

Edgar Filing: CYBERLUX CORP - Form 10KSB

CYBERLUX CORP
Form 10KSB
April 19, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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, 2005

Commission file number 000-33415

CYBERLUX CORPORATION

(Exact name of registrant as specified in its charter)

NEVADA

91-2048178

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

4625 CREEKSTONE DRIVE, SUITE 100
RESEARCH TRIANGLE PARK
DURHAM, NORTH CAROLINA

27703

(Address of principal executive offices)

(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

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-KSB or any amendment to Form 10-KSB.

Yes No Delinquent filers are disclosed herein.

Edgar Filing: CYBERLUX CORP - Form 10KSB

Total revenues for Fiscal Year 2005 were \$54,523.

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 March 31, 2006, was \$5,341,292.78.

As of March 31, 2006 there were 85,428,735 shares of issuer's common stock outstanding.

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

CYBERLUX CORPORATION
ANNUAL REPORT ON FORM 10-KSB
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

TABLE OF CONTENTS

	Page

PART I	
Item 1. Business.....	1
Item 2. Properties.....	6
Item 3. Legal Proceedings.....	7
Item 4. Submission of Matters to a Vote of Security Holders.....	9
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	10
Item 6. Management's Discussion and Analysis of Financial Condition and Results Of Operations.....	18
Item 7. Financial Statements.....	31
Item 8. Changes in and Disagreements with Accountants on Auditing and Financial Disclosure.....	32
Item 8A. Controls and Procedures.....	32
Item 8B. Other Information.....	32
PART III	
Item 9. Directors and Executive Officers of the Registrant.....	33
Item 10. Executive Compensation.....	36
Item 11. Security Ownership of Certain Beneficial Owners and Management.....	39
Item 12. Certain Relationships and Related Transactions.....	40
PART IV	
Item 13. Exhibits.....	42
Item 14. Principal Accountant Fees and Services	48
Signatures.....	49

This Form 10-KSB 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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-KSB (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-KSB references to "Cyberlux", "the Company", "we," "us," and "our" refer to Cyberlux Corporation.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

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.

To address the tremendous opportunity in the \$12 billion general lighting market, we have developed a line of LED lighting products and fixtures for residential, commercial, military and homeland security markets, including kitchen and closet task lighting and emergency lighting products. We design and engineer products that adapt technology advancements from semiconductor manufacturers, including Cree, Inc., for use by the general public and military.

We have created breakthrough solid-state lighting technology that provides energy efficient and cost effective lighting solutions. Several products are designed to address emergencies, such as power outages and critical security lighting needs. Other products bring "heatless" light into the home for closets, cabinets, bookcases and counters. The solid-state semiconductors, trademarked by Cyberlux as diodal(TM) lighting elements, consume 92 percent less energy than conventional incandescent lighting elements and perform for more than 10 years in contrast to 750 hours for traditional light bulbs.

With the exception of our initial Home Safety Light product (the first generation of our current EverOn(TM) product), 2005 marked the first year for all of our current products and the first year of significant revenues. With established and developing sales channels and a robust range of products now available for the market, we believe that we are poised to seize significant opportunities in the growing solid-state lighting market in 2006 and beyond.

Edgar Filing: CYBERLUX CORP - Form 10KSB

MARKET OPPORTUNITY

Light Emitting Diodes, or LEDs, are leading to a fundamental shift in the lighting industry, creating market competition in ways that challenge traditional players, including General Electric. This shift represents a similar evolution driven by solid-state technology in semiconductors and TVs. What has been a vertically-integrated industry dominated by giants is now becoming more "horizontal," with layers that resemble the structure of the computer industry. The cost of LEDs is decreasing as technology advances are made, while the brightness and quality of light produced by LEDs is increasing. Opportunities are emerging for us to develop next-generation lighting solutions and accelerate adoption of LED lighting, as new market prospects are unfolding.

1

According to market research firm iSuppli, the market for LEDs for general illumination applications will expand to \$875 million in 2010, rising at a Compound Annual Growth Rate (CAGR) of 52.3 percent from \$94 million in 2004. By 2010, LEDs will have grown to account for a significant portion of the worldwide general illumination market, which amounted to \$12 billion in 2004.

This shift in the lighting industry over the next 10 years will cause a fundamental change in the way lighting is installed, maintained and operated, both in terms of energy efficiency and longevity. For example, our Aeon(TM) product for under-cabinet and task lighting comes with a 15-year guarantee on the life of the lighting element. That is fundamentally different from anything consumers have experienced before. It represents a trend that will include a transforming of lighting fixtures along with a change to semiconductor solid-state lighting elements to replace incandescent and fluorescent bulbs.

Energy efficiency is also a market driver. The United States Congress recently passed the "Next Generation Lighting Initiative Act", which recognizes the remarkable beneficial impact of solid-state lighting on the global economy. The Act states in its preamble, "...it is in the economic and energy security interest of the United States to encourage the development of white light emitting diodes by providing financial assistance to firms, or a consortium of firms, and supporting research organizations in the lighting development sector." We began our research and development activity in practical applications for inorganic white light emitting diodes years before the Senate Bill was introduced.

LED solid-state lighting technology and products address a key component in the Federal Energy Policy adopted in August 2005. The Energy Policy was supported by the National Electrical Contractors Association - the voice of the \$100 billion industry responsible for bringing lighting, power, and communications to buildings and communities across the United States.

Through \$14.5 billion in new tax credits and deductions, the policy emphasizes a renewed commitment to innovation to supplement a revitalization of the nation's overburdened electrical infrastructure, and encourages energy efficiency and modernization in federal and private buildings. By addressing incentives for the production and use of alternative energy sources, including solid-state LED lighting technology, the federal government will help drive the adoption of next-generation lighting solutions.

PRINCIPAL PRODUCTS

EMERGENCY, SECURITY AND COMMERCIAL LIGHTING PRODUCTS

Edgar Filing: CYBERLUX CORP - Form 10KSB

Every time a hurricane or ice storm hits, causing widespread power outages that last for days, weeks or months, the absence of realistic emergency lighting solutions becomes more evident. The need can strike at any time. The power grid failure and subsequent power outage which darkened the Midwest and spread to Northeastern United States and parts of Canada in August of 2003, dramatized that nature is not the only culprit. The term "emergency lighting" is typically applied to short-term evacuation lights in public buildings which perform for 60 to 90 minutes to allow occupants to flee a burning building. Electrical power grid failure is a far different problem than that of evacuating a building. We have solved the problem of grid failure blackouts with long-term emergency lighting.

RELIABRIGHT(TM)

The Reliabright(TM) products provide 80 hours of bright light from one battery charge. The system is activated by proprietary sensors that detect a loss of power in the building's electrical system. This breakthrough in light management has enabled us to apply our technology and develop new products to solve problems in the transportation industry, in heatless lighting solutions for homeowners, and security solutions for the U.S. Military.

In 2005, we installed the Reliabright(TM) emergency lighting system in the Emergency Situation Room at Kings Park High School, Kings Park, New York. This pilot program demonstrates the potential to use LED solid-state lighting to prepare schools and other shelters throughout the county to provide assistance to communities in the aftermath of natural disasters, terrorist attacks, electric grid failures and any other calamity that can cause widespread electricity blackouts.

2

In a similar pilot project, we installed a solid-state semiconductor lighting system in the emergency management "war room" for the City of Cleveland. That project was in response to the widespread power blackouts in 2003.

MILITARY PORTABLE BOUNDARY SECURITY SYSTEM

Reliabright(TM) products also represent the foundation technology for many of our lighting products in development, including an innovative Portable Covert Illumination System for security lighting for the U.S. Military. We are working with Concurrent Technologies Corporation (CTC) to develop an LED solution for a lightweight, portable lighting system to provide security for U.S. Air Force aircraft.

The same technology can be used for commercial and emergency response needs, such as quickly providing widespread lighting solutions in shelters during events similar to the problems at the New Orleans Superdome in the aftermath of Hurricane Katrina.

EVERON(TM)

The EverOn(TM) product is the latest in solid-state lighting technology and provides more than 500 hours of light at the low, amber setting using four AA batteries and is 90 percent more energy efficient than conventional lanterns or incandescent flashlights. The EverOn(TM) is packaged in our patented and field-proven hand-held elliptical parabolic reflector product design, providing a practical, portable emergency lighting solution for every consumer who has experienced the unease and inconvenience of power outages. Designed originally to provide consumers with portable, long-lasting, emergency lighting during the

Edgar Filing: CYBERLUX CORP - Form 10KSB

hurricane season, the new EverOn(TM) is a sturdy, virtually indestructible, lighting product that provides over 500 hours of light on the low, amber setting, 60 hours of comfortable room-filling light on the medium setting and over 30 hours of intensely bright white light on the highest setting, all in a 7 inch by 3.5 inch by 2.4 inch package.

Emergency Management officials in Collier County, Fla. relied on the Home Safety Light, the previous version of the EverOn(TM), as an emergency lighting source in hurricane shelters and for victims needing medical assistance in the aftermath of Hurricane Dennis in July 2005. In August, Collier County officials announced that they have listed the EverOn(TM) Emergency Light to be a standard product in their disaster relief inventory.

