster first responders, and other rapidly deployable high-intensity lighting applications. Using advanced optics, advanced solid-state lighting technology, and light-weight battery power, all contained in an easily transportable wheeled case, the BrightEye system is capable of eliminating the space-consuming bulk, noise and energy consumption of the current generator-powered incandescent lighting systems. Unique to the marketplace, the BrightEye system provides both white and night-vision compatible covert lighting, a capability not available in traditional lighting systems.

On March 24, 2008, we announced that that we had successfully completed the field demonstration of the new 4-meter tower-based BrightEye high-performance solid-state LED lighting system. The testing was conducted by Cyberlux and the United States Air Force Air Mobility Command at Fort Huachuca, the home to the U.S. Army Intelligence Center, located in Arizona. The new BrightEye 4M Tower Portable Illumination System is the latest product developed by Cyberlux to fulfill the United States Air Force requirements for portable, light-weight, battery-powered visible and covert night vision- compatible lighting systems for air field support, aircraft maintenance and forward air base in-theater lighting capability.

The BrightEye 4M Tower Portable Illumination System was tested in both visible and covert lighting modes to demonstrate advanced lighting capability during various scenarios, including force protection and broad area security lighting, first responder rapid set up capability, night vision-compatible illumination for aircraft maintenance, and general operational lighting for ground operation support of supply aircraft such as the C-130. All testing scenarios met the Air Mobility Command (AMC) expectations, including illumination levels, power system runtimes, system weight levels and deployment set-up times.

The 2008 Department of Defense Appropriations legislation contains \$8.0 million for the equipping of the United States Air Force (USAF) with Cyberlux Portable Illumination Systems. Of the \$8.0 million budget, the USAF Air Mobility Command will utilize \$3.3M to fulfill initial Operations, Installation and Mission Support requirements. The

remaining \$4.6M will be allocated within the USAF for the purchase of various BrightEye systems including the Dual Lighthouse Portable Illumination Systems and the new 4M Tower Portable Illumination System during the remaining Fiscal Year 2008.

In an earlier field test evaluation, the AMC determined that the BrightEye System is 97% smaller in footprint, weighs 94% less than the current diesel- powered incandescent lighting systems and saves an estimated 63% in daily operating costs. In addition, the AMC concluded that the BrightEye System provides versatile and economical tactical lighting capability as required by expeditionary forces across all U.S. armed services.

On April 8, 2008, we announced that that we had competed its National Program budget forecast for solid-state lighting systems for use within the Department of Defense (DOD) and submitted this forecast to its sponsorship in the House of Representatives and Senate for 2009 Fiscal Year (October 1, 2008 to September 30, 2009) budget consideration. We estimated the continuation of its Portable Illumination System National Program rollout within the DOD to be more than \$25 million, which represents expanded demand for its tactical covert and visible lighting systems of over 300% from 2008 to 2009.

Although we delivered our BrightEye and WatchDog Systems to certain commands within the USAF and the National Guard and the USAF has committed \$3.3 million of the \$8.0 million 2008 National Program budget for Portable Illumination Systems, these equipment requests, and the remaining \$4.7M 2008 budget, remain unshipped pending designation of the National Stocking Numbers (NSNs) by the Defense Logistics Agency. This protracted accounting delay has created the need for two short-term equity financings which have recently been concluded.

On April 17, 2008, we announced that we received a request from the National Guard to participate in the Vigilant Guard 2008 Disaster Response Exercise in Beaufort, South Carolina from April 21st through April 24th. The Vigilant Guard event is designed to simulate the chaotic aftermath of an earthquake or terrorist attack and will include 50 specific missions designed to test emergency response, search and rescue, evacuation and distribution of goods capabilities. We deployed a team of our specialists to operate the BrightEye 4M Tower Illumination Systems and the BrightEye Dual Lighthouse Tactical Illumination Systems to provide rapid set-up and 'stadium-bright' lighting capability during the various exercises.

Over the last two years, we have worked with select National Guard units and the National Guard Bureau to refine the capabilities of our portable visible and night-vision compatible illumination systems for general mission tactical lighting, disaster first response, force protection, maintenance lighting, expeditionary base protection and other rapidly deployable high-intensity lighting applications. Participation in the Vigilant Guard 2008 event, along with over 2,000 National Guardsmen from 11 states, is a continuation of the customer/major manufacturer solutions-oriented relationship we have developed with the National Guard.

On April 24, 2008, we announced that we had received a purchase commitment for 10 BrightEye Dual Lighthouse Tactical Illumination Systems from the Air National Guard. The initial Air National Guard order for 10 BrightEye Systems equates to \$187,412 in revenue. In December 2007, the National Guard Bureau purchased 17 BrightEye Systems, a \$313,004 purchase order, to equip the Nation's emergency response CERFP teams.

Over the last year, we have worked with select Air National Guard units to evaluate the BrightEye products in order to refine the capabilities of the Cyberlux portable visible and night-vision compatible illumination systems. The Air National Guard intends to deploy the 10 BrightEye Dual Lighthouse Tactical Illumination Systems to Aviation Support Facilities across the country. The BrightEye Systems will be used for aircraft maintenance lighting, expeditionary base lighting and other high-intensity lighting applications that require rapid deployment and a small size/weight footprint.

On May 2, 2008, we announced that the U.S. Patent Office has recently awarded patent protection for 29 claims contained within two of our patent filings that address the apparatus and methods for providing multi-mode solid-state lighting. These 29 claims provide us with patent protection that extends to its WatchDog and BrightEye family of tactical lighting products, as well as other future product releases.

The claims awarded by the U.S. Patent Office address a broad array of solid-state lighting devices that are comprised of an array of light emitting diodes (LEDs) with a corresponding control circuit that provides the system with power sensing, motion sensing and ambient light sensing for system control, along with a localized electrical energy source that powers the array of LEDs for illumination, along with a reflector positioned proximate to the array of LEDs for reflecting and optimizing the light output of the LEDs.

In addition, the awarded claims address the method of operating an LED light device that operates by sensing electrical power information, sensing mode of illumination information provided by a user via a user interface, sensing LED intensity information provided by the user via the user interface, directing an array of LEDs to operate in either a spot-light mode of illumination, a flood-light mode of illumination, or a combined mode of illumination based upon the sensed mode of illumination information, and displaying the information to the user via a user interface based upon the sensed battery electrical power information, the sensed mode of illumination information, and the sensed LED intensity information.

The 29 claims awarded under our two patent filings create an extensible intellectual property platform for current tactical lighting system production and future lighting system development.

On May 12, 2008, we announced that we had received the next in a series of multi-million dollar commitments from the United States Air Force (USAF). The new commitment represents an additional 50 WatchDog Visible and Covert Portable Illumination Systems, an additional 30 BrightEye Dual Lighthouse Portable Illumination Systems and 40 BrightEye 4M Tower Portable Illumination Systems. This USAF order for our tactical lighting equipment equates to \$2,189,245 in revenue, including spares and maintenance supplies. We projected that with aggregate USAF orders of over \$5.5 million, operations will be profitable upon fulfillment of these orders.

The 2008 Department of Defense Appropriations legislation allocates \$8.0 million for the equipping of the USAF with our Portable Illumination Systems. As part of this \$8.0 million budget, the USAF Air Mobility Command is fulfilling the requirements of the Logistics, Operations, Installation and Mission Support commands for the BrightEye and WatchDog systems. The remaining \$2.5 million in appropriations will be allocated within other USAF commands during Fiscal Year 2008 which ends September 30th.

BrightEye Portable Illumination System family is designed as visible and night-vision compatible illumination systems for general mission tactical lighting, force protection, maintenance lighting, expeditionary base protection, disaster first responders, and other rapidly deployable high-intensity lighting applications. Using advanced optics, advanced solid-state lighting technology, light-weight Li-On battery power, all contained in an easily transportable wheeled case, the BrightEye system is capable of eliminating the space-consuming bulk, noise and energy consumption of the current generator-powered incandescent lighting systems. Unique to the marketplace, the BrightEye system provides both white and night-vision compatible covert lighting, a capability not available in traditional lighting systems.

On May 14, 2008, we announced that we had received purchase commitments from the New York Air National Guard, the New York National Guard Civilian Support Team, the Indiana National Guard and the Minnesota National Guard for BrightEye Tactical Illumination Systems. The BrightEye Systems are for immediate deployment to Iraq with the various state National Guard and Air National Guard units. The new orders total \$163,005 in revenue.

Over the last year, we have supported the National Guard Bureau with the deployment of BrightEye systems to state-level National Guard and Air National Guard units. This effort has generated over \$750,000 in orders and over \$650,000 thus far in 2008, all incremental revenue to the \$8.0 million Department of Defense Appropriations Budget for U.S. Air Force.

Over the last six months, the National Guard Bureau purchased 17 BrightEye Systems, a \$313,004 purchase, to equip the Nation's emergency response CERFP teams and Air National Guard purchased 10 BrightEye Systems, a \$187,412 purchase, to support the Aviation Support Facilities across the country. The BrightEye Systems will be used for maintenance lighting, expeditionary base lighting and general lighting applications that require rapid deployment and a small size/weight footprint. Most recently, Cyberlux has supported the Air National Guard's Emergency Medical Support (EMEDS) units with remote lighting capability provided by the BrightEye 4M Tower System, and the EMEDS units are now pursuing the BrightEye systems for field deployment.

The BrightEye Portable Illumination Systems are designed as visible and night-vision compatible illumination system for mission-critical tactical lighting requiring rapidly deployable, high-intensity lighting capability. Using advanced optics, advanced solid-state lighting technology, and light-weight advanced battery power, all contained in easily transportable wheeled cases, the BrightEye Systems are capable of eliminating the space-consuming bulk, noise and energy consumption of the current generator-powered incandescent lighting systems. Unique to the marketplace, the BrightEye Systems provide broad area visible white lighting and night-vision compatible IR lighting capable of operating all night on an advanced battery power system, capabilities not available in traditional lighting systems.

The BrightEye Systems are available through the General Services Administration (GSA) Federal Supply Schedule 56 for Specialty Lighting products under Cyberlux GSA Contract GS-07F-9409S.

On May 15, 2008, we announced that we had received an invitation from the Boeing Intelligence & Security Systems Division to attend the Secure Border Initiative (SBInet) supplier briefing scheduled for May 22, 2008 in Washington, D.C.

In September of 2007, we were awarded the SBInet Toolkit Supplier Contract to supply the BrightEye Portable Visible and Covert 10 Meter Tower Lighting System as part of the SBInet's mobile command infrastructure. The Company is one of only two lighting companies, and the only solid-state LED lighting solutions company, to be awarded the SBInet Toolkit Supplier Contract for portable lighting. In November, we fulfilled the first system order from The Boeing Company associated with the SBInet deployment plans for the Mexican and Canadian borders.

On June 3, 2008, we announced that the Defense Logistics Agency has awarded National Stocking Numbers to our Portable Illumination System line of products. The Defense Logistics Agency (DLA), the largest combat support agency within the Department of Defense (DOD), is the source for nearly every supply item, whether for combat readiness, emergency preparedness or the day-to-day operations of the Army, Air Force, Navy, Marine Corps and federal agencies. National Stocking Numbers (NSNs) are standardized, officially recognized item numbers used by the United States Government, the North Atlantic Treaty Organization (NATO) and many governments around the world to purchase and manage billions of dollars worth of procurement annually. The assignment of NSNs will enable us to easily and efficiently expand their military customer base to the global military marketplace.

Our Portable Illumination Systems are designed as visible and night-vision compatible illumination systems for mission-critical tactical lighting that requires rapidly deployable, high-intensity lighting capability. Using advanced optics, advanced solid-state lighting technology, and light-weight advanced battery power, all contained in easily transportable wheeled cases, the WatchDog and BrightEye tactical lighting systems provide broad area visible white lighting and night-vision compatible IR lighting capable of operating all night on an advanced battery power system, capabilities not available in traditional lighting systems.

Our Portable Illumination Systems were first available through the General Services Administration (GSA) Federal Supply Schedule 56 for Specialty Lighting products under Cyberlux GSA Contract GS-07F-9409S and will continue to be purchasable through the GSA. The new National Stocking Numbers assigned to the Cyberlux Portable Illumination System products are:

| | | | | |
|----------------------------------|-----------------|---|---------------|---|
| WatchDog System | GSA P/N 2CP0150 | N | S | N |
| | | | 6230015635690 | |
| WatchDog System Spares Kit | GSA P/N 2CP0169 | N | S | N |
| | | | 6210015635711 | |
| BrightEye Dual Lighthouse System | GSA P/N 2CP0170 | N | S | N |
| | | | 6230015635725 | |

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| | | | | |
|---|-----------------|---|---|---------------|
| BrightEye Dual Lighthouse System Spares Kit | GSA P/N 2CP0180 | N | S | N |
| | | | | 6210015635748 |
| BrightEye 4M Tower System | GSA P/N 2CP0190 | N | S | N |
| | | | | 6230015635774 |
| BrightEye 4M Tower System Spares Kit | GSA P/N 2CP0191 | N | S | N |
| | | | | 6210015635807 |
| BrightEye 10M Tower System | GSA P/N 2CP0182 | N | S | N |
| | | | | 6230015635832 |
| BrightEye 10M Tower System Spares Kit | GSA P/N 2CP0183 | N | S | N |
| | | | | 6210015635839 |
| BrightEye Portable Power System | GSA P/N 2CP0185 | N | S | N |
| | | | | 6115015635624 |

The 2008 Department of Defense Appropriations legislation established a National Program of \$8.0 million for the equipping of the United States Air Force with our Portable Illumination Systems during Fiscal Year 2008 ending September 30th. The designation of the NSNs will enable us to meet these requirements as well as the additional requests for our equipment from other branches of the U.S. Armed Services as well as NATO.

On June 26, 2008, we announced that we had posted record revenues of \$137,284 for the week ending June 20, 2008. We produced and shipped BrightEye Dual Lighthouse System orders in record time for immediate deployment to Iraq with National Guard units from New York, Indiana and Minnesota. In addition, the Company verified that its production and distribution processes will support the output needed to fulfill the United States Air Force production requirements.

Over the last year, we have supplied BrightEye systems to state-level National Guard and Air National Guard units, generating \$650,000 in revenue in 2008. The National Guard and Air National Guard revenue is incremental to the 2008 Department of Defense Appropriations legislation that allocates \$8.0 million for the equipping of the United States Air Force with our Portable Illumination Systems.

On June 30, 2008, we announced that our Board of Directors has unanimously approved Mark D. Schmidt, President and Chief Operating Officer, to succeed Donald F. Evans as Chief Executive Officer, effective July 1, 2008. The appointment of Mr. Schmidt concludes a two-year internal transition plan during which time Mr. Schmidt managed our operations. Mr. Evans, who founded the Company in 1999 and has led us as Chairman and Chief Executive Officer since 2000, is beginning a planned phased retirement at age 73. In conjunction with his retirement plan, Mr. Evans' estate advisors have proposed to privately place or otherwise liquidate up to 25% of his Cyberlux equity holdings over the next three years.

In a related matter, the our Board of Directors also unanimously appointed John W. Ringo, our Corporate Counsel and Company Director, as the new Chairman of the Board of Directors.

On June 30, 2008, we announced that we had entered into a business development, sales and product solutions relationship with A and A Logistics, Inc. For over 17 Years, the founders of A and A Logistics, Inc. have delivered solutions on demand to the U.S. military, U.S. government agencies such as the Federal Emergency Management Agency (FEMA) and the U.S. Postal Service (USPS), state and local municipal government agencies, and foreign military organizations.