The EverOn(TM) product builds on the demonstrated success of our original Home Safety Light product, which was launched on QVC in October of 2003 and generated over \$8,000 per minute in sales. EverOn(TM), which is over 40 percent more efficient and 30 percent brighter than the original Home Safety Light product, is expected to be sold on QVC in the near future.

3

RELYON(TM)

The RelyOn(TM) ultra-bright light with power plant is a new product designed to provide homeowners and professionals with a portable, long-lasting work and emergency light. RelyOn(TM) is the first product to use Cree's latest 3-watt solid-state lighting technology, providing superior performance over conventional lighting products

. Delivering more than 60 hours of light on a single charge, the RelyOn(TM) can be recharged from a wall outlet or a vehicle charging port (cigarette lighter port) using included AC and DC power adapters. As a power plant, the RelyOn(TM) can recharge mobile phones and other 12-volt DC devices through a built-in power port.

The powerful, solid-state semiconductor light head, featuring three Cree 3-watt XLamp(TM) 7090 high power white LEDs, provides over 250 lumens and may be focused as an intense spotlight beam or adjusted to generate a blanket of light similar to a table lamp. The intensity of the light can be adjusted for both spotlight and floodlight settings. A digital display shows the remaining hours of light available on the existing charge.

RESIDENTIAL LIGHTING

AEON

The Aeon products bring solid-state lighting into the residential and commercial market for use in closets, cabinet interiors, bookcases, under-cabinet lighting and kitchen counters. The Aeon task and accent lighting products are made with solid-state, light-emitting diodes and do not require bulbs. The result is a product that is maintenance-free, "cool to the touch" with long-lasting energy-efficiency, including a 15-year guarantee that the lighting elements will not need to be replaced.

It can be set on low, medium and high levels of intensity, and because of its sleek, thin fixture, it requires a much less intrusive trim line rather than the thicker trim line that is needed to block a direct view of a fluorescent light.

We believe that Aeon has the potential to become the favorite of kitchen

Edgar Filing: CYBERLUX CORP - Form 10KSB

and interior designers due to its remarkable performance characteristics of several optional shades of white light, three levels of light intensity and its "cool to the touch" safety feature. The choice of electrical connections (plug-in, hard-wired or battery powered) adds to the fixture's flexibility.

SPECIALTY LIGHTING

KEON(TM) KEYCAP

The KeOn(TM) KeyCap is the practical lighting solution for every consumer who carries keys. Each patented KeOn(TM) is a sturdy elastic surround that fits standard key heads and delivers a bright beam of light down the key shaft. When its miniaturized button is depressed, the KeOn(TM) KeyCap directs light precisely into the intended keyhole or other targeted surfaces.

DISTRIBUTION METHODS OF OUR PRODUCTS

Consistent with our sales objectives, the reliable manufacture of proprietary component parts and assembly of finished products required exacting coordination of resources to provide detailed working drawings to tool manufacturers for injection molded parts and optics; precise circuitry diagrams to receive diodes, resistors and capacitors into the electronics platform; source identification for volume supplies of batteries and diodes; packaging considerations for presentation of product and corresponding dimensions of containment's for shipping and display; and an experienced contract assembly organization with an extensive infrastructure capable of collation and inventory of all component parts.

During the Fall of 2000, we identified Shelby County Community Services, Shelbyville, Illinois, as a contract manufacture and assembly organization that was positioned to meet our requirements. Shelby County Community Services has over a decade of successful performance on behalf of Fortune 100 companies and represented the quality of management, performance and fiscal stability that we sought to employ in the production process.

4

We have a Proprietary Product Manufacturing Agreement with Shelby County Community Services that provides for Shelby County Community Services to assemble, test, package, warehouse finished good inventory, palletize and ship per purchase orders for shipment FOB Shelbyville. In the Summer of 2004, we renewed our relationship with Shelby County Community Services. Shelby County Community Services will continue to serve as the warehousing and distribution center for our products, which are to be manufactured abroad. Shelby County Community Services coordinates customs protocols and manages incoming inventories.

Our internet site is serviced by Shelby County Community Services through a fulfillment operations agreement whereby Shelby County Community Services receives a daily batched summary of internet sales through an email link established by us and United Parcel Service. The software validates the address of the customer and advises shipping mode (next day, two day or ground), computes shipping and handling charges then prints the appropriate waybill at the shipping office of Shelby County Community Services. Packages are shipped within 24 hours of receipt of the email summary of business for the preceding day's orders. Shelby County Community Services coordinates materials inventory with our approved vendors based upon purchase orders or blanket orders for products.

Our internal engineering staff provides detailed working drawings for

Edgar Filing: CYBERLUX CORP - Form 10KSB

injection molded parts to tool manufacturers. Similarly, our proprietary circuitry design is managed by our internal engineering staff, and we have contracted with Luxhall, Ltd. of Ningbo, China, which manufactures our product components and ships them to SCCS where the product components are assembled, packaged, warehoused and shipped. The initial production capacity at SCCS is 80,000 product units per month, which can be increased by 50% with a four month lead time to undertake expansion of facilities.

We have engaged Philippe Becker Design, Inc. to produce, coordinate and manage our corporate and product marketing activities. Philippe Becker Design, Inc. has broad-based experience in developing the corporate and product marketing required to launch technology companies. The role of Philippe Becker Design, Inc is to integrate marketing, sales, product and customer support activities and messages to optimize customer acquisition and retention.. Philippe Becker Design, Inc serves as the liaison for the preparation and delivery of selling materials to the individual selling firms and an information conduit to management for production and finished goods inventory issues.

We have retained Largemouth Communications, Inc. as our public relations firm responsible for the strategic and tactical communications for Cyberlux. Largemouth Communications, Inc. is a marketing communications firm that assists Cyberlux in communicating to our target audiences of customers, prospects, the media, policymakers, employees, opinion leaders and shareholders Largemouth Communications, Inc. draws on a wide array of disciplines, fueled by strategy and creativity, to aid Cyberlux in achieving our tactical and strategic goals.

We have retained two technology product sales firms, Smart Products, Inc., Westwood, NJ, and Duggan & Brown, Chicago, IL, to represent our product line over the range of channels addressed for distribution. The individual firms have been selected based upon established relationships with certain commercial and retail channels and proven track records of sales to those channels.

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 Wireless Lighting System during the next twelve months.

5

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.

COMPETITION

The lighting and illumination industry is extremely competitive. Our

Edgar Filing: CYBERLUX CORP - Form 10KSB

ReliaBright(TM) products address the long-term blackout emergency lighting needs with battery powered (60 hours) lighting solutions for hotels, hospitals, adult care centers and high-rise apartments, and long-term evacuation lighting solutions for commercial buildings. The ReliaBright(TM) products are competitively positioned as a price-competitive, new technology introduction into an existing product category, where General Electric, Bodine and Lithonia are the key competitors with products that use traditional lighting technology. The Aeon "Task & Accent" lighting products address residential closet lighting, interior cabinet accent lighting and under cabinet counter lighting as heatless long-term (75,000 hours of life) lighting solutions for the homeowner. This unique lighting resource for cabinetmakers, contractors and do-it-yourselfers offers three levels of light from soft white diodal(TM) elements that are cool to the touch and easy to install. The Aeon products are competitively positioned as a premium priced new technology introduction into an existing product category, where General Electric, Philips and Sea Gull Lighting are the key competitors with products that use traditional lighting technology. We believe that our lighting solid-state technology will provide a 40 to 60 percent reduction in maintenance costs for property managers through replacement of walkway, corridor or landscape lighting elements and 68 percent reduction in energy costs for those fixtures.

INTELLECTUAL PROPERTY

We have one trademark registered with the United States Patent & Trademark Office and have filed eight other applications that are currently being processed. The marks that we have filed and/or received trademark registration for are as follows:

Trademark	Serial or Registration No.	Registration or Filing Date
-----	-----	-----
EVERON	Ser. No. 78804638	February 1, 2006
KEON	Ser. No. 78804631	February 1, 2006
RELYON	Ser. No. 78803400	January 31, 2006
FOCUSON	Ser. No. 78803391	January 31, 2006
CAMPLIGHT	Ser. No. 78483758	September 15, 2004
SENSORBRIGHT	Ser. No. 78483755	September 15, 2004
FOCALBRIGHT	Ser. No. 78432845	June 10, 2004
RELIABRIGHT	Ser. No. 78421509	May 19, 2004
CYBERLUX	Reg. No. 2757137	August 26, 2003

EMPLOYEES

We currently have 11 full time employees. 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 have employment agreements with the following executive officers: Donald F. Evans, Chairman and CEO, Mark D. Schmidt, President and COO, Alan H. Ninneman, Senior Vice President and John W. Ringo, Secretary and Corporate Counsel. 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 100, 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 2,405 square feet of office space. The lease expires on December 31, 2008. The monthly rent is \$3,457, subject to an annual cost of living increase. We believe that our current office space and facilities are sufficient to meet our

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

6

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.

COURT: CIRCUIT COURT OF THE TWELFTH JUDICIAL DISTRICT IN AND FOR SARASOTA COUNTY, FLORIDA.

CASE NAME: CYBERLUX CORPORATION, PLAINTIFF V. ERVIN J. RACHWAL, LIGHT TECHNOLOGY, INC., SAFE-LIGHT INDUSTRIES, LLC A/K/A JFER INNOVATIONS GROUP, LLC, JAMES MEYER AND JOHN FLEMING.

On April 18, 2001, we filed a civil complaint against Light Technology, Inc., Ervin J. Rachwal, Safe-Light Industries, LLC a/k/a JFER Innovations Group, LLC, James Meyer and John Fleming alleging fraud, breach of contract, monies lent, misappropriation of trade secrets, conspiracy and sought injunctive relief against the defendants to prevent them from misappropriating trade secrets as well as to recover monetary damages. On May 11, 2001, the Court granted a temporary injunction against the Defendants. On June 5, 2001, the Defendants filed their Answer denying the allegations of the Complaint and filed a counterclaim alleging fraud, violation of Trade Secret Act, breach of contract and money lent.

On January 18, 2002, the Court granted the Defendants' Motion to Dissolve the Injunction. On January 28, 2002, we filed a Motion for Rehearing or Clarification of the Motion to Dissolve. A hearing on our Motion for Rehearing or Clarification of the Motion to Dissolve was scheduled for March 18, 2002, but was cancelled by the Court and has not been rescheduled. In accordance with Florida's Rules of Civil Procedure, when a Motion to dissolve is granted, this order is stayed and the injunction remains in effect until the Court rules on a Motion for Rehearing or Clarification of the Motion to Dissolve. Therefore, the injunction still remains in effect until the Court rules on this Motion.

BACKGROUND:

We came into contact with Light Technology, Inc. and Rachwal in early 2000. We were seeking someone with the knowledge and expertise to assist us in the development of an emergency light using white LEDs. Light Technology, Inc. and Rachwal represented that they had such knowledge and expertise and could finalize the development of our emergency light by September 30, 2000 so that we could begin manufacturing and selling the emergency light by November 2000. Rachwal and Light Technology, Inc. also advised us that we could acquire all the assets of Light Technology, Inc. and the rights to Light Technology, Inc.'s flashlight which also used white LEDs provided Rachwal was made an officer and director of our company as well as be in charge of design work.

In order to evaluate this offer, we requested accounting and financial records to verify the representations of Light Technology, Inc. and Rachwal and

Edgar Filing: CYBERLUX CORP - Form 10KSB

to attempt to ascertain the value of Light Technology, Inc.. Despite repeated attempts, Light Technology, Inc. and Rachwal were unable to provide adequate, verifiable financial records. Nonetheless, in order allow Light Technology, Inc. and Rachwal to proceed with the development of the emergency light in order to meet the November shipping deadline, we entered into a Letter of Intent with Light Technology, Inc. on June 12, 2000. This Letter of Intent also contained a confidentiality clause protecting our interests. Pursuant to the Letter of Intent we paid Light Technology, Inc. \$100,000 to develop a prototype of an emergency storm light and possible acquisition of the assets of Light Technology, Inc. based upon an independent evaluation of the of the worth of the assets. We hired the Sarasota CPA firm, Kerkering, Barbario & Co. to independently do an evaluation of the Light Technology, Inc. assets. Kerkering, Barbario came to the conclusion that Light Technology, Inc. had no verifiable assets of any value. Furthermore, Light Technology, Inc. never developed and produced a working model of the emergency storm light. We incurred meeting and travel expenses of \$36,401 associated with Light Technology, Inc. during the period June through December 2000. \$43,699 was expended for marketing expense in anticipation of the promised delivery of the light. During this time, we also came into contact with Safe-Light. We had discussions with Safe-Light regarding a potential acquisition, however, there was never a definitive agreement concerning our acquisition of Safe-Light. We also made loans to defendant Safe-Light in the amount of \$13,188 to assist in development and marketing of its products based upon the discussions that the assets of Safe-Light would be acquired by us.

7

We instituted our complaint against the defendants when we learned, through a local newspaper article that Light Technology, Inc. and Safe-Light had merged and had developed an emergency light. We had confidentiality rights with both companies. The defendants breached their contracts with us by misappropriating trade secrets and we are seeking monetary damages as well injunctive relief to prevent them from capitalizing on the misappropriation of trade secrets. Despite the news article in which Rachwal announced that Light Technology, Inc. had developed an emergency light, he did not object to the injunction stating that he did not have such a light. Our injunction prohibits the defendants from claiming rights to our Storm Light blueprints.

There is no similarity between our product, the Home Safety Light, and Light Technology, Inc.'s product, known as the Pal Light. Our product has 10 diodes and provides a blanket of light to light up a room in the event of a power outage. The Light Technology, Inc. product is a small flashlight that uses one diode.

Light Technology, Inc. claims that we breached the contract terms of the letter of intent and joint venture agreement by failing to maintain confidential disclosed to us and intentionally disclosing confidential information to third parties. Despite receiving \$100,000 from us, defendants claim we failed to fund the development of the light and claim that we owe them in excess of \$100,000 by breaching the letter of intent and joint venture agreement. Further, defendants claim we failed to pay fees set forth in the licensing agreement notwithstanding that the condition precedent to pay said fees (the successful completion of a private placement by us, which was subsequently withdrawn due to market conditions). Defendant Safe-Light alleges that we requested that they assist us in raising funding for the products discussed in the complaint. We actually loaned them funds for the development of their barricade light.

We intend to fully prosecute our claims and actions against the Defendants. We deny the Defendants allegations alleged against us in their counterclaim. This litigation is still in the discovery stage and the ultimate

Edgar Filing: CYBERLUX CORP - Form 10KSB

outcome cannot presently be determined. We have incurred approximately \$25,000 in legal fees and \$15,000 in other litigation-related expenses in connection with this case, however, we have not spent any money this year in connection with this case nor do we intend at this point in spending significant amounts of money going forward since the case has not been active for the last few years.

On November 17, 2005, we filed a Motion Notice of Dismissal based on lack of prosecution. On January 25, 2006, the Court issued a Final Order of Dismissal.

CASE NO. 05CV3704 - DISTRICT COURT, CITY AND COUNTY OF DENVER, STATE OF COLORADO

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

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

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

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

8

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

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

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

On October 21, 2005, Greenfield Capital Partners LLC filed a statement of claim against us in arbitration before the National Association of Securities Dealers, Inc. Greenfield claims damages and costs in the amount of \$107,000 for

Edgar Filing: CYBERLUX CORP - Form 10KSB

breach of contract, fraud, fraudulent concealment and misrepresentation. We entered into an agreement with Greenfield Capital Partners LLC in June 2004 to act as financial advisor in connection with and equity offering. We believe that their claims are without merit and we intend to vigorously defend these claims.

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

None.

9

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 (1)	0.08	0.06

(1) As of April 5, 2006

DESCRIPTION OF SECURITIES

COMMON STOCK

We are authorized to issue up to 700,000,000 shares of common stock, par value \$.001. As of March 31, 2006, there were 85,428,735 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

outstanding shares of common stock are validly issued, fully paid and non-assessable.

PREFERRED STOCK

Our Articles of Incorporation authorize the issuance of 5,000,000 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.

10

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 March 31, 2006, we 51.4806 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.

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 800,000 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.

11

OPTIONS

There are currently options outstanding that have been issued to our officers and directors to purchase 27,513,237 shares of our common stock.

WARRANTS

In connection with a Securities Purchase Agreement dated September 23, 2004, we issued warrants to purchase 2,250,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.50 per share.

In connection with a Securities Purchase Agreement dated April 22, 2005, we issued warrants to purchase 25,000,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.03 per share.

In connection with a Securities Purchase Agreement dated October 24, 2005, we issued warrants to purchase 800,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of

Edgar Filing: CYBERLUX CORP - Form 10KSB

\$0.10 per share.

In connection with a Securities Purchase Agreement dated December 28, 2005, we issued warrants to purchase 700,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.15 per share.

In addition, in connection with a private placement offering, we have issued 8,643,064 Series A and 8,643,064 Series B warrants. The Series A warrants are exercisable at \$0.25 per share and the Series B warrants are exercisable at \$1.05 per share. The Series A warrants expire on December 31, 2006 and the Series B warrants expire in 2008. In addition, we issued Placement Agent warrants to the placement agent in the private placement offering. We issued a total of 100,000 placement agent warrants exercisable at \$0.01 per share, 1,550,000 placement agent warrants exercisable at \$0.10 per share, 1,550,000 placement agent warrants exercisable at \$0.25 per share and 1,550,000 placement agent warrants exercisable at \$1.05 per share. All placement agent warrants expire in 2008.

In addition, we have 58,500 warrants outstanding exercisable at \$0.25 per share, which expire in 2008. We have 91,500 warrants outstanding exercisable at \$0.10 per share, which expire in 2008. We have 350,000 warrants outstanding exercisable at \$0.50 per share, which expire on May 28, 2006.

CONVERTIBLE SECURITIES

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:

12

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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:

- o \$0.72; or
- o 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.

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:

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

- o \$0.03; or
- o 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

13

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.