In addition to the consultative relationship A and A Logistics has with the U.S. Special Operations Command (USSOCOM), we were recently appointed to the Task Force on the Reconstruction of Afghanistan. Selected for the diversity of experience and the expertise of the A and A Logistics management team, the Company will focus on business development in Afghanistan and on accelerating the development of essential businesses and services for the mutual benefit of the people and government of Afghanistan and the private sector.

In representing us in business development and sales efforts A and A Logistics will assist customers such as USSOCOM and FEMA with requirements, concept and solution development, along with product delivery services including logistics support. With a focus on technology solutions that provide critical life-sustaining support for the Warfighter and the Emergency Responder, A and A Logistics currently provides customers with portable lighting products and generators, solar powered electrical systems, self-powered IED detection products, and water purification systems.

On August 22, 2008, we announced that we had received purchase orders from the Oklahoma National Guard for BrightEye Tactical Illumination Systems. These BrightEye Systems are for immediate deployment and will be used by the state's National Guard unit.

We have successfully sold our BrightEye Systems to 23 National Guard states within the National Guard Bureau, and we expect this momentum to continue until the majority of the states are outfitted with BrightEye tactical lighting systems.

On August 28, 2008, we announced that the U.S. Patent Office has recently awarded patent protection for 21 claims contained within our U.S. Patent Application for Portable Light Device, Application Number 11/336,562 filed on January 21, 2006. The new patent claims define specific areas of patent protection for our BrightEye and WatchDog portable lighting products and augment the 29 patent claims announced in May 2008. In combination, the 50 patent claims provide us with thorough patent protection for its WatchDog and BrightEye family of tactical lighting products, as well as any future products developed on this patent foundation.

The new claims awarded by the U.S. Patent Office address a lighting device comprised of an array of LEDs that operate in spot-light and flood-light modes of illumination, or in a spot-light/flood-light combined mode, with alterable intensity levels, controlled by an electrical power system and electrical sensor operation. Further, the new claims cover the user interface that allows the user to change operating modes continuously between spot-light and flood-light illumination and to display the battery power capacity on a percentage and time interval basis.

In addition, the claims address the specifics around the use of narrowing lenses as LED optics adapted to focus illumination in a cone angle between 4 and 50 degrees. This unique optical method and practice enable the spot-light and flood-light modes of illumination.

Lastly, the claims address the use of a computer and computer-executable programming instructions for operating a lighting device. The operations are defined as comprising the steps of sensing electrical power information, sensing modes of illumination information and sensing LED intensity information provided by a user via the user interface, directing the array of LEDs to operate in either a spot-light, flood-light or combined mode of illumination, directing the array of LEDs to operate at a desired intensity level, and displaying the power supply capacity message to the user based upon the sensed electrical power, mode of illumination and LED intensity information.

These newly awarded 21 patent claims provide us with a deeper, more extensible intellectual property platform for the current tactical lighting system products and for future lighting systems currently under development. Importantly, the combined 50 patent claims create a significant licensing portfolio that will allow other companies access to these fundamental LED lighting capabilities.

On September 9, 2008, we announced that we had entered into a business development, project consulting and product sales relationship with Sabot 6, Inc. Sabot 6, Inc. specializes in accelerating the adoption of innovative technologies within the Department of Defense (DoD) and Federal government marketplace. Sabot 6 has significant government and military experience and has access to a network of uniquely qualified experts in the Power, Energy and Government Operations fields.

Under the agreement, the Sabot 6 firm will provide tactical and strategic sales planning, access to senior government officials and tactical users, access to soldiers for hands-on evaluation and ongoing product sales support for governmental entities not yet addressed by us. In addition, Sabot 6 will provide a specific focus on the procurement process for our current Portable Illumination System products and will spearhead future development projects where Cyberlux will leverage the company's significant engineering and product development knowhow. If needed, Sabot 6 will also provide surge support in specific areas of expertise, at any location deemed necessary by us or our customer. This combination of capabilities will immediately enhance our revenue pipeline, particularly in the Energy, Security and Power Surety market segments.

On September 10, 2008, we announced that we had received a purchase order from the Hawaiian Air National Guard for the purchase of a BrightEye Tactical Illumination System.

We have demonstrated continued success in selling its flagship product, the BrightEye Tactical Illumination System, to individual state-level National Guard units across the country. The Company feels strongly that it is positioned to be the tactical lighting leader within multiple branches of the United States Armed Services in the future.

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On October 17, 2008, the Company filed a protest with the General Accountability Office on the unfair and prejudicial treatment it received during the contracting process which resulted in the inability of Cyberlux to fairly compete for Solicitation Award FA4452-08-R-0025. This protest was filed based on the following claims: (1) ambiguous and unclear specification in the statement of work of RFP FA4452-08-R-0025 which obscured the requirements and resulted in the exclusion of Cyberlux from the list of technically compliant offerors and further ensured that Cyberlux would be the highest bidder; (2) ambiguous and unclear evaluation criteria which resulted in the initial exclusion of Cyberlux from technical compliance and ensured that Cyberlux could only be the high bidder in an unfair process; (3) inappropriate process steps involving a lack of timely notice were utilized to further mask the adverse prejudicial treatment of Cyberlux and other potential offerors in the 2nd phase of this Air Mobility Command procurement action; and (4) the competition was not open and not fair because after amendments were made and two bidders with known prices were considered technically acceptable, Cyberlux specifically asked the Contracting Officer if the Company could lower the prices of its bid during the Final Proposal Revisions (Best and Final Offers), and the Contracting Officer failed to notify Cyberlux that it could lower its price.

On February 23, 2009, the General Accountability Office denied the protest.

The Company is currently evaluating further legal actions regarding the infringement of its patent rights, which have not been licensed to any third party at this time.

On October 3, 2008, we announced that our WatchDog and BrightEye tactical lighting systems were the only two solutions listed in Resolution NO. J-29, RELATING TO LIGHT EMITTING DIODE PORTABLE ILLUMINATION SYSTEMS, adopted during the 130th National Guard Association of the United States (NGAUS) General Conference held during Sept. 20-22, 2008 in Baltimore, MD.

We have equipped 27 National Guard Units with its BrightEye tactical lighting systems and anticipates substantial order flow from the NGAUS 2009 congressional funding recommendation as adopted in Resolution No. J-29 for LED Portable Illumination Systems.

NGAUS (<http://www.ngaus.org/>) is a nonpartisan organization representing nearly 45,000 current and former Army and Air National Guard officers. It was formed in 1878 with the goal of obtaining better equipment, standardized training and a more combat-ready force by petitioning Congress for resources.

On October 20, 2008, we announced that we had received a purchase order from the Hawaiian National Guard for the purchase of an additional BrightEye Tactical Illumination System.

With 27 state-level National Guard units having purchased BrightEye Tactical Illumination Systems, We have demonstrated continued success in selling its leadership product to individual National Guard units across the country. We are positioned to be the tactical lighting leader within multiple branches of the United States Armed Services.

On October 31, 2008, we announced that we had entered into a product development, business development and product sales relationship with Sacred Power Corporation, a leading provider of renewable energy solutions. Sacred Power Corporation specializes in solar power solutions and provides innovative renewable energy technologies to the Department of Defense (DOD) and Federal government marketplace. Sacred Power, a Native American owned and operated 8(a) certified company, has significant government and military experience in the design and delivery of telecommunication, power generation and electrification projects.

Under the terms of the agreement between the two companies, Sacred Power and Cyberlux will work as prime contractor/subcontractor teaming partners on solid-state lighting and solar power renewable energy opportunities. In addition, the companies will support cross-product and cross-channel sales initiatives where Cyberlux will utilize the solar power capability of Sacred Power to offer a range of renewable power options for its Cyberlux Portable Illumination System products, and Sacred Power will leverage our solid-state lighting capability, including our

Portable Illumination System products, in its renewable energy projects. This combination of capabilities will immediately enhance the presence of both companies in the Energy, Security and Power Surety market segments.

As a first project, the two companies have been awarded a purchase order contract from Sandia National Laboratories on behalf of the DOD to provide portable, solar powered visible and covert LED security lighting systems for testing, evaluation and future deployment across the DOD agencies. For this project, Sacred Power will provide the solar power solution and system integration capability, and Cyberlux will provide the visible and covert LED security lighting solution.

On December 2, 2008, we announced that the United States Special Operations Command (SOCOM), had placed its first order for two BrightEye Tactical Lighting Systems. Secured through one of our contractual sales arms, this purchase order will supply SOCOM with BrightEye units for field testing and evaluation by the U.S. Army Special Operations Command at Fort Bragg, N.C.

The United States Special Operations Command (SOCOM) was activated in April 1987 to provide command, control and training for all special operations forces (SOF) in the United States. SOCOM headquarters is at MacDill Air Force Base, Fla. Its component commands include the U.S. Army Special Operations Command at Fort Bragg, N.C.; the Air Force Special Operations Command, Hurlburt Field, Fla; the Naval Special Warfare Command, Coronado, Calif.; and the Joint Special Operations Command at Fort Bragg, N.C. The John F. Kennedy Special Warfare Center and School, the U.S. Air Force Special Operations School and the Naval Special Warfare Center are also assigned to the command.

Intellectual Property

The following summarizes the patent and trademark holding of Cyberlux Corporation.

Cyberlux Corporation is the registered owner of the CYBERLUX® mark for lighting products, namely, diodal illuminators. Trademark applications are pending for the CAMPLIGHT™, FOCALBRIGHT™, RELIABRIGHT™, SENSORBRIGHT™, RELYON™, FOCUSON™, EVERON™, and KEON™ marks. The above marks are registered under International Goods and Services Class 9 (Electrical and Scientific Apparatus), Class 11 (Environmental Control Apparatus), or both.

Cyberlux has the world-wide exclusive rights to U.S. Patent No. 5,966,393 from the University of California-Santa Barbara. In addition, the Company has the world-wide exclusive rights to a suite of pending patents that define Scattered Photon Extraction™ (SPE) technology, which were acquired from Rensselaer Polytechnic Institute. The combination of these two technologies forms the patent foundation for the resulting proprietary lighting technology known as “Hybrid White Light” (HWL) and “Hybrid Multi-color Light” (HML). HWL and HML is expected to yield a lower cost, more energy-efficient lighting source than currently available in solid-state light-emitting diode (LED) solutions.

Cyberlux Corporation is the owner of U.S. Patent No. 6,752,515, which issued June 22, 2004, and is entitled Apparatus and Method for Providing Emergency Lighting. Cyberlux Corporation also owns U.S. Patent No. 6,986,589, which issued January 17, 2006, and is entitled Apparatus and Method for Providing an Emergency Lighting Augmentation System. Cyberlux Corporation is the owner of U.S. Patent No. 7,045,975, which issued May 16, 2006 and is entitled Apparatus and Methods for Providing Emergency Safety Lighting. Six patent applications are currently pending before the USPTO. Two additional patent applications are currently being prepared but have not yet been filed with the USPTO. In November 2006, Cyberlux was awarded 21 patent claims by the U.S. Patent Office for our Emergency Safety Lighting will accelerate our further pursuit of providing long-term solutions for interim and emergency lighting in hotels, hospitals, elder care facilities, apartment complexes and residences. The lighting device, designed as a replacement electrical wall outlet, simply plugs into an existing outlet after removal of its cover plate. Although the lighting device continues to operate as an electrical outlet, it also contains a constant charge battery; a motion sensor for initiating low levels of lighting for gentle illumination of a darkened room or navigation of a corridor; a power sensor for broadcasting a high level of light up the attendant wall surface to reflect

off of the ceiling thereby illuminating a room or corridor; and a photo cell that detects ambient light in the space which disables the system. The lighting device is intended to provide long-term solutions for emergency and interim lighting. The patent addresses an electrochemical lighting system capable of providing prolonged illumination with the use of light emitting diodes (LEDs) as the illumination source. In addition, on November 18, 2008, we were granted U.S. Patent No. 7,452,099, which is entitled Portable Lighting Device and embodies portable LED lighting devices comprised of a body, a handle, a user interface and a pivotal support of a lighting element assembly.

All other issued patents and presently filed United States patent applications are briefly described below.

Pat. No. 6,752,515 - The patent addresses an improved emergency or interim lighting device and associated methods for providing emergency or temporal lighting. The device satisfies the need for an electrochemical lighting system capable of providing prolonged illumination over the life of the power unit. The device benefits from the use of light emitting diodes (“LEDs”) as the illumination source, which provides optimum lumen output with considerably less power consumption than conventional incandescent lighting devices. By providing a unique diode/parabolic reflector arrangement the directional limitations of conventional LED lighting devices are overcome and wide area illumination coverage is possible. Additionally, the device provides multiple illumination levels that may be triggered by a power outage condition.

Pat. No. 6,986,589 - The patent addresses an emergency lighting device having at least one LED, a local energy source such as a lithium ion battery, a control circuit in electric communication with the at least one LED and further sensing a main power supply, and a reflector for broadcasting light produced by the LED to designated areas. The application describes an emergency lighting device that transforms existing fluorescent, incandescent or halogen light fixtures into emergency lighting systems for homes, hospitals, hotels, nursing homes and businesses. The device includes a power sensor for triggering the control circuit to engage the LEDs when electrical service is disrupted, thereby broadcasting a wash of light over an otherwise darkened room or corridor.

Pat. No. 7,045,975 - The patent application addresses a lighting device that transforms existing electrical wall outlets into an emergency lighting system for homes, hospitals, hotels, nursing homes and businesses. The lighting device, designed as a replacement electrical wall outlet or receptacle, simply plugs into an existing dual outlet after removal of its faceplate. The lighting device continues to function as an electrical outlet, however, also comprises a local power source such as a constant charge lithium ion battery; a motion sensor for initiating a low level of lighting for darkened room or corridor transit; a power sensor for activating a high level of light when electrical service is disrupted, thereby broadcasting a wash of light over an otherwise darkened room or corridor; and a photoelectric cell which detects daylight or otherwise provided lighting of the room or corridor and thereby prevents unnecessary power usage.

Ser. No. 11/392,428 - The patent application is a divisional of Pat. No. 7,045,975 described above and addresses subject matter that was restricted by the USPTO during prosecution of the ‘975 patent.

Pat. No. 7,452,099 - The patent application is directed to a portable light system having a body, an arm pivotally attached to the body, and one or more lighting elements disposed at one end of the arm. The portable light device further includes a handle, one or more batteries, an on-off switch, and one or more power cords for transmitting or receiving electrical energy. The portable light device is adapted to operate in a spot light mode of illumination, a flood light mode of illumination, or a combination thereof. The device benefits from the use of LEDs as an illumination source. LEDs provide optimum lumen output with considerably less power consumption than conventional lighting devices. Finally, the device provides real-time battery life information to a user such that the performance of the device may be tailored to extend or shorten expected battery life as needed.

Ser. No. 11/089,073 - The patent application is directed to a key cap light assembly that produces an efficient beam of light and is adaptable to a variety of key types. The key cap light has an elastomeric sleeve that is adapted to enclose a variety of key heads having different sizes, shapes, and thicknesses. The elastomeric sleeve binds an LED assembly to the key to provide an energy efficient, operator-activated, light source proximate the key.

Ser. No. 60/757,654 - The patent application is directed to a device for illuminating a yard sign that uses an efficient beam of light and that is adapted to cycle on and off. The illuminating device includes a main body portion configured to attach to the yard sign, a switch, a control circuit, a power source, at least one arm adjustably attached to the main body portion, and a light head disposed proximate an end of the at least one arm that comprises at least one LED assembly. The control circuit of the device is advantageously configured to automatically cycle the LED

assembly on and off at predetermined daily illumination intervals.

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Ser. No. 60/757,654 - The patent application is directed to an improved apparatus, method and system for providing multi-mode illumination. Specifically, exemplary embodiments of the present invention include a lighting apparatus capable of multiple modes of illumination and battery powered operation. The lighting apparatus further includes a fuel gauge module that is capable of displaying an expected battery life based on a selected operating mode and a current state of charge of the battery. Lighting devices structured in accordance with various embodiments of the invention may be light-weight and portable to improve ease of transport and deployment. Such lighting devices may also include a stable and yet retractable mounting device.

Ser. No. 60/793,541 - The patent application is directed to an improved tilt bracket and associated system for coupling an illumination device to a surface. For example, in one embodiment, the improved tilt bracket and associated system may be adapted to couple one or more LED arrays to the under-mount surface of a cabinet. In this regard, such tilt brackets and associated systems may provide enhanced LED array cooling and greater mounting flexibility.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

- o stock-based compensation;

- o revenue recognition; and

- o derivatives

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 was 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.

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) collectability 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 collectability 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, 2007 and December 31, 2006, 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.

Derivative Financial Instruments

The Company's derivative financial instruments consist of embedded derivatives related to the 10% Secured Convertible Debentures (see Note D). These embedded derivatives include certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company record the derivatives and related warrants at their fair values as of the inception date of the Note Agreement and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the Notes, the Company is required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting date. Any change in fair value inclusive of modifications of terms will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income. Conversion-related derivatives were valued using the intrinsic method and the warrants using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 0%; annual volatility of 528%; and risk free interest rate from 3.36% to 3.70%. The derivatives are classified as long-term liabilities.

Registration rights

In with raising capital through the issuance of Convertible Notes, the Company has issued convertible debentures and warrants in that have registration rights with liquidated damages for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the of the underlying embedded derivative and warrants at the date of issuance was recorded as liabilities on the balance sheet. Liquidated damages are estimated and accrued as a liability at each reporting date. The Company has accrued an estimated \$816,856 in liquidation damages.

RESULTS OF OPERATIONS

Results of Operations for the Years Ended December 31, 2007 and 2006 Compared.

Revenues for the year ended December 31, 2008 were \$639,529. This compares to revenues of \$ 721,148 for the year ended December 31, 2007.

Cost of goods sold were \$405,939 for 2008 compared with \$514,231 for 2007.

Operating expenses for the year ended December 31, 2008 were \$5,430,931 compared with \$3,875,668 for the year ended December 31, 2007. Included in expenses for 2008 was \$517,915 for consulting services compared with \$198,178 for the previous year.

| | For the Years | |
|--|---------------|------------|
| | 12/31/2008 | 12/31/2007 |
| Salaries & benefits | 1,649,459 | 1,893,994 |
| Marketing and advertising | 26,352 | 163,278 |
| Rent | 124,695 | 81,265 |
| Insurance | | 13,691 |
| Depreciation and amortization | 25,617 | 553,595 |
| Impairment Loss Research and development | 1,698,229 | 164,7936 |
| Legal expense | 224,657 | 224,657 |
| Accounting services | 1514,621 | 45,029 |
| Investor relations | 22,414 | 19,788 |
| Travel, living and entertainment | 86,109 | 150,658 |
| Office expenses | 1,416,310 | 550,898 |
| Bad debt expense | 1,796 | 14,024 |
| | 5,430,931 | 3,677,491 |

Interest expense for 2008 was \$2,793,580 compared to \$2,645,375 for 2007. Included in interest expense for 2006 is \$1,926,625 which was booked to recognize the imbedded beneficial conversion feature of the \$4,500,000 convertible notes payable entered into during the 3rd and 4th quarters of 2004, 2005 and 2006.

The net loss realized for 2008 was \$11,323,482, or \$0.02 per share on an average of 643,052,619 shares outstanding and compares to net loss of \$15,619,897, or \$0.04 per share on an average of 383,858,373 shares outstanding for the year 2007.

Liquidity and Capital Resources

As of December 31, 2008, we had a working capital deficit of \$10,546,455. As a result of our operating losses for the year ended December 31, 2008, we generated a cash flow deficit of \$1,184,170 from operating activities. Cash flows generated through investing activities was \$0 during the year ended December 31, 2008. We met our cash requirements during this period through the issuance of \$525,000 Convertible Notes Payable and \$675,760 from the sale of Common Stock.

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 operations, liquidity and financial condition.

Our independent certified public accountant has stated in their report, dated as of May 15, 2009, that we have incurred operating losses, 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.

The Company has engaged Ayuda Equity Funding, LLC to provide equity-collateralized loan financing as a non-toxic incremental financing option to fund the Company's ongoing operations. The Company provides Ayuda Equity Funding, LLC with freely trading shares of common stock for use as collateral for capital loans then made to the Company. Ayuda Equity Funding, LLC values the freely trading shares at a 30% discount to market and provides collateralized capital loans to the Company in return.

The Company completed an equity financing with St. George Investments, LLC (SGI), an Illinois limited liability company, on March 21, 2008 for \$1,500,000. The equity financing is structured as a 25% discount to market Warrant transaction that provides \$500,000 in capital at closing, followed by four tranches of \$250,000 each. Each \$250,000 tranche is staggered at 60-day intervals commencing in six months on September 22, 2008, which is the date that shares are salable pursuant to Rule 144 upon exercise of the Warrant. The Company issued 7,500,000 shares of Common Stock to SGI in order to induce the SGI to purchase the \$1,500,000 Warrant. In addition, 6,763,300 additional shares of Common Stock were issued as Performance Stock in the name of SGI to remain in their original certificated form and remain in escrow with the law firm of Anslow & Jaclin, LLP acting as escrow agent. As a provision of the Warrant Purchase Agreement, we pledged 35,736,700 shares of "Pledge Stock" to be held in escrow as a potential remedy in the event of the occurrence of certain identified "trigger events". On June 23rd, 2008, one trigger event, the closing price of our stock, went below the identified market price of \$0.012 per share, triggering the release from escrow of the 6,763,300 shares of Performance Stock and the 35,736,700 shares of Pledge stock". This trigger event, as defined in the Warrant Purchase Agreement, also increased the Warrant Account by 25% of the balance, or \$375,000, in exchange for the elimination of the 25% discount to market.

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.

Recent Accounting Pronouncements

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. The Company has not yet evaluated the impact of adopting FIN 48 on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

In September 2006 the Financial Accounting 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.

In December 2006, the FASB issued FSP EITF 00-19-2, Accounting for Registration Payment Arrangements ("FSP 00-19-2") which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The Company adopted FSP 00-19-2

in the preparation of the financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company’s financial condition or results of operations.

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In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

On February 16, 2006 the Financial Accounting Standards Board (FASB) issued SFAS 155, "Accounting for Certain Hybrid Instruments," which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein materially represents all of the financial information related to the Company's principal operating segment.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company does not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows. In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors

made in fiscal years beginning after the date this Statement is issued. The Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

Product Research and Development

We anticipate continuing to incur research and development expenditures in connection with the development of our Advanced Illumination Systems during the next twelve months. We anticipate that we will expend approximately \$800,000 in this endeavor.

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 annual 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.

Risks Relating to Our Business:

We Have a History Of Losses Which May Continue, Which May Negatively Impact Our Ability to Achieve Our Business Objectives.

We incurred a net loss of \$11,322,912 for the year ended December 31, 2008 compared to a net loss of \$15,619,897 for the year ended December 31, 2007. 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 \$4 million to fund our continued operations for the next twelve months, depending on revenue from operations. We need additional funding for research and development, increasing inventory, marketing and general and administrative expenses. Although this amount is less than our net losses in the past, we expect to decrease our general and administrative expenses by eliminating most of our consulting fees. In the event that we cannot significantly reduce our consulting fees, we will need to raise additional funds to continue our operations. 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.

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 May 15, 2009, our independent auditors stated that our financial statements for the year ended December 31, 2008 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 year ended December 31, 2008 in the amount of \$11,322,912 . 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.

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.

On October 10, 2007, we issued 3,650,000 shares of Series B Convertible Preferred Stock (“Series B stock”) to our officers and directors which are convertible into 36,500,000 shares of common stock and, in the aggregate, have the right to cast 365,000,000 million votes in any vote by our shareholders. On January 22, 2009, we issued 1,000,000 additional shares of Series B stock to our officers and directors. Combined with the number of shares of common stock held by our officers and directors, they have the right to cast approximately 56% 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:

- 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.

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.

Risks Relating to Our Common Stock:

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 2008, we issued 9,700,000 shares of common stock in exchange for expenses and services rendered. 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:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- 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:

- obtain financial information and investment experience objectives of the person; and
- 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:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- 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.

Trends, Risks and Uncertainties

We have sought to identify what we believe to be the most significant risks to our business, but we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock.

ITEM 7.

FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

FORMING A PART OF ANNUAL REPORT
PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

CYBERLUX CORPORATION

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Certified Public Accountants
Turner, Jones & Associates, PLLC
108 Center Street, North, 2nd Floor
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Cyberlux Corporation and Subsidiaries
4625 Creekstone Drive, Suite 130
Research Triangle Park
Durham, NC 27703

We have audited the accompanying consolidated balance sheet of Cyberlux Corporation and subsidiaries as of December 31, 2008 and December 31, 2007 and the related consolidated statements of income, stockholders' equity and cash flows for year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cyberlux Corporation and subsidiaries as of December 31, 2008 and December 31, 2007, and the results of its operations and its cash flows for the year ended December 31, 2008 and December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements must have been prepared assuming the Company will continue as a going concern. As discussed in Note L to the consolidated financial statements, the Company has suffered recurring losses from operations, negative working capital, and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in Note N. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

Vienna, Virginia
May 15, 2009

/s/ Turner, Jones
& Associates,
PLLC

Turner, Jones &
Associates, PLLC

CYBERLUX CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash & cash equivalents | \$ 19,233 | \$ 626 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,803 and \$8,646, respectively | 249,924 | 77,815 |
| Inventories, net of allowance of \$43,333 | 53,202 | 157,379 |
| Other current assets | 32,198 | 10,000 |
| Total current assets | 354,557 | 245,820 |
| Property, plant and equipment, net of accumulated depreciation of \$194,788 and \$169,171, respectively | 48,990 | 74,607 |
| Other assets | | |
| Deposits | 25,511 | 24,400 |
| Patents and development costs, net of accumulated amortization and write off of \$3,043,757 and \$819,639, respectively | 931,217 | 3,155,335 |
| Total other assets | 956,728 | 3,179,735 |
| Total Assets | \$ 1,360,275 | \$ 3,500,162 |
| LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Cash overdraft | \$ 86 | \$ 33,178 |
| Accounts payable | 1,299,145 | 733,538 |
| Accrued liabilities | 3,425,885 | 2,345,133 |
| Short-term notes payable - related parties | 402,823 | 397,064 |
| Short-term notes payable | 192,865 | 196,067 |
| Warrant payable | 935,000 | - |
| Short-term convertible notes payable | 4,645,207 | 3,050,510 |
| Total current liabilities | 10,901,012 | 6,755,490 |
| Long-term liabilities: | | |
| Derivative liability relating to convertible debentures | 24,384,586 | 17,334,621 |
| Warrant liability relating to convertible debentures | 255,042 | 4,509,538 |
| Total long-term liabilities | 24,639,628 | 21,844,159 |
| Total liabilities | 35,540,639 | 28,599,649 |
| Commitments and Contingencies | | |
| Redeemable Series A convertible preferred stock, \$0.001 par value; 200 shares designated, 26.9806 and 28.9806 issued and outstanding as of December 31, 2008 and 2007; liquidation preference of \$219,892 and \$231,845 as of December 31, 2008 and 2007, respectively | 134,900 | 144,900 |

DEFICIENCY IN STOCKHOLDERS' EQUITY

| | | |
|---|--------------|--------------|
| Class B convertible preferred stock, \$0.001 par value, 3,650,000 shares designated; 3,650,000 shares issued and outstanding as of December 31, 2008 and 2007; liquidation preference of \$3,650,000 as of December 31, 2008 and 2007 | 3,650 | 3,650 |
| Class C convertible preferred stock, \$0.001 par value, 700,000 shares designated; 150,000 shares issued and outstanding as of December 31, 2008 and 2007, liquidation preference of \$3,992,333 and \$3,823,230, as of December 31, 2008 and 2007, respectively | 150 | 150 |
| Common stock, \$0.001 par value, 950,000,000 shares authorized; 814,426,120 and 552,342,881 shares issued and outstanding as of December 31, 2008 and 2007, respectively | 814,426 | 552,343 |
| Additional paid-in capital | 17,277,230 | 15,286,709 |
| Accumulated deficit | (52,410,720) | (41,087,239) |
| Deficiency in stockholders' equity | (34,315,264) | (25,244,387) |
| Total liabilities and (deficiency) in stockholders' equity | \$ 1,360,275 | \$ 3,500,162 |

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

CYBERLUX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|--|------------------------|------------------------|
| REVENUE: | \$ 639,529 | \$ 721,148 |
| Cost of goods sold | (405,939) | (514,231) |
| Gross margin (loss) | 233,590 | 206,917 |
| OPERATING EXPENSES: | | |
| Depreciation | 25,617 | 27,706 |
| Research and development | 3,582 | 164,793 |
| Impairment loss | 1,698,229 | - |
| General and administrative expenses | 3,703,503 | 3,683,169 |
| Total operating expenses | 5,430,931 | 3,875,668 |
| NET LOSS FROM OPERATIONS | (,197,341) | (3,668,751) |
| Debt forgiveness | - | 381,652 |
| Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities | (2,795,469) | (9,620,645) |
| Interest expense, net | (2,793,580) | (2,645,375) |
| Debt acquisition costs | (536,602) | (66,778) |
| Net Income (loss) before provision for income taxes | (11,322,912) | (15,619,897) |
| Income taxes (benefit) | 490 | - |
| INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS | \$ (11,323,482) | \$ (15,619,897) |
| Weighted average number of common shares outstanding-basic | 643,052,619 | 383,858,373 |
| Weighted average number of common shares outstanding-fully diluted | | |
| Income (loss) per share-basic | \$ (0.02) | \$ (0.04) |
| Loss per share-fully diluted | | |
| Preferred dividend | \$ 96,000 | \$ 96,000 |

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

CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | Class B Preferred Shares | Class B Preferred Stock Amount | Class C Preferred Shares | Class C Preferred Stock Amount | Common Shares | Stock Amount | Subscription Receivable | Additional Paid in Capital | Accumulated Deficit |
|--|-----------------------------|--------------------------------------|-----------------------------|--------------------------------------|------------------|-----------------|----------------------------|----------------------------------|------------------------|
| Balance, January 1, 2007 | 800,000 | \$ 800 | 100,000 | \$ 100 | \$ 128,279,157 | \$ 128,279 | \$ 25,000 | \$ 12,186,420 | \$ (25,467,342) |
| Common stock issued in January 2007 as payment towards convertible debentures | - | - | - | - | 25,564,000 | 25,564 | - | 221,932 | - |
| Warrants exercised at \$0.25 per share | - | - | - | - | 100,000 | 100 | (25,000) | 24,900 | - |
| Preferred Class C stock issued in connection with the acquisition of Hybrid Lighting Technologies, Inc. | - | - | 50,000 | 50 | - | - | - | 768,450 | - |
| Common stock issued in connection with the acquisition of Hybrid Lighting Technologies, Inc. | - | - | - | - | 26,500,000 | 26,500 | - | 742,000 | - |
| Common stock issued in January 2007 in connection with | - | - | - | - | 500,000 | 500 | - | 49,500 | - |

conversion of
preferred
stock, Class A

Common
stock issued in
February 2007
as payment
towards
convertible
debentures

| | | | | | | | | |
|---|---|---|---|------------|--------|---|---------|---|
| - | - | - | - | 24,309,800 | 24,310 | - | 160,282 | - |
|---|---|---|---|------------|--------|---|---------|---|