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:

- o \$0.06; or
- o 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 \$0.03 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

14

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:

- o \$0.10; or
- o 35% 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 \$.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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

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:

- o \$0.10; or
- o 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

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:

- o A description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- o 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;
- o 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;
- o A toll-free telephone number for inquiries on disciplinary actions;
- o Definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- o 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:

- o The bid and offer quotations for the penny stock;
- o The compensation of the broker-dealer and its salesperson in the transaction;
- o The number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of

Edgar Filing: CYBERLUX CORP - Form 10KSB

the market for such stock; and

- o 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 suitably statement.

16

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

During the three months ended December 31, 2005, we issued 325,000 shares of common stock upon conversion of 6.5 shares of Class A preferred stock.

In October 2005, we issued 400,000 shares of common stock at \$0.07 per share in exchange for services rendered.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC on October 24, 2005 for the sale of (i) \$800,000 in secured convertible notes and (ii) warrants to buy 800,000 shares of our common stock.

The secured convertible 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 (i) \$0.06 or (ii) 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. The full principal amount of the secured convertible notes are 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. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share. In addition the warrants exercise price gets adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of this warrant.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC on December 28, 2005 for the sale of (i) \$700,000 in secured convertible notes and (ii) warrants to buy 700,000 shares of our common stock.

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) 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

the conversion date. The full principal amount of the secured convertible notes are 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. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.12 per share. In addition the warrants exercise price gets adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of this warrant.

In December 2005, we issued 333,333 shares of common stock at \$0.09 per share in exchange for services rendered.

17

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 in the development stage and our efforts have been 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 for task and accent lighting, emergency and security lighting, and specialized lighting systems for military and homeland security. Our solid-state lighting technology offers extended light life and greater cost effectiveness than other existing forms of illumination. We are expanding our marketing activity into channels of retail, commercial, institutional and military sales.

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

In April of 2005, we began the development of a portable boundary security lighting product for the military that will provide night-vision compatible infrared lighting and intense, bright white lighting capability in a portable configuration for fast, effective deployment. As of June 30, 2005, we completed the first phase of development and expect final development to be complete in the third quarter of 2005.

In April of 2005, we completed the fulfillment of a contract with Kings Park School District of Long Island, New York for the installation of our Emergency Lighting System in a local middle school. The objective of the pilot project was to provide a local school with long-term interim lighting solution so the Kings Park community will have a well-lit emergency shelter in the event of a natural or manmade disaster. In May of 2005, the completed project was presented to the Kings Park School District administration and we hope the pilot could become a model for emergency lighting throughout other school districts.

In the second quarter of 2005, we developed a working relationship with Cree, Inc., a leading manufacturer of light-emitting diode components. We plan on developing products that utilize the Cree solid-state lighting technology. We anticipate announcing our first product based on Cree technology in the third quarter of 2005.

In May 2005, we introduced the Aeon (TM) "Task & Accent" lighting products to address residential closet lighting, interior cabinet accent lighting and under cabinet counter lighting with virtually heatless, long-term (75,000 hours of life) lighting solutions for the homeowner. This unique lighting resource for cabinetmakers, contractors and do-it-yourselfers offers three levels of light from soft white diodal(TM) elements that are cool to the touch and easy to install. The Aeon closet, cabinet and counter lighting was unveiled at the Kitchen & Bath Industries Trade Show in Las Vegas, NV on May 10, 2005. Our general lighting technology will provide a 40 to 60 percent reduction in maintenance costs for property managers through the replacement of walkway, corridor or landscape lighting elements and 68 percent reduction in energy costs for those fixtures. In May, we began establishing the Aeon dealer network as our channel of distribution for the Aeon products. As of June 30, 2005, we have 26 dealers representing 15 of the top 25 North American housing markets. We are continuing to build the Aeon dealer network with qualify dealers and hope that the Aeon dealer channel will cover many of top 50 North American housing markets by year end.

18

In March of 2005, we submitted a proposal to the MTA that to providing emergency lighting for only the subway cars and platforms. The proposal also called for an initial subway car installation trial to prove the capability and value of our technology. In April of 2005, we met with the Vice President of Engineering for the MTA and discussed our proposal and the timing for a trial within the subway system. Based on this meeting and the resulting discussions of the time period required to accomplish our trial objectives, we understand the MTA is still evaluating the trial proposal but this is not a priority at this point and no determination can be made at this time as to when the MTA will make a decision on our proposal. Therefore, we plan to address the Port Authority with a similar proposal for an initial subway car installation trial to prove the capability and value of our technology. This program will be formally submitted in the third quarter of 2005.

In June of 2005, we completed the development of the Keon(TM) KeyCap, a new product designed to provide consumers with a long-lasting, slender sleeve of electronics that turns a standard key into a lighting device. The patented Keon(TM) KeyCap is the practical lighting solution for every consumer who

Edgar Filing: CYBERLUX CORP - Form 10KSB

carries keys. Each Keon(TM) is a sturdy elastic surround that fits standard key heads and features an electronics package that focuses a bright diodal™ beam of light down the key shaft. When its miniaturized button is depressed, the Keon(TM) directs light precisely into the intended keyhole or other targeted surfaces. We anticipate supply and sales will begin on the Keon(TM) in the third quarter of 2005.

In June of 2005, we received confirmation that our Aeon Pro E "Task & Accent" home lighting meets California's Title 24 new residential energy requirements of 40 lumens per watt. Verified by Independent Testing Laboratories, Inc., a third-party independent testing firm, the Aeon Pro E product was confirmed to operate at 55 lumens per watt. The Title 24 California energy requirements went into effect in 1978 to decrease California's energy consumption. Since then, the legislation has saved the state more than \$36 billion in electricity and natural gas costs. The Title 24 standards will be revised in October of 2005 and the new standard of 40 lumens per watt will be required. ITL was founded 50 years ago, is one of the most experienced independent testing labs in the country and provides accurate, unbiased information on virtually every type of lighting to lighting manufacturers, designers, architects and the government. Exceeding the Title 24 standards opens up the California market to our Aeon Pro E line and makes these products one of the only alternatives to traditional task and accent lighting for the home. The 55 lumen per watt efficiency of the Aeon Pro E products is an industry-leading efficacy and one that surpasses California's Title 24 requirements of 40 lumens per watt. We anticipate that sales of the Aeon Pro E to grow in the fourth quarter of 2005 when the new standards are in force.

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; and
- o revenue recognition.

STOCK-BASED COMPENSATION

In December 2002, the FASB issued SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends SFAS No. 123 - Accounting for Stock-Based Compensation, providing alternative methods of voluntarily transitioning to the fair market value based method of accounting for stock based employee compensation. FAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method in both the annual and interim financial statements. The provisions of this statement related to transition methods are effective for fiscal years ending after December 15, 2002, while provisions related to disclosure requirements are effective in financial reports for interim periods beginning after December 31, 2002.

Edgar Filing: CYBERLUX CORP - Form 10KSB

The Company elected to continue to account for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the provisions of APB No. 25, compensation expense is measured at the grant date for the difference between the fair value of the stock and the exercise price.

REVENUE RECOGNITION

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

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 COMPARED.

Revenues for the year ended December 31, 2005 were \$54,523. This compares to revenues of \$23,803 for the year ended December 31, 2004.

Cost of goods sold were \$235,767 for 2005 compared with \$160,260 for 2004. Much of the design effort on the ELS product was costed into the product installation for the City of Cleveland.

Operating expenses for the year ended December 31, 2005 were \$2,911,761 compared with \$3,364,159 for the year ended December 31, 2004. Included in expenses for 2005 was \$217,798 for consulting services compared with \$1,382,387 for the previous year. Most of this expense was the result of issuing common stock of the Company, recorded at the market price on the date of the awards, in lieu of cash payments. The services provided included product design, market development and capital fund-raising services.

	MARKET DEVELOPMENT	FUND RAISING	SERVICES PERFORMED
	-----	-----	-----
CASH PAYMENTS			
Dan Neustedter	645.00		Business Development
Geiger & Associates	15,000.00		Business Development
K3 Enterprises, Inc.	3,660.00		Business Development
STOCK PAYMENTS			
Michael Goldberg	21,000.00		Legal Services
Robert Rubin	3,000.00		Business Development
Jay Isley	5,000.00		Engineering
3CD Consulting, Inc.	97,000.00		Business Development
Sichenzia Ross etal		58,333.30	Legal Services
Warrants Jay Isley	14,160.00		Engineering

Edgar Filing: CYBERLUX CORP - Form 10KSB

159,465.00 58,333.30

20

	For the	
	Years Ended	
	12/31/2005	12/31/2004
	-----	-----
Salaries & benefits	1,046,548	977,529
Marketing and advertising	276,714	109,651
Rent	52,706	35,954
Insurance	55,257	8,389
Depreciation and amortization	25,769	47,686
Impairment Loss	30,544	0
Research and development	499,618	391,421
Legal expense	229,175	64,229
Accounting services	146,901	63,915
Investor relations	27,758	62,354
Travel, living and entertainment	150,909	167,035
Office expenses	152,064	53,609
TOTAL	2,693,963	1,981,772

Operating expenses for 2005 also include \$499,618 representing costs incurred in the design and pre-production of three products to be marketed during the second quarter of 2005. Accounting practices have historically attempted to match revenues and costs; however, in compliance with the requirements of FASB number 2, we have taken these costs to expense during the year 2005.

Interest expense for 2005 was \$1,623,781 compared to \$325,840 for 2004. Included in interest expense for 2005 is \$1,206,487 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 and 2005.

The net loss realized for 2005 was \$9,410,657, or \$0.17 per share on an average of 54,490,102 shares outstanding and compares to net income of \$3,103,049, or \$0.19 per share on an average of 16,701,174 shares outstanding for the year 2004.

21

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2005, we had a working capital deficit of \$1,483,902. As a result of our operating losses for the year ended December 31, 2005, we generated a cash flow deficit of \$2,663,417 from operating activities. Cash flows used in investing activities was \$45,884 during the year ended December 31, 2005. We met our cash requirements during this period through the issuance of \$3,000,000 Convertible Notes Payable.

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 March 16, 2006, 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.

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 investors purchased all of the secured convertible notes on October 24, 2005.

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 10%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.06 or (ii) 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. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. 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.

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 investors purchased all of the secured convertible notes on October 24, 2005.

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

22

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) 35% 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 five years from the date of issuance at a purchase price of \$0.15 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.

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 investors purchased all of the secured convertible notes on March 27, 2006.

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) 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. 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 \$0.10 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

March 2006 Loan

On March 30, 2006 we entered into a financing agreement with the International Capital Group, LLC whereby our Directors pledged 4,000,000 shares of their personal common stock as collateral for a loan in the amount of \$152,400. The loan carries an interest rate of 4.99% payable quarterly and has a maturity of March 31, 2009.

23

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

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

24

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.

Edgar Filing: CYBERLUX CORP - Form 10KSB

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

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

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

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

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

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

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent, as do the laws of the United States.

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

We have issued 800,000 shares of Series B Convertible Preferred Stock to our officers and directors which are convertible into 8 million shares of common stock and, in the aggregate, have the right to cast 80 million votes in any vote by our shareholders. Combined with the number of shares of common stock held by our officers and directors, they have the right to cast approximately 50.3% 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;

26

- 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 CURRENT FINANCING ARRANGEMENT:

THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR SECURED CONVERTIBLE NOTES AND WARRANTS THAT MAY BE AVAILABLE FOR FUTURE SALE AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK.

As of March 31, 2006, we had 85,428,735 shares of common stock issued and outstanding, secured convertible notes outstanding pursuant to our securities purchase agreements dated September 23, 2004, April 22, 2005, October 24, 2005 and December 28, 2005 that may be converted into an estimated 25,939,462, 50,000,000, 22,857,143 and 22,222,222 shares of common stock at current market prices, respectively, and outstanding warrants pursuant to our securities purchase agreements dated September 23, 2004, April 22, 2005, October 24, 2005 and December 28, 2005, to purchase 2,250,000, 25,000,000, 800,000 and 700,000 shares of common stock, respectively. In addition, the number of shares of common stock issuable upon conversion of the outstanding secured convertible notes issued pursuant to the securities purchase agreements dated September 23, 2004, April 22, 2005, October 24, 2005 and December 28, 2005 may increase if the market price of our stock declines. All of the shares, including all of the

Edgar Filing: CYBERLUX CORP - Form 10KSB

shares issuable upon conversion of the secured convertible notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

THE CONTINUOUSLY ADJUSTABLE CONVERSION PRICE FEATURE OF OUR SECURED CONVERTIBLE NOTES COULD REQUIRE US TO ISSUE A SUBSTANTIALLY GREATER NUMBER OF SHARES, WHICH WILL CAUSE DILUTION TO OUR EXISTING STOCKHOLDERS.

Our obligation to issue shares upon conversion of our secured convertible notes is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our secured convertible notes (excluding accrued interest), based on market prices 25%, 50% and 75% below the market price, as of March 31, 2006 of \$0.07.

SEPTEMBER 2004, APRIL 2005 AND OCTOBER 2005 SECURED CONVERTIBLE NOTES, COMBINED

% Below Market	Price Per Share	With Discount at 50%	Number of Shares Issuable	% of Outstanding Stock
-----	-----	-----	-----	-----
25%	\$.0525	\$.02625	122,204,997	58.86%
50%	\$.035	\$.0175	183,307,495	68.21%
75%	\$.0175	\$.00875	366,614,990	81.10%

DECEMBER 2005 SECURED CONVERTIBLE NOTES

% Below Market	Price Per Share	With Discount at 55%	Number of Shares Issuable	% of Outstanding Stock
-----	-----	-----	-----	-----
25%	\$.0525	\$.023625	29,629,630	25.75%
50%	\$.035	\$.01575	44,444,445	34.22%
75%	\$.0175	\$.007875	88,888,889	50.99%

27

As illustrated, the number of shares of common stock issuable upon conversion of our secured convertible notes will increase if the market price of our stock declines, which will cause dilution to our existing stockholders.

THE CONTINUOUSLY ADJUSTABLE CONVERSION PRICE FEATURE OF OUR SECURED CONVERTIBLE NOTES MAY HAVE A DEPRESSIVE EFFECT ON THE PRICE OF OUR COMMON STOCK.

The secured convertible notes issued in September 2004, April 2005 and October 2005 are convertible into shares of our common stock at a 50% discount to the trading price of the common stock prior to the conversion. The secured convertible notes issued in December 2005 are convertible into shares of our common stock at a 65% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholders convert and sell material amounts of common stock could have an adverse effect on our stock price. In addition, not only the sale of shares issued upon conversion or exercise of secured convertible notes, series B convertible preferred stock and warrants, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

THE ISSUANCE OF SHARES UPON CONVERSION OF THE SECURED CONVERTIBLE NOTES AND

Edgar Filing: CYBERLUX CORP - Form 10KSB

EXERCISE OF OUTSTANDING WARRANTS MAY CAUSE IMMEDIATE AND SUBSTANTIAL DILUTION TO OUR EXISTING STOCKHOLDERS.

The issuance of shares upon conversion of the secured convertible notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC may not convert their secured convertible notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.9% of our outstanding common stock, this restriction does not prevent AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

IN THE EVENT THAT OUR STOCK PRICE DECLINES, THE SHARES OF COMMON STOCK ALLOCATED FOR CONVERSION OF THE SECURED CONVERTIBLE NOTES AND REGISTERED PURSUANT TO THIS REGISTRATION STATEMENT MAY NOT BE ADEQUATE AND WE MAY BE REQUIRED TO FILE A SUBSEQUENT REGISTRATION STATEMENT COVERING ADDITIONAL SHARES. IF THE SHARES WE HAVE ALLOCATED AND ARE REGISTERING HEREWITH ARE NOT ADEQUATE AND WE ARE REQUIRED TO FILE AN ADDITIONAL REGISTRATION STATEMENT, WE MAY INCUR SUBSTANTIAL COSTS IN CONNECTION THEREWITH.

Based on our current market price and the potential decrease in our market price as a result of the issuance of shares upon conversion of the secured convertible notes, we have made a good faith estimate as to the amount of shares of common stock that we are required to register and allocate for conversion of the secured convertible notes. Accordingly, we have allocated and registered 300,000,000 shares to cover the conversion of the secured convertible notes. In the event that our stock price decreases, the shares of common stock we have allocated for conversion of the secured convertible notes and are registering hereunder may not be adequate. If the shares we have allocated to the registration statement are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection with the preparation and filing of such registration statement.

IF WE ARE REQUIRED FOR ANY REASON TO REPAY OUR OUTSTANDING SECURED CONVERTIBLE NOTES, WE WOULD BE REQUIRED TO DEplete OUR WORKING CAPITAL, IF AVAILABLE, OR RAISE ADDITIONAL FUNDS. OUR FAILURE TO REPAY THE SECURED CONVERTIBLE NOTES, IF REQUIRED, COULD RESULT IN LEGAL ACTION AGAINST US, WHICH COULD REQUIRE THE SALE OF SUBSTANTIAL ASSETS.

In September 2004, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$1,500,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 10% interest, two years from the date of issuance, unless sooner converted into shares of our common stock. In April 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$1,500,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 10% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In October 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$800,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 10%

Edgar Filing: CYBERLUX CORP - Form 10KSB

interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In December 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$700,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In addition, any event of default under our secured convertible notes issued pursuant to our September 2004, April 2005, October 2005 or December 2005 securities purchase agreements, such as our failure to repay the principal or interest when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase Agreement or related convertible note, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against our company in excess of \$50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company and the delisting of our common stock could require the early repayment of the secured convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured with the specified grace period. We anticipate that the full amount of the secured convertible notes will be converted into shares of our common stock, in accordance with the terms of the secured convertible notes. If we were required to repay the secured convertible notes, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the notes when required, the note holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

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 2005, we issued 2,783,333 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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

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

29

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

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

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

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

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

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

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

Stock.