Common
stock issued in
March 2007
as payment
towards
convertible
debentures

| | | | | | | | | |
|---|---|---|---|------------|--------|---|--------|---|
| - | - | - | - | 18,021,800 | 18,022 | - | 98,220 | - |
|---|---|---|---|------------|--------|---|--------|---|

Common
stock issued in
April 2007 as
payment
towards
convertible
debentures

| | | | | | | | | |
|---|---|---|---|------------|--------|---|---------|---|
| - | - | - | - | 33,357,000 | 33,357 | - | 121,197 | - |
|---|---|---|---|------------|--------|---|---------|---|

Preferred
stock issued in
April 2007 as
payment
towards
compensation

| | | | | | | | | |
|-----------|-------|---|---|---|---|---|---------|---|
| 2,850,000 | 2,850 | - | - | - | - | - | 367,650 | - |
|-----------|-------|---|---|---|---|---|---------|---|

Common
stock issued in
April 2007 for
services
rendered at
\$0.011 per
share

| | | | | | | | | |
|---|---|---|---|-----------|-------|---|--------|---|
| - | - | - | - | 2,500,000 | 2,500 | - | 25,000 | - |
|---|---|---|---|-----------|-------|---|--------|---|

| | | | | | | | | | | |
|-----------------|------------------|-----------------|----------------|---------------|-----------------------|-------------------|-------------|----------------------|------------------------|-------------|
| Subtotal | 3,650,000 | \$ 3,650 | 150,000 | \$ 150 | \$ 259,131,757 | \$ 259,132 | \$ - | \$ 14,765,551 | \$ (25,467,342) | \$ (|
|-----------------|------------------|-----------------|----------------|---------------|-----------------------|-------------------|-------------|----------------------|------------------------|-------------|

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CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | Class B Preferred Shares | Class B Preferred Stock Amount | Class C Preferred Shares | Class C Preferred Stock Amount | Common Shares | Stock Amount | Subscription Receivable | Paid in Capital | Accumulated Deficit | Total |
|--|-----------------------------|--------------------------------------|-----------------------------|--------------------------------------|------------------|-----------------|----------------------------|--------------------|------------------------|----------------|
| Balance forward | 3,650,000 | \$ 3,650 | 150,000 | \$ 150 | \$ 259,131,757 | \$ 259,132 | \$ - | \$ 14,765,551 | \$(25,467,342) | \$(10,438,851) |
| Common stock issued in April 2007 as payment towards related party debentures and related interest | - | - | - | - | 5,226,182 | 5,226 | - | 99,298 | - | 104,522 |
| Sale of warrants to purchase common stock in May 2007 | - | - | - | - | - | - | - | 150,000 | - | 150,000 |
| Common stock issued in May 2007 as payment towards convertible debentures | - | - | - | - | 48,579,100 | 48,579 | - | 57,766 | - | 106,345 |
| Exercise of warrants in June 2007 | - | - | - | - | 32,216,950 | 32,217 | - | 95,282 | - | 127,499 |
| Common stock issued in June 2007 as payment towards convertible debentures | - | - | - | - | 60,418,910 | 60,419 | - | 25,709 | - | 86,538 |

| | | | | | | | | | | |
|--|-----------|----------|---------|--------|----------------|------------|------|---------------|-----------------|---------------|
| Common stock issued in July 2007 as payment towards convertible debentures | - | - | - | - | 90,328,573 | 90,328 | - | 11,499 | - | 101,82 |
| Common stock issued in August 2007 as payment towards convertible debentures | - | - | - | - | 11,568,802 | 11,569 | | (1,157) | - | 10,41 |
| Exercise of warrants in September 2007 | - | - | - | - | 18,022,607 | 18,023 | - | 13,201 | - | 31,22 |
| Common stock issued in September 2007 for services rendered at \$0.034 per share | - | - | - | - | 26,650,000 | 26,650 | - | 63,960 | - | 90,61 |
| Common stock issued in October 2007 for services rendered at \$0.029 per share | - | - | - | - | 200,000 | 200 | - | 5,600 | - | 5,80 |
| Net loss | - | - | - | - | - | - | - | - | (15,619,897) | (15,619,89 |
| Balance, December 31, 2007 | 3,650,000 | \$ 3,650 | 150,000 | \$ 150 | \$ 552,342,881 | \$ 552,343 | \$ - | \$ 15,286,709 | \$ (41,087,239) | \$ (25,244,38 |

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

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CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | Class B Preferred Shares | Class B Preferred Stock Amount | Class C Preferred Shares | Class C Preferred Stock Amount | Common Shares | Common Stock Amount | Subscription Receivable | Additional Paid in Capital | Accumulated Deficit | Total |
|--|-----------------------------|--------------------------------------|-----------------------------|--------------------------------------|------------------|---------------------------|----------------------------|----------------------------------|------------------------|-----------------|
| Balance, forward | 3,650,000 | \$ 3,650.0 | 150,000 | \$ 150 | \$ 552,342,881 | \$ 552,343 | \$ - | \$ 15,286,709 | \$ (41,087,239) | \$ (25,244,429) |
| Common stock issued in January 2008 in connection with conversion of preferred stock, Class A | - | - | - | - | 100,000 | 100 | - | 9,900 | - | 109,900 |
| Common stock issued in February 2008 for services rendered at \$0.023 per share | - | - | - | - | 100,000 | 100 | - | 2,200 | - | 202,200 |
| Common stock issued in conjunction with the issuance of debt | - | - | - | - | 14,263,300 | 14,263 | - | 370,845 | - | 385,313 |
| Beneficial conversion feature | - | - | - | - | - | - | - | 184,736 | - | 184,736 |
| Sale of common stock | - | - | - | - | 126,212,123 | 126,212 | - | 549,548 | - | 675,970 |
| Common stock issued in settlement | - | - | - | - | 6,971,116 | 6,971 | - | 55,769 | - | 62,716 |

of debt

Common
stock issued
for services
rendered

| | | | | | | | | | | |
|----------|-----------|----------|---------|--------|----------------|------------|-----|---------------|-----------------|-----------------|
| | - | - | - | - | 114,436,700 | 114,437 | - | 817,523 | - | 931 |
| Net loss | - | - | - | - | - | - | - | - | (11,323,482) | (11,323,482) |
| | 3,650,000 | \$ 3,650 | 150,000 | \$ 150 | \$ 814,426,120 | \$ 814,426 | \$- | \$ 17,277,230 | \$ (52,410,721) | \$ (34,315,000) |

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

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CYBERLUX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
YEAR ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|---|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) available to common stockholders | \$ (11,323,481) | \$ (15,619,897) |
| Adjustments to reconcile net income (loss) to cash used in operating activities | | |
| Depreciation | 25,617 | 27,706 |
| Amortization | 525,889 | 525,889 |
| Impairment loss | 1,698,229 | - |
| Common stock issued in connection issuance of debt | 385,108 | - |
| Common stock issued in connection with services rendered | 941,000 | 123,910 |
| Preferred stock issued as compensation | - | 370,500 |
| Gain on repurchase and cancellation of warrants | | (381,652) |
| Beneficial conversion feature relating to convertible debenture | 619,736 | - |
| Accretion of convertible notes payable | 1,569,697 | 1,873,298 |
| Unrealized (gain) loss on adjustment of derivative and warrant liability to fair value of underlying securities | 2,795,469 | 9,620,645 |
| (Increase) decrease in: | | |
| Accounts receivable | (172,109) | 99,270 |
| Inventories | 104,177 | 40,392 |
| Prepaid expenses and other assets | (23,309) | 11,182 |
| Increase (decrease) in: | | |
| Cash overdraft | 67,935 | 33,178 |
| Accounts payable | 561,607 | 168,663 |
| Accrued liabilities | 1,080,752 | 654,870 |
| Net cash (used in) operating activities | (1,184,710) | (2,452,046) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net cash acquired in connection with acquisition of Hybrid Lighting Technologies, Inc | - | 150,000 |
| Acquisition of fixed assets | - | (44,000) |
| Net cash provided by (used in) investing activities: | - | 106,000 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of convertible debentures | 525,000 | 1,000,000 |
| Proceeds from sale of common stock | 675,760 | |
| Proceeds from exercise of warrants | - | 158,723 |
| Proceeds from sale of warrants | - | 600,000 |
| Net proceeds (payments) from borrowing on long term basis | (3,202) | 148,668 |
| Net proceeds (payments) to notes payable, related parties | 5,759 | 43,469 |
| Net cash provided by (used in) financing activities: | 1,203,317 | 1,950,860 |
| Net increase (decrease) in cash and cash equivalents | 18,607 | (395,186) |
| Cash and cash equivalents at beginning of period | 626 | 395,812 |
| Cash and cash equivalents at end of period | \$ 19,233 | \$ 626 |

Supplemental disclosures:

| | | | | |
|-------------------|----|---|----|---|
| Interest Paid | \$ | - | \$ | - |
| 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 | \$ | 2,795,469 | \$ | 9,620,645 |
| Common stock issued for services rendered | \$ | 941,000 | \$ | 123,910 |
| Preferred stock issued as compensation | \$ | - | \$ | 370,500 |

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

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CYBERLUX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES

General

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

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 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 December 31, 2008, the Company has accumulated losses of \$52,360,720.

The consolidated financial statements include the accounts of its wholly owned subsidiaries, SPE Technologies, Inc. and Hybrid Lighting Technologies, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Acquisitions

On December 28, 2006, the Company acquired SPE Technologies, Inc, a Florida corporation, as a wholly owned subsidiary. SPE Technologies, Inc. was acquired by issuance 100,000 shares of Class C 5% convertible preferred stock valued at the time acquisition at \$2,520,000.

The total consideration paid was \$2,520,000 and the significant components of the transaction are as follows:

| | |
|-------------------------|--------------|
| Preferred Stock issued: | \$ 2,520,000 |
| Cash received | \$ 250,000 |
| Patents received | 2,270,000 |
| Liabilities assumed | (-) |
| Net: | \$ 2,520,000 |

On January 11, 2007, the Company acquired Hybrid Lighting Technologies, Inc, a Florida corporation, as a wholly owned subsidiary. Hybrid Lighting Technologies, Inc was acquired by issuance of 26,500,000 shares of its common stock and 50,000 shares of Class C 5% convertible preferred stock. The total value assigned at the time of acquisition of \$1,537,000.

The total consideration paid was \$1,537,000 and the significant components of the transaction are as follows:

| | |
|----------------------|------------|
| Common stock issued: | \$ 768,500 |
|----------------------|------------|

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| | |
|-------------------------|--------------|
| Preferred stock issued: | 768,500 |
| Preferred Stock issued: | \$ 1,537,000 |
| Cash received | \$ 150,000 |
| Patents received | 1,387,000 |
| Liabilities assumed | (-) |
| Net: | \$ 1,537,000 |

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

The Company has adopted SFAS No. 142, "Goodwill and Other Intangible Assets", whereby the Company periodically tests its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations.

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) collectability 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 collectability 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 December 31, 2008 and 2007, 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Foreign Currency Translation

The Company translates the foreign currency financial statements in accordance with the requirements of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Assets and liabilities are translated at current exchange rates, and related revenue and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments are recorded as a separate component in stockholders' equity. Foreign currency

translation gains and losses are included in the statement of operations.

Accounts Receivables

Accounts Receivable are shown at December 31, 2008 and December 31, 2007 net of Allowance for Doubtful Accounts in the amounts of \$1,803 and \$8,646. Our policy is to provide an allowance when an Account becomes greater than 90 days past due. An account is charged off when it is determined by management to be uncollectible.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

The Company presently utilizes the services of Prestige Capital to provide financing for our Accounts Receivable invoices. Prestige Capital advances seventy-five percent (75%) of the face value of the invoices submitted by the Company to Prestige Capital for financing. Prestige Capital holds in reserve the remaining twenty-five percent (25%) of the invoice value until the invoice is paid by the invoiced company to Prestige. Provided that there are no outstanding chargebacks or disputes, Prestige pays the reserve amount, less any financing fees due Prestige, on the Friday following the week in which the invoice is collected by Prestige from the Company receiving the invoice from the Company.

Prestige Capital's financing fees are based on the number of days an invoice is outstanding from the date of the initial 75% advance payment. If the invoice is paid by the invoiced company within 30 days, a financing fee of three percent (3%) is paid to Prestige from the 25% reserve; if paid within 40 days a financing fee of four percent (4%) is paid to Prestige; if paid within 50 days a financing fee of five percent (5%) is paid to Prestige; if paid within 60 days a financing fee of six percent (6%) is paid to Prestige; and an additional one percent (1%) for each 10 day period thereafter until the invoice is paid by the invoiced company.

Inventories

Inventories are stated at the lower of cost or market determined by the average cost method. The Company provides inventory allowances based on estimates of obsolete inventories. Inventories consist of products available for sale to distributors and customers as well as raw material.

Components of inventories as of December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|--|-----------|------------|
| Component parts | \$ 34,632 | \$ 151,940 |
| Finished goods | 61,903 | 48,772 |
| | 96,535 | 200,712 |
| Less: allowance for obsolete inventory | (43,333) | (43,333) |
| | \$ 53,202 | \$ 157,379 |

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives as follows:

| | |
|-------------------------|--------------|
| Furniture and fixtures | 7 years |
| Office equipment | 3 to 5 years |
| Leasehold improvements | 5 years |
| Manufacturing equipment | 3 years |

Advertising costs

The Company expenses all costs of marketing and advertising as incurred. Marketing and advertising costs totaled \$6,356 and \$20,437 for the year ended December 31, 2008 and 2007, respectively.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Research and Development

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs". Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company expenditures were \$3,582 and \$164,793 on research and product development for the year ended December 31, 2008 and 2007, respectively.

Reclassification

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

Impairment of long lived assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS 144). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undercounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Fair Values

On January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" (SFAS No. 157) as amended by FASB Statement of Position (FSP) FAS 157-1 and FSP FAS 157-2. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. FSP FAS 157-2 delays, until the first quarter of fiscal year 2009, the effective date for SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 did not have a material impact on the Company's financial position or operations.

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 December 31, 2008 and 2007, allowance for doubtful receivable was \$1,803 and \$8,646, respectively.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

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 was 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.

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.

Segment reporting

The Company follows Statement of Financial Accounting Standards No.130, Disclosures About Segments of an Enterprise and Related Information. The Company operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

Income taxes

The Company follows Statement of Financial Accounting Standard No.109, Accounting for Income Taxes (SFAS No.109) for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change. Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on

the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse

At December 31, 2008, the Company has available for federal income tax purposes a net operating loss carryforward of approximately \$50,000,000, expiring in the year 2023, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. Due to significant changes in the Company's ownership, the future use of its existing net operating losses may be limited. Components of deferred tax assets as of December 31, 2008 are as follows:

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Income taxes (continued)

Non current:

| | |
|----------------------------------|---------------|
| Net operating loss carry forward | \$ 17,500,000 |
| Valuation allowance | (17,500,000) |
| Net deferred tax asset | \$ — |

Patents

The Company acquired in December 2006, for \$2,294,000, and January 2007, for \$1,387,000, patents in conjunction with the acquisitions of SPE Technologies, Inc and Hybrid Lighting Technologies, Inc, respectively. The patents have an estimated useful life of 7 years. Accordingly, the Company recorded an amortization charge to current period earnings of \$525,889 and \$525,889 for the years ended December 31, 2008 and 2007, respectively. Patents are comprised of the following:

December 31, 2007:

| Description | Cost | Accumulated amortization and impairments | Net carrying value at December 31, 2007 |
|-------------------|--------------|---|--|
| Development costs | \$ 293,750 | \$ 293,750 | \$ -0- |
| Patents | 2,294,224 | 327,746 | 1,966,478 |
| Patents | 1,387,000 | 198,143 | 1,188,857 |
| Total | \$ 3,974,974 | \$ 819,639 | \$ 3,155,335 |

December 31, 2008:

| Description | Cost | Accumulated amortization and impairments | Net carrying value at December 31, 2008 |
|-------------------|--------------|---|--|
| Development costs | \$ 293,750 | \$ 293,750 | \$ -0- |
| Patents | 2,294,224 | 1,646,277 | 648,017 |
| Patents | 1,387,000 | 1,103,800 | 283,200 |
| Total | \$ 3,974,974 | \$ 3,043,757 | \$ 931,218 |

During the years ended December 31, 2008 and 2007, the Company management performed an evaluation of its intangible assets (Patents) for purposes of determining the implied fair value of the assets at acquisition date(s).

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During the year ended December 31, 2008, the tests indicated that the recorded remaining book value of its patents exceeded their fair value, as determined by discounted cash flows and accordingly recorded an impairment charge of \$1,698,229 to current operations. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

| | |
|---------------------|------------|
| 2009 | \$ 186,244 |
| 2010 | 186,244 |
| 2011 | 186,244 |
| 2012 | 186,244 |
| 2013 and thereafter | 186,242 |
| Total | \$ 931,218 |

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Comprehensive Income (Loss)

The Company adopted Statement of Financial Accounting Standards No. 130; "Reporting Comprehensive Income" (SFAS) No. 130 establishes standards for the reporting and displaying of comprehensive income and its components. Comprehensive income is defined as the change in equity of a business during a period from transactions and other events and circumstances from non-owners sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. SFAS No. 130 requires other comprehensive income (loss) to include foreign currency translation adjustments and unrealized gains and losses on available for sale securities.

Liquidity

As shown in the accompanying consolidated financial statements, the Company incurred net loss from operations of \$9,140,254 for the year ended December 31, 2008. The Company's current liabilities exceeded its current assets by \$10,061,456 as of December 31, 2008.

Derivative Financial Instruments

The Company's derivative financial instruments consist of embedded derivatives related to the 10% Secured Convertible Debentures (see Note D). These embedded derivatives include certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company record the derivatives and related warrants at their fair values as of the inception date of the Note Agreement and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the Notes, the Company is required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting date. Any change in fair value inclusive of modifications of terms will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income. Conversion-related derivatives were valued using the intrinsic method and the warrants using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 0%; annual volatility of 362%; and risk free interest rate from 0.37% to 1.55%. The derivatives are classified as long-term liabilities.

Registration rights

In with raising capital through the issuance of Convertible Notes, the Company has issued convertible debentures and warrants in that have registration rights with liquidated damages for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the of the underlying embedded derivative and warrants at the date of issuance was recorded as liabilities on the balance sheet. Liquidated damages are estimated and accrued as a liability at each reporting date. The Company has accrued an estimated \$816,856 in liquidation damages.

Recent accounting pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS No. 141R in 2009 will have a material effect on its consolidated financial position, results of operations or cash flows.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS No. 160 in 2009 to have a material effect on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in Emerging Issues Task Force (EITF) Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement.

EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date.

The Company does not expect the adoption of EITF 07-1 in 2009 to have a material effect on its consolidated financial position, results of operations or cash flows.

In June 2008, the FASB ratified the consensus on Emerging Issues Task Force (EITF) Issue 07-5, "Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock." This issue addresses whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in paragraph 11(a) of SFAS No. 133, for purposes of determining whether the instrument should be classified as an equity instrument or accounted for as a derivative instrument. The provisions of EITF Issue No. 07-5 are effective for financial statements issued for fiscal years beginning after December 15, 2008 and will be applied retrospectively through a cumulative effect adjustment to retained earnings for outstanding instruments as of that date. The Company does not expect the adoption of EITF 07-05 to have a material effect on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company does not expect the adoption of SFAS No. 161 to have a material effect on its consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The Company is required to adopt FSP 142-3 on January 1, 2009, earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company does not expect the adoption of FSP No. FAS 142-3 to have a material effect on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 to have a material effect on its consolidated financial position, results of operations or cash flows.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) " ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company is currently evaluating the potential impact, if any, of the adoption of FSP APB 14-1 on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FASB Statement No. 163, "Accounting for Financial Guarantee Insurance Contracts", which clarifies how FASB Statement No. 60, "Accounting and Reporting by Insurance Enterprises", applies to financial guarantee insurance contracts issued by insurance enterprises. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2008, including interim periods in that year. The Company does not expect the adoption of SFAS 163 to have a material effect on its consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the FSP, unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company does not expect the adoption of FSP EITF No. 03-6-1 to have a material effect on its consolidated financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This position clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. It also reaffirms the notion of fair value as an exit price as of the measurement date. This position was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption had no impact on the Company's consolidated financial statements.

In December 2008, the FASB issued FSP 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, which is effective for fiscal years ending after December 15, 2009. FSP 132(R)-1 requires disclosures about fair value measurements of plan assets that would be similar to the disclosures about fair value measurements required by SFAS 157. The Company is assessing the potential effect of the adoption of FSP 132(R)-1 on its consolidated financial statements.

In December 2008, the FASB issued FSP SFAS 140-4 and FIN 46(R)-8, Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities. The FSP requires extensive additional disclosure by public entities with continuing involvement in transfers of financial assets to special-purpose entities and with variable interest entities (VIEs), including sponsors that have a variable interest in a VIE. This FSP became effective for the first reporting period ending after December 15, 2008 and did not have any material impact on the Company's consolidated financial statements.

In January 2009, the FASB issued Financial Statement of Position (“FSP”) Issue No. EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20” (“FSP EITF No. 99-20-1”). FSP EITF No. 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets” to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The Company adopted FSP EITF No. 99-20-1 and it did not have a material impact on the consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company’s present or future consolidated financial statements.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE B - PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment at December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|--------------------------------|-----------|-----------|
| Furniture and fixtures | \$ 56,348 | \$ 56,348 |
| Office and computer equipment | 62,061 | 62,061 |
| Leasehold improvements | 21,989 | 21,989 |
| Manufacturing equipment | 103,380 | 103,380 |
| | 243,778 | 243,778 |
| Less: accumulated depreciation | (194,788) | (169,171) |
| | \$ 48,990 | \$ 74,607 |

During the years ended December 31, 2008 and 2007, depreciation expense charged to operations was \$25,617 and \$27,706, respectively.

NOTE C - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|--------------|--------------|
| Accounts payable | \$ 1,299,147 | \$ 733,538 |
| Accrued interest and liquidation damages (see Note D below) | 2,438,682 | 1,893,561 |
| Accrued payroll and payroll taxes | 510,779 | 155,661 |
| Other accrued liabilities | 476,424 | 295,911 |
| Total | \$ 4,725,032 | \$ 3,078,671 |

NOTE D-CONVERTIBLE DEBENTURES

Notes payable at December 31, 2008 and 2007:

| | December 31, 2008 | | | December 31, 2007 | | |
|---|------------------------------|----------------------------------|--------------|------------------------------|----------------------------------|------------|
| | Gross Principal Amount | Less: Unamortized Discount | Net | Gross Principal Amount | Less: Unamortized Discount | Net |
| 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 | - | \$ 2,500 | \$ 2,500 | - | \$ 2,500 |
| 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 | 25,000 | - | 25,000 | - | - | - |
| 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 | \$ 1,094,091 | - | \$ 1,094,091 | \$ 1,094,091 | \$ 158,665 | \$ 935,426 |

Company's common stock at the lower of a) \$0.03 or b) 25% 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)

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CYBERLUX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

| | December 31, 2008 | | | December 31, 2007 | | |
|--|------------------------------|----------------------------------|------------|------------------------------|----------------------------------|------------|
| | Gross Principal Amount | Less: Unamortized Discount | Net | Gross Principal Amount | Less: Unamortized Discount | Net |
| 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) \$0.6 or b) 25% 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) | \$ 800,000 | \$ | \$ 800,000 | \$ 800,000 | \$ 216,986 | \$ 583,014 |
| 8% 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) \$0.10 or b) 25% 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 | 700,000 | | 700,000 | 700,000 | 231,416 | 468,584 |

registration rights (see below)

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) 25% 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)

| | | | | | | |
|--|---------|--------|---------|---------|---------|---------|
| | 500,000 | 38,813 | 461,187 | 500,000 | 205,936 | 294,064 |
|--|---------|--------|---------|---------|---------|---------|

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) 25% 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)

| | | | | | | |
|--|---------|--------|---------|---------|---------|---------|
| | 500,000 | 94,977 | 405,023 | 500,000 | 262,100 | 237,900 |
|--|---------|--------|---------|---------|---------|---------|

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) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before,

| | | | | | | | | | | | |
|----|---------|----|--------|----|---------|----|---------|----|---------|----|---------|
| \$ | 280,000 | \$ | 68,530 | \$ | 211,470 | \$ | 280,000 | \$ | 162,119 | \$ | 117,881 |
|----|---------|----|--------|----|---------|----|---------|----|---------|----|---------|

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)

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

| | December 31, 2008 | | | December 31, 2007 | | |
|---|---------------------------|----------------------------------|------------|------------------------------|----------------------------------|------------|
| | Gross Principal Amount | Less: Unamortized Discount | Net | Gross Principal Amount | Less: Unamortized Discount | Net |
| 6% convertible debenture, due December 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) 25% 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) | \$ 600,000 | \$ 193,425 | \$ 406,575 | \$ 600,000 | \$ 393,973 | \$ 206,027 |
| 8% convertible debenture, due April 2010 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) 25% 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) | 400,000 | 172,420 | 227,580 | 400,000 | 306,119 | 93,881 |
| 8% convertible debenture, due May 2010 with interest payable quarterly during the life of the | 150,000 | 66,438 | 83,562 | 150,000 | 116,575 | 33,425 |

note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% 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)

8% convertible debenture, due June 2010 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) 25% 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)

| | | | | | | |
|--|---------|--------|--------|---------|---------|--------|
| | 150,000 | 70,685 | 79,315 | 150,000 | 120,822 | 29,178 |
|--|---------|--------|--------|---------|---------|--------|

8% convertible debenture, due June 2010 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) 25% 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)

| | | | | | | |
|--|------------|-----------|-----------|------------|------------|-----------|
| | \$ 150,000 | \$ 74,658 | \$ 75,342 | \$ 150,000 | \$ 124,795 | \$ 25,205 |
|--|------------|-----------|-----------|------------|------------|-----------|

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

| | December 31, 2008 | | | December 31, 2007 | | |
|---|---------------------------|----------------------------------|-----------|------------------------------|----------------------------------|-----------|
| | Gross Principal Amount | Less: Unamortized Discount | Net | Gross Principal Amount | Less: Unamortized Discount | Net |
| 8% convertible debenture, due July 2010 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) 25% 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) | \$ 150,000 | \$ 76,438 | \$ 73,562 | \$ 150,000 | \$ 126,575 | \$ 23,425 |
| Total | 5,501,591 | (856,384) | 4,645,207 | 5,476,591 | (2,426,081) | 3,050,510 |
| Less: current maturities: | 5,501,591 | (856,384) | 4,645,207 | 5,476,591 | (2,426,081) | 3,050,510 |
| | \$ -0- | \$ -0- | \$ 0- | \$ -0- | \$ -0- | \$ -0- |

Long term
portion

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 was 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) 25% 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. The effective interest rate at the date of inception was 270.43% per annum.

As of December 31, 2008, 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's identified embedded derivatives related to the Securities Purchase Agreement entered into on April 23, 2005. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$945,313 and \$554,687 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$158,665 and \$135,609, respectively.

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 was 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) 25% 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. The effective interest rate at the date of inception was 142.28% per annum.

As of December 31, 2008, 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's identified embedded derivatives related to the Securities Purchase Agreement entered into on October 24, 2005. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$743,770 and \$56,230 to the embedded derivatives and related warrants, respectively.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$216,986 and \$266,667, respectively.

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) 25% 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. The effective interest rate at the date of inception was 158.81% per annum.

As of December 31, 2008, 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.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on December 28, 2005. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$655,921 and \$44,079 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of

Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$231,416 and \$233,333, respectively.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

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 was 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) 25% 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. The effective interest rate at the date of inception was 11.01% per annum.

As of December 31, 2008, 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.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on March 31, 2006. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$136,612 and \$363,388 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due

and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$167,123 and \$166,667, respectively.

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 was 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) 25% 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. The effective interest rate at the date of inception was 10.00% per annum.

As of December 31, 2008, 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's identified embedded derivatives related to the Securities Purchase Agreement entered into on July 28, 2006. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$200,000 and \$300,000 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$167,123 and \$166,667, respectively.

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 was 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) 25% 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. The effective interest rate at the date of inception was 9.36% per annum.

As of December 31, 2008, 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.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on September 26, 2006. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date.

At the inception of the Securities Purchase Agreement, the Company allocated \$100,513 and \$179,487 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$93,589 and \$93,333, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on December 20, 2006 for the issuance of \$600,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 20,000,000 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) 25% 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. The effective interest rate at the date of inception was 15.00% per annum.

As of December 31, 2008, the Company issued to investors of the Convertible Notes a total amount of \$600,000 in exchange for total proceeds of \$590,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on December 20, 2006. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$360,000 and \$240,000 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$200,548 and \$200,000, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on April 18, 2007 for the issuance of \$400,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 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) 25% 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. The effective interest rate at the date of inception was 235.00% per annum.

As of December 31, 2008, the Company issued to investors of the Convertible Notes a total amount of \$400,000 in exchange for total proceeds of \$360,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

CYBERLUX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on April 18, 2007. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$386,378 and \$13,622 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of

Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$133,699 and \$93,881, respectively.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Company entered into a Securities Purchase Agreement with four accredited investors on May 1, 2007 for the issuance of \$150,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 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) 25% 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. The effective interest rate at the date of inception was 80.83% per annum.

As of December 31 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on May 1, 2007. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$135,154 and \$14,846 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w)

the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM" or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$50,137 and \$33,425, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on June 1, 2007 for the issuance of \$150,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 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) 25% 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. The effective interest rate at the date of inception was 91.87% per annum.

As of December 31, 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on June 1, 2007. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$136,938 and \$13,062 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$50,137 and \$29,178.

The Company entered into a Securities Purchase Agreement with four accredited investors on June 30, 2007 for the issuance of \$150,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 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) 25% 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. The effective interest rate at the date of inception was 85.51% per annum.

As of December 31, 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on June 30, 2007. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$135,966 and \$14,034 to the embedded derivatives and

related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$50,137 and \$25,205, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on July 13, 2007 for the issuance of \$150,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 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) 25% 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. The effective interest rate at the date of inception was 85.13% per annum.