30

ITEM 7. FINANCIAL STATEMENTS

CYBERLUX CORPORATION

INDEX TO FINANCIAL STATEMENTS

	Page No. -----
Report of Independent Registered Certified Public Accounting Firm	F-1
Balance Sheets as of December 31, 2005 and 2004	F-2
Statements of Operations for the years ended December 31, 2005 and 2004	F-3
Statement of Deficiency in Stockholders' Equity for the two years ended December 31, 2005	F-4
Statements of Cash Flows for the years ended December 31, 2005 and 2004	F-5
Notes to Financial Statements	F-6 - F-27

31

RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Cyberlux Corporation
Durham, North Carolina

We have audited the accompanying balance sheets of Cyberlux Corporation (the "Company"), as of December 31, 2005 and 2004 and the related statements of losses, deficiency in stockholders' equity, and cash flows for each of the two years ended December 31, 2005. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31,

Edgar Filing: CYBERLUX CORP - Form 10KSB

2005 and 2004, and the results of its operations and its cash flows for each of the two years ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note L to the financial statements, the Company has suffered recurring losses from operations. This raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note L. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in the Note N to the financial statements, the Company restated the balance sheets as of December 31, 2004 and 2003 and related statement of operations, cash flow and deficiency in stockholders' equity for the years then ended.

/s/ RUSSELL BEDFORD STEFANO MIRCHANDANI LLP

Russell Bedford Stefanou Mirchandani LLP
Certified Public Accountants

New York, NY
March 16, 2006

F-1

CYBERLUX CORPORATION
BALANCE SHEETS

20

ASSETS

Current assets:

Cash and cash equivalents

\$

Accounts receivable, net of allowance for doubtful accounts of \$0 (Note A)

Inventories, net of allowance of \$110,821 and \$0, respectively (Note A)

Other current assets

Total current assets

Property, plant and equipment, net of accumulated depreciation of \$118,105 and \$92,335 as of December 31, 2005 and 2004, respectively (Note B)

Other Assets:

Patents (Note A)

\$

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Edgar Filing: CYBERLUX CORP - Form 10KSB

Current liabilities:

Accounts payable (Note C)	\$
Accrued liabilities (Note C)	
Short-term notes payable - related parties (Note H)	
Short-term notes payable (Note D)	

Total current liabilities

Long-term liabilities:

Notes payable (Note D)	
Derivative liability relating to convertible debentures (Note D)	
Warrant liability relating to convertible debentures (Note E)	

Total long-term liabilities

Total liabilities

Commitments and contingencies

Series A convertible preferred stock, \$0.001 par value, 200 shares designated;
59.8606 and 151.8606 shares issued and outstanding as of December 31,
2005 and 2004, respectively (Note F)

DEFICIENCY IN STOCKHOLDERS' EQUITY (Note F)

Series B convertible preferred stock, \$0.001 par value, 800,000 shares
designated, 800,000 shares issued and outstanding as of December 31, 2005 and 2004
Common stock, \$0.001 par value, 300,000,000 shares authorized, 75,608,334 and
23,770,233 shares issued and outstanding as of December 31, 2005 and 2004,
respectively

Additional paid-in capital
Accumulated deficit

Deficiency in stockholders' equity

\$

The accompanying notes are an integral part of these financial statements

F-2

CYBERLUX CORPORATION
STATEMENTS OF OPERATIONS

REVENUES:

Net sales	\$
Cost of goods sold	

Ye
2005

Edgar Filing: CYBERLUX CORP - Form 10KSB

Gross (loss)	(
OPERATING EXPENSES:	
Depreciation and amortization	
Impairment loss (Note A)	
Research and development	
General and administrative expenses	2,
Total operating expenses	2,
(LOSS) FROM OPERATIONS:	
Other income (expense)	
Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities (Note D and E)	(4,
Interest income	
Interest expense	(1,
Debt acquisition costs	(
Net income/(loss) before provision for income taxes and preferred dividend	(9,
Preferred dividend-beneficial conversion discount on convertible preferred-	
Income taxes (benefit)	
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ (9,
Weighted average number of common shares outstanding, basic	54,
Weighted average number of common shares outstanding, fully diluted	211,
Net income/(loss) per share - basic (Note J)	\$
Net income/(loss) per share - fully diluted (Note J)	\$
Preferred dividend	\$

The accompanying notes are an integral part of these financial statements

F-3

CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Edgar Filing: CYBERLUX CORP - Form 10KSB

	Series B Convertible Preferred		Common	Common Stock
	Shares	Stock Amount	Shares	Amount
Balance as of January 1, 2004-As restated (Note N)	--	\$ --	8,049,141	\$ 8,049,141
Preferred stock, Class B, issued in January, 2004 as compensation for management fees at \$1.00 per share	800,000	800	--	--
Collected balance due from stock subscription	--	--	--	--
Common stock issued in January, 2004 in exchange for services rendered at \$0.37 per share	--	--	2,585,000	2,585,000
Common stock issued in January, 2004 for settlement of debt at \$0.25 per share	--	--	110,764	110,764
Common stock issued in March, 2004 in exchange for services rendered at \$0.21 per share	--	--	1,200,000	1,200,000
Common stock cancelled with return of collateral deposit with factor	--	--	(450,000)	(450,000)
Sale of common stock in May, 2004 at \$0.10 per share	--	--	5,310,000	5,310,000
Common stock issued in May, 2004 for settlement of debt at \$0.10 per share	--	--	50,000	50,000
Common stock issued in June, 2004 in exchange for services rendered at \$0.08 per share	--	--	1,760,000	1,760,000
Common stock subscription received	--	--	--	--
Common stock issued in July, 2004 in exchange for services rendered at \$0.40 per share	--	--	100,000	100,000
Common stock issued in July, 2004 as payment of stock subscription	--	--	100,000	100,000
Common stock issued in July, 2004 in connection with conversion of preferred stock, Class A	--	--	200,000	200,000
Common stock issued in August, 2004 in connection with exercise of warrants at \$0.25 per share	--	--	701,000	701,000
Common stock issued September, 2004 in connection with exercise of warrants at \$0.25 per share	--	--	200,000	200,000

Edgar Filing: CYBERLUX CORP - Form 10KSB

Common stock issued in October, 2004 for services rendered at \$0.25 per share	--	--	690,000	690
Common stock issued in October, 2004 as settlement of debt at \$0.15 per share	--	--	140,019	140
Common stock issued in November, 2004 as payment towards convertible debentures	--	--	1,035,221	1,035
Common stock issued in December, 2004, as payment towards convertible debentures	--	--	1,035,221	1,035
Common stock issued in December, 2004 to preferred stockholders, class A as registration rights penalty	--	--	203,867	204
Common stock issued in December, 2004 in connection with conversion of preferred stock, Class A	--	--	750,000	750
Beneficial conversion feature of convertible debenture	--	--	--	--
Net Income	--	--	--	--
Balance December 31, 2004:-(as restated-Note N)	800,000	\$ 800	23,770,233	\$ 23,770
Common stock issued in January, 2005 in connection with conversion of preferred stock, Class A	--	--	1,675,000	1,675
Common stock issued in January, 2005 as payment towards convertible debentures	--	--	2,070,442	2,070
Common stock issued in February, 2005 in connection with conversion of preferred stock, Class A	--	--	250,000	250
Common stock issued in February, 2005 as payment towards convertible debentures	--	--	1,035,221	1,035
Common stock issued in March, 2005 as payment towards convertible debentures	--	--	2,070,442	2,071
Common stock issued in April, 2005 in connection with conversion of preferred stock, Class A	--	--	250,000	250
Common stock issued in April, 2005 for services rendered at \$0.3 per share	--	--	800,000	800
Common stock issued in April, 2005 as payment towards convertible debentures	--	--	2,070,442	2,070
Common stock issued in May, 2005 as payment towards convertible debentures	--	--	10,535,221	10,535
Common stock issued in May, 2005 in connection with conversion of preferred stock, Class A	--	--	1,075,000	1,075
Common stock issued in June, 2005 in				

Edgar Filing: CYBERLUX CORP - Form 10KSB

exchange for services rendered at \$0.02 per share	--	--	250,000	250
Common stock issued in June, 2005 as payment towards convertible debentures	--	--	17,100,000	17,100
Common stock issued in July, 2005 as payment towards convertible debentures	--	--	9,573,000	9,573
Common stock issued in July, 2005 in connection with conversion of preferred stock, Class A	--	--	775,000	775
Common stock issued in August, 2005 in exchange for services rendered at \$0.097 per share	--	--	1,000,000	1,000
Common stock issued in September, 2005 in connection with conversion of preferred stock, Class A	--	--	250,000	250
Common stock issued in October, 2005 in exchange for services rendered at \$0.07 per share	--	--	400,000	400
Common stock issued in October, 2005 in connection with conversion of preferred stock, Class A	--	--	125,000	125
Common stock issued in November, 2005 in connection with conversion of preferred stock, Class A	--	--	200,000	200
Common stock issued in December, 2005 in exchange for services rendered at \$0.091 per share			333,333	333
Net loss			--	--
BALANCE AS OF DECEMBER 31, 2005	800,000	\$ 800	75,608,334	\$ 75,607
	=====	=====	=====	=====
	Accumulated	Total		
	Deficit	(Deficiency in		
		Stockholders'		
		Equity		
	-----	-----		
Balance as of January 1, 2004-As restated (Note N)	\$ (12,384,333)	\$	(11,478,374)	
Preferred stock, Class B, issued in January, 2004 as compensation for management fees at \$1.00 per share	--		800,000	
Collected balance due from stock subscription	--		276,186	
Common stock issued in January, 2004 in exchange for services rendered at \$0.37 per share	--		956,450	
Common stock issued in January, 2004 for				