As of December 31, 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on July 13, 2007. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$135,903 and \$14,097 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE D-CONVERTIBLE DEBENTURES (continued)

- Requirement to pay principal and interest when due
- Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement
- Change of control
- Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2008 and 2007, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

For the year ended December 31, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$50,137 and \$23,425, respectively.

As of December 31, 2008, the Company has accrued \$816,586 in default provision liabilities and liquidated damages relating to the above described Securities Purchase Agreements.

Although described as a warrant, the instrument was considered a convertible debenture for accounting purposes.

In accordance with EITF 98-5, the Company recognized an imbedded beneficial conversion feature present in the convertible note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$184,736 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the convertible note payable. The debt discount attributed to the beneficial conversion feature charged to current period earnings as interest expense.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE D-CONVERTIBLE DEBENTURES (continued)

Additionally, in conjunction with the issuance of the above described debenture, the Company issued an aggregate of 6,763,300 and 7,500,000 shares of its common stock to be held as security and as a financing cost of the transaction, respectively. The Company charged a total of \$385,109 of debt acquisition costs to current period earnings.

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:

- 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. The fair values of the detachable warrants and the embedded derivatives were determined under the Black-Scholes option pricing formula and the intrinsic method, respectively
- Subsequent to the initial recording, the increase (or decrease) in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula and the increase (or decrease) in the intrinsic value of the embedded derivatives of the convertible debentures are recorded as adjustments to the liabilities at December 31, 2008 and 2007, respectively.
- The expense relating to the increase (or decrease) in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives is included as other income item as a gain or loss arising from convertible financing on the Company's balance sheet.
- Accreted principal of \$4,645,207 and \$3,050,510 as of December 31, 2008 and 2007.

NOTE E – WARRANT PAYABLE

NOTE F-WARRANT LIABILITY

Total warrant liability as of December 31, 2008 and 2007 is comprised of the following:

| | December 31, 2008 | December 31, 2007 |
|---|----------------------|----------------------|
| Fair value of warrants relating to convertible debentures | \$ 105,091 | \$ 1,874,970 |
| Fair value of other outstanding warrants | 149,951 | 2,634,568 |
| Total | \$ 255,042 | \$ 4,509,538 |

Warrants were valued at the date of inception and at December 31, 2008 and 2007 using the Black Scholes Option Pricing Model.

The assumptions used at December 31, 2008 and 2007 were as follows:

| December 31, 2008 | December 31, 2007 |
|----------------------|----------------------|
|----------------------|----------------------|

| | | |
|-------------------------|------------------|------------------|
| Expected volatility | 362% | 528% |
| Expected dividend yield | -0-% | -0-% |
| | 0.37% to | |
| Average risk free rate | 1.55% | 3.45% |
| Expected life (a) | 1.31 to 5.53 yrs | 1.01 to 6.53 yrs |

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE G - NOTE PAYABLE

Note payable as of December 31, 2008 and 2007, comprised of the following:

| | December 31, 2008 | December 31, 2007 |
|--|-------------------------|-------------------|
| Note payable, 24% interest per annum; due in 90 days; secured by specific accounts receivables | \$ 192,865 | \$ 196,067 |

NOTE H - NOTES AND CONVERTIBLE NOTES PAYABLE-RELATED PARTY

Notes payable-related party is comprised of the following:

| | December 31, 2008 | December 31, 2007 |
|--|----------------------|----------------------|
| Notes payable, 12% per annum; due on demand; unsecured | \$ 147,714 | \$ 147,714 |
| Notes payable, 10% per annum, due on demand; unsecured | 255,109 | 249,350 |
| | 402,823 | 397,064 |
| Less: current maturities: | (402,823) | (397,064) |
| Long term portion: | \$ - | \$ - |

NOTE I - 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.

In the year ended 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.

In the year ended 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.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE I -STOCKHOLDER'S EQUITY (continued)

Series A - Convertible Preferred stock (continued)

In the year ended December 31, 2006, 9 of the Series A Preferred shareholders exercised the conversion right and exchanged 20.88 shares of Series A Preferred for 1,019,032 shares of the Company's common stock

In the nine months ended September 30, 2008, 1 of the Series A Preferred shareholders exercised the conversion right and exchanged 2 shares of Series A Preferred for 100,000 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 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 nine month period ended September 30, 2008, \$0 in dividends was 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."

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 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 was 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:

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE I - STOCKHOLDER'S EQUITY (continued)

Series A - Convertible Preferred stock (continued)

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, 2008 and December 31, 2007, respectively.

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 warrants expired unexercised in the year ended December 31, 2006.

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, increased subsequently to 3,650,000 in 2007.

In January, 2004 and April 2007, the Company issued 800,000 and 2,850,000 shares, respectively, of its Series B Preferred in lieu of certain accrued management service fees payable and notes payable including interest payable thereon totaling \$1,170,500 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 in 2004 and \$0.13 in 2007, 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 in 2004. None of the Series B Preferred shareholders have exercised their conversion right and there are 3,650,000 shares of Series B Preferred shares issued and outstanding at September 30, 2008.

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.

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. As of September 30, 2008 \$1,201,000 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."

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE I - STOCKHOLDER'S EQUITY (continued)

Series C - Convertible Preferred stock

On November 13, 2006, the Company filed a Certificate of Designation creating a Series C Convertible Preferred Stock classification for 100,000 shares. Subsequently amended on January 11, 2007 to 700,000 shares.

In December 2006, the Company issued 100,000 shares of its Series C Preferred stock in conjunction with the acquisition of SPE Technologies, Inc. The shares of the Series C Preferred are non voting and convertible, at the option of the holder, into common shares one year from issuance. The number of common shares to be issued per Series C share is adjusted based on the average closing bid price of the previous ten days prior to the date of conversion based on divided into \$25.20. The shares issued were valued at \$25.20 per share, which represented the fair value of the common stock the shares are convertible into. None of the Series C Preferred shareholders have exercised their conversion right and there are 100,000 shares of Series C Preferred shares issued and outstanding at September 30, 2008.

The holders of record of the Series C Preferred shall be entitled to receive cumulative dividends at the rate of five percent per annum (5%), compounded quarterly, on the face value (\$25.00 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 C Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, at the time of conversion. These dividends are not recorded until declared by the Company. As of September 30, 2008 \$-0- in dividends were accumulated.

Common stock

The Company has authorized 950,000,000 shares of common stock, with a par value of \$.001 per share. As of December 31, 2008 and 2007, the Company has 814,426,120 and 552,142,881 shares issued and outstanding, respectively.

During the year ended December 31, 2007, holders converted 10 shares of preferred stock – Class A into 500,000 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In January 2007, the Company issued 25,564,000 shares of its common stock on conversion of \$247,496 of convertible debentures.

In January 2007, the Company issued 26,500,000 shares of its common stock in connection with the acquisition of Hybrid Lighting Technologies, Inc.

In February 2007, the Company issued 24,309,800 shares of its common stock on conversion of \$184,592 of convertible debentures.

In March 2007, the Company issued 18,021,800 shares of its common stock on conversion of \$116,242 of convertible debentures.

In April 2007, the Company issued 33,357,000 shares of its common stock on conversion of \$154,554 of convertible debentures

In April 2007, the Company issued 2,500,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$27,500, which approximated the fair value of the shares issued during the periods the services were rendered.

In April 2007, the Company issued 5,226,182 shares of its common stock on conversion of \$104,524 of related party convertible debentures and related interest.

In May 2007, the Company issued 48,579,100 shares of its common stock on conversion of \$106,345 of convertible debentures

In June 2007, the Company issued 60,418,910 shares of its common stock on conversion of \$86,128 of convertible debentures.

In July 2007, the Company issued 90,328,573 shares of its common stock on conversion of \$101,827 of convertible debentures.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE I -STOCKHOLDER'S EQUITY (continued)

Common stock (continued)

In August 2007, the Company issued 11,568,802 shares of its common stock on conversion of \$10,412 of convertible debentures.

In September 2007, the Company issued 26,650,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$90,610 which approximated the fair value of the shares issued during the periods the services were rendered.

In January 2008, holders converted 2 shares of preferred stock – Class A into 100,000 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In January 2008, the Company issued 100,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$2,300, which approximated the fair value of the shares issued during the periods the services were rendered.

In February 2008, the Company issued 6,763,300 shares of its common stock as security in conjunction with the sale of a warrant (see Note B above). The Company valued the shares issued at \$183,609, which approximated the fair value of the shares issued at the date of issuance, and charged current period earnings.

In February 2008, the Company issued 7,500,000 shares of its common stock in conjunction with the sale of a warrant (see Note B above). The Company valued the shares issued at \$202,500, which approximated the fair value of the shares issued at the date of issuance, and charged current period earnings.

In June 2008, the Company issued 5,000,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$70,000, which approximated the fair value of the shares issued during the periods the services were rendered.

In July 2008, the Company issued 36,000,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$356,400, which approximated the fair value of the shares issued during the periods the services were rendered.

In August 2008, the Company issued 35,736,700 shares of its common stock in exchange for penalties incurred. The Company valued the shares issued at \$428,840, which approximated the fair value of the shares issued during the periods the services were rendered.

In August 2008, the Company issued 6,971,116 shares of its common stock in exchange for accounts payable and other services. The Company valued the shares issued at \$62,740, which approximated the fair value of the shares issued during the periods the services were rendered.

In September 2008, the Company issued 2,200,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$14,520, which approximated the fair value of the shares issued during the periods the services were rendered.

In October 2008, the Company issued 10,000,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$29,000, which approximated the fair value of the shares issued during the periods the services were rendered.

In December 2008, the Company issued 25,500,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$33,200, which approximated the fair value of the shares issued during the periods the services were rendered.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE J - STOCK OPTIONS AND WARRANTS

Class A Warrants

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 December 31, 2008:

| Exercise Price | Number Outstanding | Warrants Outstanding Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise price | Number Exercisable | Warrants Exercisable Weighted Average Exercise Price |
|----------------|--------------------|--|---------------------------------|--------------------|--|
| \$0.001 | 50,000,000 | 3.76 | \$ 0.001 | 50,000,000 | 0.001 |
| 0.02 | 50,000,000 | 3.43 | 0.02 | 50,000,000 | 0.02 |
| 0.03 | 25,000,000 | 1.38 | 0.03 | 25,000,000 | 0.03 |
| 0.10 | 850,000 | .049 | 0.10 | 850,000 | 0.10 |
| 0.055 | 49,760,443 | 3.39 | 0.055 | 49,760,443 | 0.055(a) |
| | 175,610,443 | | | 175,610,443 | |

(a)

See terms of warrants issued below

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

| | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|----------------------------------|
| Outstanding at December 31, 2006 | 99,895,000 | \$ 0.09 |
| Granted | 200,000,000 | 0.01525 |
| Exercised | (50,239,557) | (0.03) |
| Canceled or expired | (73,695,000) | (0.07) |
| Outstanding at December 31, 2007 | 175,960,443 | 0.016 |
| Granted | - | - |
| Exercised | - | - |
| Canceled or expired | (350,000) | .75 |
| Outstanding at December 31, 2008 | 175,610,443 | 0.02 |

Warrants granted during the year ended December 31, 2007 totaling 50,000,000 were issued in connection with debt financing. The warrants are exercisable until five years after the date of issuance at a purchase price of \$0.02 per share.

In the year ended December 31, 2007, the Company sold 100,000,000 five year warrants with an exercise price of 50% of the average closing price of the twenty trading days prior to warrant execution. The transaction, to the extent that it is to be satisfied with common stock 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 conversion feature, the Company is required to record a liability relating to warrants and as such has recorded the fair value of the embedded conversion feature, using the Black-Scholes option pricing method, as a liability for the current period.

In the year ended December 31, 2007, the Company sold 50,000,000 five year warrants with an exercise price of \$0.001.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE J - STOCK OPTIONS AND WARRANTS (continued)

The Company completed an equity financing with St. George Investments, LLC (SGI), an Illinois limited liability company, on March 21, 2008 for \$1,500,000. The equity financing is structured as a 25% discount to market Warrant transaction that provides \$500,000 in capital at closing, followed by four tranches of \$250,000 each. Each \$250,000 tranche is staggered at 60-day intervals commencing in six months on September 22, 2008, which is the date that shares are salable pursuant to Rule 144 upon exercise of the Warrant. The Company issued 7,500,000 shares of Common Stock to SGI in order to induce the SGI to purchase the \$1,500,000 Warrant. In addition, 6,763,300 additional shares of Common Stock were issued as Performance Stock in the name of SGI to remain in their original certificated form and remain in escrow with the law firm of Anslow & Jaclin, LLP acting as escrow agent. As a provision of the Warrant Purchase Agreement, we pledged 35,736,700 shares of "Pledge Stock" to be held in escrow as a potential remedy in the event of the occurrence of certain identified "trigger events". On June 23rd, 2008, one trigger event, the closing price of our stock, went below the identified market price of \$0.012 per share, triggering the release from escrow of the 6,763,300 shares of Performance Stock and the 35,736,700 shares of "Pledge Stock". This trigger event, as defined in the Warrant Purchase Agreement, also increased the Warrant Account by 25% of the balance, or \$375,000, in exchange for the elimination of the 25% discount to market.

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 December 31, 2008:

| Exercise Prices | Options Outstanding | | | Options Exercisable | |
|-----------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$0.2125 | 2,000,000 | 4.96 | \$0.2125 | 2,000,000 | \$ 0.2125 |
| 0.2125 | 2,000,000 | 5.37 | 0.2125 | 2,000,000 | 0.2125 |
| 0.022 | 20,500,000 | 7.87 | 0.022 | 20,500,000 | 0.022 |
| 0.0295 | 4,000,000 | 6.35 | 0.0295 | 4,000,000 | 0.0295 |
| 0.04 | 14,430,000 | 7.57 | 0.04 | 14,430,000 | 0.04 |
| 0.10 | 9,502,307 | 5.26 | 0.10 | 9,502,307 | 0.10 |

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

| | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|----------------------------------|
| Outstanding at December 31, 2006 | 52,432,307 | 0.0562 |
| Granted | - | - |
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at December 31, 2007 | 52,432,307 | 0.0562 |
| Granted | - | - |

| | | |
|----------------------------------|---------------|--------|
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at December 31, 2008 | 52,432,307 \$ | 0.0562 |

The Company did not grant employee stock options in the years ended December 31, 2008 and 2007.

NOTE K -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 10% to 12% per annum. As of December 31, 2008 and 2007, the balance due to the officers was \$402,823 and \$397,064, respectively.

NOTE L -COMMITMENTS AND CONTINGENCIES

Consulting Agreements

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.

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CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE L -COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease Commitments

The Company leases office space in Durham, NC on a six year lease expiring December 31, 2012, for an annualized rent payment of \$88,020. Additionally the Company leases warehouse space on a month to month basis for \$550 per month. At December 31, 2008, schedule of the future minimum lease payments is as follows:

| | |
|------|--------|
| 2009 | 88,020 |
| 2010 | 88,020 |
| 2011 | 88,020 |
| 2012 | 88,020 |
| 2013 | - |

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 consolidated financial position, results of operations or liquidity. There was no outstanding litigation as of December 31, 2008.