Edgar Filing: CYBERLUX CORP - Form 10KSB

settlement of debt at \$0.25 per share	--	27,691
Common stock issued in March, 2004 in exchange for services rendered at \$0.21 per share	--	252,000
Common stock cancelled with return of collateral deposit with factor	--	(90,000)
Sale of common stock in May, 2004 at \$0.10 per share	--	531,000
Common stock issued in May, 2004 for settlement of debt at \$0.10 per share	--	5,000
Common stock issued in June, 2004 in exchange for services rendered at \$0.08 per share	--	131,360
Common stock subscription received	--	22,500
Common stock issued in July, 2004 in exchange for services rendered at \$0.40 per share	--	40,000
Common stock issued in July, 2004 as payment of stock subscription	--	--
Common stock issued in July, 2004 in connection with conversion of preferred stock, Class A	--	20,000
Common stock issued in August, 2004 in connection with exercise of warrants at \$0.25 per share	--	162,750
Common stock issued September, 2004 in connection with exercise of warrants at \$0.25 per share	--	50,000
Common stock issued in October, 2004 for services rendered at \$0.25 per share	--	172,500
Common stock issued in October, 2004 as settlement of debt at \$0.15 per share	--	21,009
Common stock issued in November, 2004 as payment towards convertible debentures	--	108,698
Common stock issued in December, 2004, as payment towards convertible debentures	--	36,232
Common stock issued in December, 2004 to preferred stockholders, class A as registration rights penalty	--	89,701
Common stock issued in December, 2004 in connection with conversion of preferred stock, Class A	--	75,000
Beneficial conversion feature of convertible debenture	--	800,000

Edgar Filing: CYBERLUX CORP - Form 10KSB

Net Income	3,103,049	3,103,049
	-----	-----
Balance December 31, 2004:-(as restated-Note N)	\$ (9,281,284)	\$ (3,887,248)
Common stock issued in January, 2005 in connection with conversion of preferred stock, Class A	--	167,500
Common stock issued in January, 2005 as payment towards convertible debentures	--	39,648
Common stock issued in February, 2005 in connection with conversion of preferred stock, Class A	--	25,000
Common stock issued in February, 2005 as payment towards convertible debentures	--	9,141
Common stock issued in March, 2005 as payment towards convertible debentures	--	24,236
Common stock issued in April, 2005 in connection with conversion of preferred stock, Class A	--	25,000
Common stock issued in April, 2005 for services rendered at \$0.3 per share	--	24,000
Common stock issued in April, 2005 as payment towards convertible debentures	--	23,603
Common stock issued in May, 2005 as payment towards convertible debentures	--	96,940
Common stock issued in May, 2005 in connection with conversion of preferred stock, Class A	--	107,500
Common stock issued in June, 2005 in exchange for services rendered at \$0.02 per share	--	5,000
Common stock issued in June, 2005 as payment towards convertible debentures	--	145,670
Common stock issued in July, 2005 as payment towards convertible debentures	--	81,371
Common stock issued in July, 2005 in connection with conversion of preferred stock, Class A	--	77,500
Common stock issued in August, 2005 in exchange for services rendered at \$0.097 per share	--	97,000
Common stock issued in September, 2005 in connection with conversion of preferred stock, Class A	--	25,000
Common stock issued in October, 2005 in		

Edgar Filing: CYBERLUX CORP - Form 10KSB

exchange for services rendered at \$0.07 per share	--	28,000
Common stock issued in October, 2005 in connection with conversion of preferred stock, Class A	--	12,500
Common stock issued in November, 2005 in connection with conversion of preferred stock, Class A	--	20,000
Common stock issued in December, 2005 in exchange for services rendered at \$0.091 per share		30,333
Net loss	(9,410,657)	(9,410,657)
BALANCE AS OF DECEMBER 31, 2005	\$ (18,691,941)	\$ (12,232,964)

The accompanying notes are an integral part of these financial statements

F-4

CYBERLUX CORPORATION
STATEMENTS OF CASH FLOWS

	For the 2005
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss) available to common stockholders	\$ (9,410,657)
Adjustments to net income (loss) to net cash used on operating activities:	
Depreciation and amortization	25,760
Unrealized (gain)/loss related to the adjustment of derivative and warranty liability to fair value of underlying securities	4,485,650
Impairment of patent costs	30,540
Preferred dividend-beneficial conversion feature	800,000
Common stock options issued in connection with services rendered	-
Common stock issued for previously incurred debt	-
Common stock issued as payment in settlement of debt	420,600
Common stock issued (canceled) for factoring deposit	-
Common stock issued in connection with services rendered	184,333
Preferred stock issued as payment for accrued management fees	-
Preferred stock issued for previously incurred debt	-
Warrants issued in connection with services rendered	-
Accretion of convertible notes payable	785,870
(Increase) decrease in:	
Deposits	-
Accounts receivable	(9,420)
Inventories	(338,090)
Prepaid expenses	25,590
Other assets	-

Edgar Filing: CYBERLUX CORP - Form 10KSB

Increase (decrease) in:	
Accrued interest	307,43
Accrued liabilities	347,11
Management fee payable-related party	-
Other accounts payable	481,83

Net cash (used in) operating activities	(2,663,41)

CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of fixed assets	(45,88)

Net cash (used in) investing activities	(45,88)

CASH FLOWS FROM FINANCING ACTIVITIES	
Payments of short-term notes payable, net	-
(Payments of) proceeds from short-term notes payable-shareholders, net	(32,48)
Proceeds from issuance of convertible notes payable	2,802,06
Proceeds from issuance of preferred stock	-
Proceeds from issuance of commons stock subscription	-
Proceeds from issuance of common stock	-

Net cash provided by financing activities	2,769,58

Net increase in cash and cash equivalents	60,28
Cash and cash equivalents at beginning of period	415,37

Cash and cash equivalents at end of period	\$ 475,65
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the period for interest	\$ 87,04
Cash paid during the period for taxes	-
NON CASH INVESTING AND FINANCING ACTIVITIES:	
Unrealized (gain)/loss related to the adjustment of derivative and warrant liability to fair value of underlying securities	4,485,65
Common stock options issued in connection with services rendered	-
Common stock issued in connection with services rendered	184,33
Common stock issued for previously incurred debt	-
Common stock issued in settlement of debt	420,60
Common stock issued (canceled) for factoring deposit	-
Convertible preferred shares issued for accrued management fees	-
Convertible preferred shares issued for note payable and accrued interest	-
Warrants issued in connection with financing	757,36
Warrants issued to consultants for services	14,16

The accompanying notes are an integral part of these financial statements

F-5

CYBERLUX CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005 AND 2004

NOTE A-SUMMARY OF ACCOUNTING POLICIES

 GENERAL

Edgar Filing: CYBERLUX CORP - Form 10KSB

A summary of the significant accounting policies applied in the preparation of the accompanying 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, 2005, the Company has accumulated losses of \$18,641,941.

REVENUE RECOGNITION

Revenues are recognized in the period that services are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At December 31, 2005 and 2004, the Company did not have any defer 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.

Edgar Filing: CYBERLUX CORP - Form 10KSB

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE A-SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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, 2005 and 2004 are as follows:

	2005	2004
Component parts	\$ 223,299	\$ --
Finished goods	225,619	--
	-----	-----
	448,918	--
Less: allowance for obsolete inventory	(110,821)	(--)
	-----	-----
	\$ 338,097	\$ --
	=====	=====

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
Manufacturing equipment	3 years

ADVERTISING COSTS

The Company expenses all costs of marketing and advertising as incurred. Marketing and advertising costs totaled \$276,714 and \$100,132 for the year ended December 31, 2005 and 2004, respectively.

F-7

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 \$499,618 and \$391,421 on research and product development for the year ended December 31, 2005 and 2004, respectively. 14.

RECLASSIFICATION

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

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 undiscounted 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 VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2005 and 2004. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash and accounts payable. Fair values were assumed to approximate carrying values for cash and payables because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

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, 2005 and 2004, allowance for doubtful receivable was \$0.

Edgar Filing: CYBERLUX CORP - Form 10KSB

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE A-SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION:

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary charge to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No.25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No.148 in its financial reports for the year ended December 31, 2002 and subsequent years.

Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and losses per share would have been as follows (transactions involving stock options issued to employees and Black-Scholes model assumptions are presented in Note G):

	For the year ended Dec	
	2005	2004
	-----	-----
Net (loss) income - as reported	\$ (9,410,657)	\$ 3,300,000
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB. No. 25)	--	
Deduct: Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	(830,400)	
	-----	-----
Net (loss) income - Pro Forma	\$ (10,241,057)	\$ 2,469,600
Net (loss) income attributable to common stockholders - Pro forma	\$ (10,241,057)	\$ 2,469,600
(Loss) Income per share - as reported - basic (Note J)	\$ (0.17)	\$ 0.17
(Loss) Income per share - as reported - diluted (Note J)	\$ (0.17)	\$ 0.17
(Loss) Income per share - proforma - basic	\$ (0.19)	\$ 0.19
(Loss) Income per share - proforma - diluted	\$ (0.19)	\$ 0.19

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

income statement based on their fair values. Pro-forma disclosure is no longer an alternative. 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 will have to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006.