NOTE M – FAIR VALUES

SFAS No. 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. SFAS No. 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value

hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Items recorded or measured at fair value on a recurring basis in the accompanying financial statements consisted of the following items as of December 31, 2008:

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CYBERLUX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2008 AND 2007

NOTE M – FAIR VALUES (continued)

| | Total | Quoted Prices in Active Markets for Identical Instruments Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|----------------------|-----------------------|---|---|--|
| Liabilities: | | | | |
| Derivative liability | \$ (24,384,586) | | | \$ (24,384,586) |
| Warrant payable | (935,000) | | | (935,000) |
| Warrant liability | (255,042) | | | (255,042) |
| | | | | (|
| Total | \$ (25,574,628 | | | \$ 25,574,628) |

With the exception of assets and liabilities included within the scope of FSP FAS No. 157-2, the Company adopted the provisions of SFAS No. 157 prospectively effective as of the beginning of Fiscal 2008. For financial assets and liabilities included within the scope of FSP FAS No. 157-2, the Company will be required to adopt the provisions of SFAS No. 157 prospectively as of the beginning of Fiscal 2009. The adoption of SFAS No. 157 did not have a material impact on our financial position or results of operations, and the Company do not believe that the adoption of FSP FAS No. 157-2 will have a material impact on our financial position or results of operations.

NOTE N- 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 consolidated financial statements, as of December 31, 2008, the Company incurred accumulated losses of \$52,360,720. The Company's current liabilities exceeded its current assets by \$10,496,454 as of December 31, 2008. 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.

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.

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

None.

ITEM 8A(T) – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of disclosure controls and procedures includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report that is set forth below. At the same time our disclosure controls and procedures can identify weaknesses in our financial reporting and control systems that require remediative action.

The evaluation conducted included the design, as well as the implementation, of the disclosure controls and procedures, and how the output produced was used in the preparation of this Form 10-K. In the course of performing this evaluation, particular attention was paid to identifying past, present and potential occurrences of data errors, problems of control, and the potential for fraud.

Our Chief Executive Officer and Chief Financial Officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management, that as of December 31, 2008, our disclosure controls and procedures were not effective due to the material weakness described below, and because we didn't provide Management's Report on Internal Control over Financial Reporting as required by Item 308T(a) of regulation S-B

Management's Report on Internal Control over Financial Reporting

Our management is responsible for the establishment and maintenance of an adequate system of internal controls over financial reporting pursuant to the Securities and Exchange Act Rules 13a – 15(f) and 15d – 15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officers, and affected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- 1.) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets.
- 2.) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are

being made only in accordance with authorizations of management and the board of directors.

- 3.) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Our evaluation addressed every activity performed within the Company including, but not limited to, the collection, recording, storing, control and reporting of financial data.

Because of their inherent limitations, any system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be come inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008, based on the framework defined in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Material Weakness

Based on our evaluation under COSO, management concluded that our internal control over financial reporting was not effective as of December 31, 2008, due to a control deficiency that we believe should be considered a material weakness. A material weakness is defined within the Public Company Accounting Oversight Board's Auditing Standard No. 5 as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The present accounting system does not provide for the efficient recording of raw materials/work-in-process movements in and out of inventory. While our evaluation process found no irregularities, the additional intervention on the part of accounting department personnel to verify the transactions was determined to be both cumbersome, but also presented the opportunity for misstatement.

This deficiency was resolved during the 1st Quarter of 2008 with the acquisition and implementation of new accounting software. The attention paid to inventory transaction work flow during the evaluation and acquisition stage of software review, verified the correctness of data capture, recording, storage, reporting and control of both the financial as well as non-financial aspects of the transactions. Subsequent periodic testing of the transactions has determined the accuracy and reliability of the information.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of the controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the reality that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may be come inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of our registered public accountants regarding internal control over financial reporting, pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

ITEM 8B.

OTHER INFORMATION

None.

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PART III

ITEM 9 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors and Executive Officers

Set forth below are the directors and executive officers of the Company, their ages and positions held with the Company, as follows

| Name | Age | Position |
|------------------|-----|---|
| Mark D. Schmidt | 44 | President, Chief Executive Officer and Director |
| John W. Ringo | 64 | Chairman of the Board of Directors, Secretary and Corporate Counsel |
| Alan H. Ninneman | 65 | Senior Vice President and Director |
| David D. Downing | 58 | Chief Financial Officer Treasurer and Director. |

Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Currently there are three seats on our board of directors.

Currently, our Directors are not compensated for their services. Officers are elected by the Board of Directors and serve until their successors are appointed by the Board of Directors. Biographical resumes of each officer and director are set forth below.

MARK D. SCHMIDT. Mr. Schmidt became our Chief Executive Officer on July 1, 2008. Mr. Schmidt was been our President, Chief Operating Officer and Director since May 2003. From December 1999 until December 2002, Mr. Schmidt was a founder and executive of Home Director, Inc., the IBM Home Networking Division spin-off company and a public company. Mr. Schmidt is a former IBM executive with over 15 years of consumer marketing, business management and venture startup experience. Mr. Schmidt graduated Summa Cum Laude with a Bachelor of Science Degree in Engineering from North Carolina State University and earned an MBA Degree from the Fuqua School of Business at Duke University.

JOHN W. RINGO. Mr. Ringo became our Chairman of the Board on July 1, 2008. Mr. Ringo has been our Secretary, Corporate Counsel and a Director since May 2000. Since 1990, Mr. Ringo has been in private practice in Marietta, GA specializing in corporate and securities law. He is a former Staff Attorney with the U. S. Securities and Exchange Commission, a member of the Bar of the Supreme Court of the United States, the Kentucky Bar Association and the Georgia Bar Association. Mr. Ringo graduated from the University of Kentucky in Lexington, KY with a BA Degree in Journalism. Subsequently, he received a Juris Doctor Degree from the University of Kentucky College of Law.

ALAN H. NINNEMAN. Mr. Ninneman has been our Senior Vice President and a Director since May 2000. From 1992 until April 2000, Mr. Ninneman was a Chief Executive Officer of City Software, Inc. based in Albuquerque, New Mexico. He was a senior support analyst for Tandem Computer, San Jose, California from 1982 to 1985; senior business analyst at Apple Computer, Cupertino, California from 1985 to 1987; and Director of Operations at Scorpion Technologies, Inc., San Jose, California. Mr. Ninneman attended Elgin Community College, Elgin, IL and subsequently majored in business administration at Southern Illinois University, Carbondale, IL.

DAVID D. DOWNING. Mr. Downing has been our Chief Financial Officer and Treasurer since May 2000. He became a director in December 2008. Mr. Downing joined Marietta Industrial Enterprises, Inc., Marietta, Ohio in November 1991 as its Chief Financial Officer. He was elected to the Board of Directors of that Company in January 1994. He has been a Director of American Business Parks, Inc., Belpre, Ohio since January 1998 and served as a director of Agri-Cycle Products, Inc. from May 1998 until April 2001. Mr. Downing graduated from Grove City

College, Grove City, PA with a BA Degree in Accounting.

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Limitation of Liability of Directors

Our Articles of Incorporation, as amended, provide to the fullest extent permitted by Nevada law, our directors or officers shall not be personally liable to us or our shareholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Articles of Incorporation, as amended, is to eliminate our rights and our shareholders (through shareholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in our Articles of Incorporation, as amended, are necessary to attract and retain qualified persons as directors and officers.

Election of Directors and Officers.

Directors are elected to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

No Executive Officer or Director of the Company has been the subject of any order, judgment, or decree of any Court of competent jurisdiction, or any regulatory agency permanently or temporarily enjoining, barring suspending or otherwise limiting him from acting as an investment advisor, underwriter, broker or dealer in the securities industry, or as an affiliated person, director or employee of an investment company, bank, savings and loan association, or insurance company or from engaging in or continuing any conduct or practice in connection with any such activity or in connection with the purchase or sale of any securities.

No Executive Officer or Director of the Company has been convicted in any criminal proceeding (excluding traffic violations) or is the subject of a criminal proceeding which is currently pending.

No Executive Officer or Director of the Company is the subject of any pending legal proceedings.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires Cyberlux Corporation executive officers and directors, and persons who beneficially own more than ten percent of the Company's common stock, to file initial reports of ownership and reports of changes in ownership with the SEC. Executive officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish Cyberlux Corporation with copies of all Section 16(a) forms they file. Based upon a review of the copies of such forms furnished to the Company and written representations from Company executive officers and directors, the Company believes that during the year ended 2005, the officers and directors filed all of their respective Section 16(a) reports on a timely basis.

Audit Committee

We do not have an Audit Committee, our board of directors during 2007, performed some of the same functions of an Audit Committee, such as: recommending a firm of independent certified public accountants to audit the annual financial statements; reviewing the independent auditors independence, the financial statements and their audit report; and reviewing management's administration of the system of internal accounting controls. We do not currently have a written audit committee charter or similar document.

Nominating Committee

We do not have a Nominating Committee or Nominating Committee Charter. Our board of directors performed some of the functions associated with a Nominating Committee. We have elected not to have a Nominating Committee at this time, however, our Board of Directors intend to continually evaluate the need for a Nominating Committee.

Code of Conduct

On March 4, 2005, we adopted a written code of conduct that governs all of our officers, directors, employees and contractors. The code of conduct relates to written standards that are reasonably designed to deter wrongdoing and to promote:

- (1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (2) Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with, or submitted to, the Commission and in other public communications made by an issuer;
- (3) Compliance with applicable governmental laws, rules and regulations;
- (4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
- (5) Accountability for adherence to the code.

Compensation Committee

We currently do not have a compensation committee of the board of directors. Until a formal committee is established, if at all, our entire board of directors will review all forms of compensation provided to our executive officers, directors, consultants and employees including stock compensation and loans.

ITEM 10.

EXECUTIVE COMPENSATION

Termination of Employment

There are no compensatory plans or arrangements, including payments to be received from the Company, with respect to any person associated with the Company which would in any way result in payments to any such person because of his resignation, retirement, or other termination of such person's employment with the Company or its subsidiaries, or any change in control of the Company, or a change in the person's responsibilities following a change in control of the Company.

Executive Compensation

The following table sets forth the cash compensation of the Company's newly elected executive officers and directors during of the years 2008, 2007, 2006, 2005, 2004 and 2003. The remuneration described in the table represents compensation received from Cyberlux Corporation and does not include the cost to the Company of benefits furnished to the named executive officers, including premiums for health insurance and other benefits provided to such individual that are extended in connection with the conduct of the Company's business. The value of such benefits cannot be precisely determined, but the executive officers named below did not receive other compensation in excess of the lesser of \$50,000 or 10% of such officer's cash compensation.

Summary Compensation Table

| Name & Principal Position | Year | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | Restricted Stock Awards (\$) | Options SARs (#) | LTIP Payouts (\$) | All Other Compensation (\$) |
|--|------|-------------|------------|--------------------------------|------------------------------|------------------|-------------------|-----------------------------|
| Mark D. Schmidt CEO & President | 2008 | 120,000 | - | - | - | 67,000,000 | - | - |
| | 2007 | 180,000 | - | - | - | 6,000,000 | - | - |
| | 2006 | 180,000 | - | - | - | 13,500,000 | - | - |
| | 2005 | 180,000 | - | - | - | 4,000,000 | - | - |
| | 2004 | 120,000 | - | - | - | 650,000 | - | - |
| | 2003 | 120,000 | - | - | - | 550,000 | - | - |
| John W. Ringo Secretary & Corporate Counsel | 2008 | 36,000 | - | - | - | 48,000,000 | - | - |
| | 2007 | 69,000 | - | - | - | 1,500,000 | - | - |
| | 2006 | 42,000 | - | - | - | 2,000,000 | - | - |
| | 2005 | 76,000 | - | - | - | 1,500,000 | - | - |
| | 2004 | 70,500 | - | - | - | 400,000 | - | - |
| | 2003 | 102,000 | - | - | - | 250,000 | - | - |
| Alan H. Ninneman Senior Vice President | 2008 | 36,000 | - | - | - | 45,000,000 | - | - |
| | 2007 | 69,000 | - | - | - | 1,500,000 | - | - |
| | 2006 | 42,000 | - | - | - | 2,000,000 | - | - |
| | 2005 | 76,000 | - | - | - | 1,000,000 | - | - |
| | 2004 | 70,500 | - | - | - | 400,000 | - | - |
| | 2003 | 102,000 | - | - | - | 250,000 | - | - |
| David D. Downing CFO | 2008 | 7,000 | - | - | - | 10,000,000 | - | - |
| | 2007 | | | | | 1,400,000 | | |

| | |
|------|-----------|
| 2006 | 1,150,000 |
| 2005 | 150,000 |
| 2004 | - |
| 2003 | 250,000 |

Annual compensation began accruing in the form of management fees as of July 2000. The compensation indicated in the table is the annualized amount of salary to be paid the respective officers in accordance with their employment agreements.

| Name | Number of Securities | % of Total | Exercise Price per | Base Expiration Date |
|------------------|---|--|--------------------|----------------------|
| | Underlying Options/SARs Granted (#) | Options/SARs Granted To Employees in Fiscal Year | | |
| Mark D. Schmidt | 57,000,000 | 17.98% | \$ 0.01 | 05/31/2017 |
| | 10,000,000 | 14.29% | \$ 0.001 | 08/15/2018 |
| John W. Ringo | 38,000,000 | 11.99% | \$ 0.01 | 05/31/2017 |
| | 10,000,000 | 14.29% | \$.0001 | 08/15/2018 |
| Alan H. Ninneman | 35,000,000 | 11.04% | \$ 0.01 | 05/31/2017 |
| | 10,000,000 | 14.29% | \$.001 | 08/31/2018 |
| David D. Downing | 10,000,000 | 3.15% | \$ 0.01 | 08/15/2018 |
| | 0 | | | |

Stock Option Plans

We have created an Employee Stock Option Plan for incentive/retention of current key employees and as an inducement to employment of new employees. The 2003 plan, which sets aside 2,000,000 shares of common stock for purchase by employees, was made effective by the Board of Directors.

On September 2, 2003, our Board approved a 2004 Incentive Stock Option Plan, which will provide 2,000,000 shares to underwrite options.

On April 8, 2004 our Board approved the 2005 Incentive Stock Option Plan that provides for 12,000,000 shares to underwrite options and on January 10, 2005, the Board approved the 2006 Plan that provides for 18,000,000 shares to underwrite options. On October 31, our Board approved the 2007 Plan that provides for 25,000,000 shares to underwrite options. On October 31, 2007, our Board approved the 2008 Plan that provides for 30,000,000 shares to underwrite options.

The stock option plans are administered directly by our board of directors.

Subject to the provisions of the stock option plans, the board will determine who shall receive stock options, the number of shares of common stock that may be purchased under the options, the time and manner of exercise of options and exercise prices.

As of March 31, 2007, there were 27,513,237 stock options granted under the plans that were outstanding.

On September 12, 2007, we issued 26,650,000 shares of our common stock to our employees pursuant to an Incentive Stock Grant Plan.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information, to the best of the Company's knowledge, about the beneficial ownership of its common stock on May 15, 2009, relating to the beneficial ownership of the Company's common stock by those persons known to beneficially own more than 5% of the Company's capital stock and by its directors and executive officers. The percentage of beneficial ownership for the following table is based on 999,955,532 shares of common stock outstanding.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of common stock over which the stockholder has sole or shared voting or investment power. It also includes shares of common stock that the stockholder has a right to acquire within 60 days through the exercise of any option, warrant or other right. The percentage ownership of the outstanding common stock, however, is based on the assumption, expressly required by the rules of the Securities and Exchange Commission, that only the person or entity whose ownership is being reported has converted options or warrants into shares of our common stock.

| Name & Address of Owner | Title of Class | Number of Shares | | Total Votes Entitled | Percentage of |
|---|----------------|------------------|-----------|----------------------|-------------------------|
| | | (1) | Class (2) | to be Cast on | Total Votes on |
| | | | | (3) | Shareholder Matters (4) |
| Mark D. Schmidt 4625 Creekstone Drive, Suite 130 Research Triangle Park Durham, NC 27703 | Common Stock | 16,128,280(5) | 1.98% | 178,864,180(5) | 21.96% |
| Alan H. Ninneman 4625 Creekstone Drive, Suite 130 Research Triangle Park Durham, NC 27703 | Common Stock | 9,892,986(6) | 1.21% | 85,646,686(6) | 10.52% |
| John W. Ringo 4625 Creekstone Drive, Suite 130 Research Triangle Park Durham, NC 27703 | Common Stock | 9,752,986(7) | 1.20% | 113,054,886(7) | 13.88% |
| David D. Downing 4625 Creekstone Drive, Suite 130 Research Triangle Park Durham, NC 27703 | Common Stock | 8,500,000(8) | 1.04% | 56,707,500(8) | 6.96% |
| Richard P. Brown 4625 Creekstone Drive, Suite 130 Research Triangle Park Durham, NC 27703 | Common Stock | 11,628,980 | 1.43% | 11,628,980 | 1.43% |
| Larson J. Isely 4625 Creekstone Drive, Suite 130 Research Triangle Park Durham, NC 27703 | Common Stock | 8,250,000 | 1.01% | 8,250,000 | 1.01% |
| | Common Stock | 64,153,232 | 7.88% | 454,152,232 | 55.76% |

All Officers, Directors and
Employees and Shareholders
As a Group (6 persons)

Mark D. Schmidt
4625 Creekstone Drive, Suite
130
Research Triangle Park
Durham, NC 27703

Preferred B 1,377,359 37.74%

Alan H. Ninneman
4625 Creekstone Drive, Suite
130
Research Triangle Park
Durham, NC 27703

Preferred B 757,547 20.75%

John W. Ringo
4625 Creekstone Drive, Suite
130
Research Triangle Park
Durham, NC 27703

Preferred B 1,033,019 28.30%

David D. Downing
4625 Creekstone Drive, Suite
130
Research Triangle Park
Durham, NC 27703

Preferred B 482,075 13.21%

Total Preferred B 3,650,000 100.00%

1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of May 15, 2009 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(2) For purposes of calculating the percentage beneficially owned, the number of shares of each class of stock deemed outstanding include 944,955,532 common shares and 4,650,000 Preferred "B" Shares outstanding as of May 15, 2009.

(3) This column represents the total number of votes each named shareholder is entitled to vote upon matters presented to the shareholders for a vote.

(4) For purposes of calculating the percentage of total votes on shareholder matters, the total number of votes entitled to vote on matters submitted to shareholders is 1,234,955,412, which includes: one vote for each share of common stock currently outstanding (944,955,532); and 100 votes for each share of Series B preferred stock outstanding (4,650,000 shares of Series B stock * 100 = 465,000,000).

(5) Includes 1,627,359 shares of Series B convertible preferred stock convertible into 16,275,590 shares of common stock and the right to cast 162,765,900 votes.

(6) Includes 1,007,547 shares of Series B convertible preferred stock convertible into 10,075,470 shares of common stock and the right to cast 100,754,700 votes.

(7) Includes 1,283,019 shares of Series B convertible preferred stock convertible into 12,830,190 shares of common stock and the right to cast 128,301,900 votes.

(8) Includes 732,075 shares of Series B convertible preferred stock convertible into 7,320,750 shares of common stock and the right to cast 73,207,500 votes.

(9) Includes 4,650,000 shares of Series B convertible preferred stock convertible into 46,500,000 shares of common stock and the right to cast 465,000,000 votes.

ITEM 12.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We owed certain management fees, which were for accrued salaries for Messrs. Evans, Ninneman, Ringo and Schmidt consistent with employment agreements. These fees were as follows: \$400,505 to Don Evans, \$243,000 to John Ringo, \$263,000 to Alan Ninneman and \$101,000 to Mark Schmidt for a total of \$1,007,505. In addition, certain officers loaned funds to us in exchange for promissory notes. The promissory notes included \$3,745 to Al Ninneman and \$184,830 to Dave Downing.

In 2004, we issued 800,000 shares of Series B Convertible Preferred Stock to officers and directors in exchange for \$723,670 of these management fees and \$76,330 of the loan from Dave Downing, on a basis of 1 share of Series B Convertible Preferred Stock for \$1 of debt owned. The management fees converted include \$275,103 by Don Evans, \$166,915 by John Ringo, \$180,652 to Alan Ninneman and \$101,000 to Mark Schmidt. These shares of Series B Convertible Preferred Stock have certain conversion rights and superior voting privileges as further described in the "Description of Securities" section herein. The Board of Directors, exercising their business judgment, determined that it was in the Company's best interest to issue shares of Series B convertible preferred stock in lieu of accrued management fees. The Board of Directors determined that the terms of the transaction were as fair to the Company as any transactions that could have been made with unaffiliated parties. . On June 17, 2007, the Board of Directors amended the Certificate of Designation for the Series B Convertible Preferred Stock and increased the number of shares to be issued to officers and directors to 3, 650,000 shares. On January 22, 2009, the Board of Directors amended the Certificate of Designation for the Series B Convertible Stock and increased the number of shares to be issued to officers and directors to 4,650,000.

Currently, there are still outstanding promissory notes totaling 397,064, which include \$249,350 in unpaid management fees and promissory notes to officers totaling \$147,714. The unpaid management fees include \$90,916 owed to Don Evans; \$82,348 to Al Ninneman and \$76,086 to John Ringo. The outstanding promissory notes to officers include \$17,745 to Al Ninneman, and \$113,969 to Dave Downing. The promissory notes were issued to officers who lent us funds for working capital purposes. The promissory notes are payable on demand and accrue interest at an annual rate of 12%.

We have consulting agreements with outside contractors, certain of whom are also our stockholders. The agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either we or the consultant terminates such engagement by written notice. None of the consultants who are shareholders own 5% or more of our issued and outstanding shares of common stock.

The terms of transactions in this section are as fair to the Company as any transactions that could have been made with unaffiliated parties.

We have no policy regarding entering into transactions with affiliated parties.

PART IV

ITEM 13. EXHIBITS

| Exhibit No. | Description |
|-------------|--|
| 3.1 | Articles of Incorporation, dated as of May 17, 2000, filed as an exhibit to the registration statement on Form 10-SB filed with the Commission on December 17, 2001 and incorporated herein by reference. |
| 3.2 | Certificate of Amendment to the Articles of Incorporation, dated as of April 3, 2003, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on April 30, 2003 and incorporated herein by reference. |
| 3.3 | Bylaws of Cyberlux Corporation, filed as an exhibit to the registration statement on Form 10-SB filed with the Commission on December 17, 2001 and incorporated herein by reference. |
| 3.4 | Certificate of Designation of Series A Preferred Stock, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 8, 2004 and incorporated herein by reference. |
| 4.1 | Securities Purchase Agreement, dated as of September 23, 2004, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC, filed as Exhibit 4.1 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference. |
| 4.2 | Secured Convertible Note issued to AJW Offshore, Ltd., dated September 23, 2004, filed as Exhibit 4.2 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference. |
| 4.3 | Secured Convertible Note issued to AJW Qualified Partners, LLC, dated September 23, 2004, filed as Exhibit 4.3 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference. |
| 4.4 | Secured Convertible Note issued to AJW Partners, LLC, dated September 23, 2004, filed as Exhibit 4.4 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference. |
| 4.5 | Secured Convertible Note issued to New Millennium Capital Partners II, LLC, dated September 23, 2004, filed as Exhibit 4.5 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference. |
| 4.6 | Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated September 23, 2004, filed as Exhibit 4.6 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference. |
| 4.7 | Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated September 23, 2004, filed as Exhibit 4.7 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference. |
| 4.8 | |

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Common Stock Purchase Warrant with AJW Partners, LLC, dated September 23, 2004, filed as Exhibit 4.8 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference.

- 4.9 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated September 23, 2004, filed as Exhibit 4.9 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference.

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- 4.10 Registration Rights Agreement, dated as of September 23, 2004, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC, filed as Exhibit 4.10 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference.
- 4.11 Security Agreement, dated as of September 23, 2004, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC, filed as Exhibit 4.11 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference.
- 4.12 Intellectual Property Security Agreement, dated as of September 23, 2004, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC, filed as Exhibit 4.12 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference.
- 4.13 Guaranty and Pledge Agreement, dated as of September 23, 2004, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., New Millennium Capital Partners II, LLC and Donald F. Evans, filed as Exhibit 4.13 to the current report on Form 8-K filed with the Commission on September 29, 2004 and incorporated herein by reference.
- 4.14 Secured Convertible Note issued to AJW Offshore, Ltd., dated October 20, 2004.
- 4.15 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated October 20, 2004.
- 4.16 Secured Convertible Note issued to AJW Partners, LLC, dated October 20, 2004.
- 4.17 Secured Convertible Note issued to New Millennium Capital Partners II, LLC, dated October 20, 2004.
- 4.18 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated October 20, 2004.
- 4.19 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated October 20, 2004.
- 4.20 Common Stock Purchase Warrant with AJW Partners, LLC, dated October 20, 2004.
- 4.21 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated October 20, 2004.
- 4.22 Secured Convertible Note issued to AJW Offshore, Ltd., dated November 18, 2004.
- 4.23 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated November 18, 2004.
- 4.24 Secured Convertible Note issued to AJW Partners, LLC, dated November 18, 2004.
- 4.25 Secured Convertible Note issued to New Millennium Capital Partners II, LLC, dated November 18, 2004.
- 4.26 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated November 18, 2004.

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- 4.27 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated November 18, 2004.
- 4.28 Common Stock Purchase Warrant with AJW Partners, LLC, dated November 18, 2004.
- 4.29 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated November 18, 2004.

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- 4.30 Securities Purchase Agreement, dated as of April 22, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.31 Secured Convertible Note issued to AJW Offshore, Ltd., dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.32 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.33 Secured Convertible Note issued to AJW Partners, LLC, dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.34 Secured Convertible Note issued to New Millennium Capital Partners II, LLC, dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.35 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.36 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.37 Common Stock Purchase Warrant with AJW Partners, LLC, dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.38 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated April 22, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.39 Registration Rights Agreement, dated as of April 22, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.40 Security Agreement, dated as of April 22, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.
- 4.41 Intellectual Property Security Agreement, dated as of April 22, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New

Millennium Capital Partners II, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.

- 4.42 Guaranty and Pledge Agreement, dated as of April 22, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., New Millennium Capital Partners II, LLC and Donald F. Evans, filed as an exhibit to the current report on Form 8-K filed with the Commission on April 28, 2005 and incorporated herein by reference.

- 4.1 Securities Purchase Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.2 Secured Convertible Note issued to AJW Offshore, Ltd., dated October 23, 2005.
- 4.3 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated October 23, 2005.
- 4.4 Secured Convertible Note issued to AJW Partners, LLC, dated October 23, 2005.
- 4.5 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.6 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated October 23, 2005.
- 4.7 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated October 23, 2005.
- 4.8 Common Stock Purchase Warrant with AJW Partners, LLC, dated October 23, 2005.
- 4.9 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated October 23, 2005.
- 4.10 Registration Rights Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.11 Security Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.12 Intellectual Property Security Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 5.1 Sichenzia Ross Friedman Ference LLP Opinion and Consent, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on May 20, 2005 and incorporated herein by reference.
- 10.1 Donald F. Evans Employment Agreement, dated as of July 1, 2000, filed as an exhibit to the registration statement on Form 10-SB filed with the Commission on December 17, 2001 and incorporated herein by reference.
- 10.2 Alan H. Ninneman Employment Agreement, dated as of July 1, 2000, filed as an exhibit to the registration statement on Form 10-SB filed with the Commission on December 17, 2001 and incorporated herein by reference.
- 10.3 John W. Ringo Employment Agreement, dated as of July 1, 2000, filed as an exhibit to the registration statement on Form 10-SB filed with the Commission on December 17, 2001 and incorporated herein by reference.

- 10.4 Donald F. Evans Amended Employment Agreement, dated as of January 1, 2003, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on April 30, 2003 and incorporated herein by reference.

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- 10.5 Alan H. Ninneman Amended Employment Agreement, dated as of January 1, 2003, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on April 30, 2003 and incorporated herein by reference.
- 10.6 John W. Ringo Amended Employment Agreement, dated as of January 1, 2003, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on April 30, 2003 and incorporated herein by reference.
- 10.7 Mark D. Schmidt Employment Agreement, dated as of May 1, 2003, filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on August 19, 2003 and incorporated herein by reference.
- 10.8 Proprietary Product Manufacturing Agreement, dated as April 24, 2001, by and between Cyberlux Corporation and Shelby County Community Services, Inc., filed as an exhibit to the registration statement on Form 10-SB filed with the Commission on December 17, 2001 and incorporated herein by reference.
- 10.9 Design Agreement, dated as of March 2, 2001, by and between Cyberlux Corporation and ROBRADY Design, filed as an exhibit to the registration statement on Form 10-SB/A filed with the Commission on February 4, 2001 and incorporated herein by reference.
- 10.10 Series A Convertible Preferred Stock Purchase Agreement, dated as of December 31, 2003, by and among Cyberlux Corporation and the purchasers set forth therein, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 8, 2004 and incorporated herein by reference.
- 10.11 Registration Rights Agreement, dated as of December 31, 2003, by and among Cyberlux Corporation and the purchasers of Series A Convertible Preferred Stock set forth therein, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 8, 2004 and incorporated herein by reference.
- 10.12 Form of Series A Warrant issued in connection with the sale of Series A Convertible Preferred Stock, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 8, 2004 and incorporated herein by reference.
- 10.13 Form of Series B Warrant issued in connection with the sale of Series A Convertible Preferred Stock, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 8, 2004 and incorporated herein by reference.
- 10.14 Lock-up Agreement, dated as of December 31, 2003, by and among Cyberlux Corporation and certain officers and directors of Cyberlux Corporation, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 8, 2004 and incorporated herein by reference.
- 14.1 Code of Conduct, filed as an exhibit to the annual report on Form 10-K filed with the Commission on April 15, 2005 and incorporated herein by reference.
- 23.1 Consent of Turner Jones & Associates, PLLC
- 31.1

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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 and Chief Financial Officer)

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ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed for professional services rendered by Turner Jones & Associates, PLLC for the audit of the registrant's annual financial statements and review of the financial statements included in the registrant's Form 10-QSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal years 2008 and 2007 were \$65,000 and \$65,000 respectively.

Audit-Related Fees

None.

Tax Fees

None.

All Other Fees

None.

Policy On Audit Committee Pre-Approval Of Audit And Permissible Non-Audit Services Of Independent Auditors

We currently do not have a designated Audit Committee, and accordingly, our Board of Directors' policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to our Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

CYBERLUX CORPORATION

Dated: May 15, 2009

By: /s/ MARK D. SCHMIDT
Mark D. Schmidt
Chief Executive Officer (Principal Executive Officer)

Dated: May 15, 2009

By: /s/ DAVID D. DOWNING
David D. Downing
Chief Financial Officer (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|--|--|--------------|
| /s/ MARK D. SCHMIDT Mark D. Schmidt | President, Chief Executive Officer and Director | May 15, 2009 |
| /s/ JOHN W. RINGO John W. Ringo | Secretary, Corporate Counsel and Chairman of the Board | May 15 2009 |
| /s/ ALAN H. NINNEMAN Alan H. Ninneman | Senior Vice President and Director | May 15, 2009 |