F-9

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE A-SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 26.

PATENTS

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

RECENT PRONOUNCEMENTS

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

F-10

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE A-SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

RECENT PRONOUNCEMENTS (CONTINUED)

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.

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.

NOTE B - PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment at December 31, 2005 and 2004 are as follows:

	2005	2004
	-----	-----
Furniture and fixtures	\$ 43,974	\$ 17,404
Office and computer equipment	33,884	14,569
Manufacturing equipment	103,380	103,380

Edgar Filing: CYBERLUX CORP - Form 10KSB

	-----	-----
	181,238	135,353
Less: accumulated depreciation	(118,105)	(92,335)
	-----	-----
	\$ 63,133	\$ 43,018
	=====	=====

During the years ended December 31, 2005 and 2004, depreciation expense charged to operations was \$25,769 and \$47,686, respectively.

F-11

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE C - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
	-----	-----
Accounts payable	\$ 657,929	\$ 176,094
Accrued interest	389,569	82,136
Accrued payroll and payroll taxes	22,642	3,185
Other accrued liabilities	370,375	240,648
	-----	-----
Total	\$1,440,515	\$ 502,063

F-12

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE D-NOTES PAYABLE AND CONVERTIBLE DEBENTURES

Notes payable at December 31, 2005 and 2004 are as follows:

	2005

10% convertible note payable, unsecured and due September, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert note principal together with accrued and unpaid interest to the Company's common stock at a rate of \$0.50 per share. The Company is in violation of the loan covenants	\$ 2,500
10% convertible notes payable, unsecured and due March, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of \$0.50 per share. The Company is in violation of the loan covenants	25,000
10% convertible debenture, due two years from the date of the note with interest	

Edgar Filing: CYBERLUX CORP - Form 10KSB

<p>payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.72 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below)</p>	515,283
<p>10% convertible debenture, due three years from date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.03 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below)</p>	299,820
<p>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) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below)</p>	49,680
<p>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) 35% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion 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)</p>	1,918
<p>Less: current maturities</p>	<p style="text-align: right;">----- 894,201 (542,783) -----</p>
<p>Notes payable and convertible debentures-long term portion</p>	<p style="text-align: right;">\$ 351,418 =====</p>

F-13

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE D-NOTES PAYABLE AND CONVERTIBLE DEBENTURES (CONTINUED)

The Company entered into a Securities Purchase Agreement with four accredited investors on September 23, 2004 for the issuance of an aggregate of \$1,500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 2,250,000 shares of the Company's common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due two years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.72 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

Edgar Filing: CYBERLUX CORP - Form 10KSB

As of December 31, 2005, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for net proceeds of \$1,186,281. The proceeds that the Company received were net of prepaid interest of \$50,000 and related fees and costs of \$263,719.

This 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 debt conversion feature, the Company is required to record a liability relating to both the detachable warrants and embedded convertible feature of the notes payable (included in the liabilities as a "derivative liability").

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

As of December 31, 2005, 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.

This 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 debt conversion feature, the Company is required to record a liability relating to both the detachable warrants and embedded convertible feature of the notes payable (included in the liabilities as a "derivative liability").

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

F-14

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE D-NOTES PAYABLE AND CONVERTIBLE DEBENTURES (CONTINUED)

As of December 31, 2005, 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

\$25,000.

This 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 debt conversion feature, the Company is required to record a liability relating to both the detachable warrants and embedded convertible feature of the notes payable (included in the liabilities as a "derivative liability").

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

As of December 31, 2005, 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.

These transactions, 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 debt conversion feature, the Company is required to record a liability relating to both the detachable warrants and embedded convertible feature of the notes payable (included in the liabilities as a "derivative liability").

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

- o The Company allocated the proceeds received between convertible debt and detachable warrants based upon the relative fair market values on the dates the proceeds were received.
- o Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula and the increase in the intrinsic value of the embedded derivative in the conversion feature of the convertible debentures are accrued as adjustments to the liabilities at December 31, 2005 and 2004, respectively.
- o The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives (noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.
- o Accreted principal of \$866,698 and \$80,822 as of December 31, 2005 and 2004, respectively.

Edgar Filing: CYBERLUX CORP - Form 10KSB

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE D-NOTES PAYABLE AND CONVERTIBLE DEBENTURES (CONTINUED)

The following table summarizes the various components of the convertible debentures as of December 31, 2005 and 2004:

	2005	2004
Convertible debentures	\$ 894,201	\$ 108,
Warrant liability	2,013,188	131,
Derivative liability	6,809,449	1,490,
	9,716,835	1,730,
Cumulative adjustment of derivative and warrant liability to fair value	(4,322,637)	(122,
Cumulative unrealized loss related to conversion of convertible note to common shares charged to interest expense	(565,539)	(144,
Cumulative accretion of principal related to convertible debentures	(866,701)	(80,
Total convertible debentures:	\$ 3,961,961	\$ 1,382,

NOTE E-WARRANT LIABILITY

Total warrant liability as of December 31, 2005 and 2004 is comprised of the following:

	2005	2004
Fair value of warrants relating to convertible debentures	\$2,013,188	\$ 131,511
Fair value of warrants relating to preferred stock-class A	1,147,334	906,419
Fair value of other outstanding warrants	191,504	147,315
	-----	-----
Total	\$3,352,026	\$1,185,245
	=====	=====

NOTE F -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.

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.

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 for 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.

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

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

F-16

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE F - STOCKHOLDER'S EQUITY (CONTINUED)

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 (\$5,000.00 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 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 year ended December 31, 2005, \$ -0- in dividends were accumulated.

Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after payment of any senior liquidation preferences of any series of Preferred Stock and before any distribution or payment is made with respect to any Common Stock, holders of each share of the Series A Preferred shall be entitled to be paid an amount equal in the greater of (a) the face value denominated thereon subject to adjustment for stock splits, stock dividends, reorganizations, reclassification or other similar events (the "Adjusted Face Value") plus, in the case of each share, an amount equal to all dividends accrued or declared but unpaid thereon, computed to the date payment thereof is made available, or (b) such amount per share of the Series A Preferred immediately prior to such liquidation, dissolution or winding

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

F-17

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE F -STOCKHOLDER'S EQUITY (CONTINUED)

..

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

- o Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula, are accrued as adjustments to the liabilities at December 31, 2005 and 2004, respectively.
- o The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.

The fair value of the detachable warrants as of December 31, 2005 and 2004 were as follows:

2005	2004
------	------

Edgar Filing: CYBERLUX CORP - Form 10KSB

Fair value of warrants relating to issuance of convertible preferred stock:	-----	-----
	\$1,147,334	\$906,419

The Company recorded an Unrealized Gain (Loss) on the change in fair value of these detachable warrants of \$(240,915) and \$5,092,521 for December 31, 2005 and 2004, respectively.

SERIES B CONVERTIBLE PREFERRED STOCK

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

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

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. For the year ended December 31, 2005 \$ 192,000 in dividends were accumulated.

F-18

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE F -STOCKHOLDER'S EQUITY (CONTINUED)

..

Edgar Filing: CYBERLUX CORP - Form 10KSB

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

COMMON STOCK

The Company has authorized 300,000,000 shares of common stock, with a par value of \$.001 per share. As of December 31, 2005 and 2004, the Company has 75,608,334 and 23,770,233 shares issued and outstanding, respectively.

During the three months ended March 31, 2005, holders converted 38.5 shares of preferred stock - Class A into 1,925,000 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In January, 2005, the Company issued 1,035,221 shares of its common stock at \$0.0248 per share on conversion of notes payable.

In January, 2005, the Company issued 1,035,221 shares of its common stock at \$0.0135 per share on conversion of notes payable.

In February, 2005, the Company issued 1,035,221 shares of its common stock at \$0.00883 per share on conversion of notes payable.

In March, 2005, the Company issued 1,035,221 shares of its common stock at \$0.01358 per share on conversion of notes payable.

In March, 2005, the Company issued 1,035,221 shares of its common stock at \$0.00983 per share on conversion of notes payable.

During the three months ended June 30, 2005, holders converted 26.5 shares of preferred stock - Class A into 1,325,000 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In April, 2005, the Company issued 800,000 shares of its common stock at \$0.03 per share in exchange for services.

In April, 2005, the Company issued 1,035,221 shares of its common stock at \$0.0118 per share on conversion of notes payable.

In April, 2005, the Company issued 1,035,221 shares of its common stock at \$0.011 per share on conversion of notes payable.

In May, 2005, the Company issued 1,035,221 shares of its common stock at \$0.0108 per share on conversion of notes payable.

Edgar Filing: CYBERLUX CORP - Form 10KSB

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE F -STOCKHOLDER'S EQUITY (CONTINUED)

COMMON STOCK (CONTINUED)

In May, 2005, the Company issued 1,600,000 shares of its common stock at \$0.0105 per share on conversion of notes payable.

In May, 2005, the Company issued 1,100,000 shares of its common stock at \$0.0103 per share on conversion of notes payable.

In May, 2005, the Company issued 1,700,000 shares of its common stock at \$0.0088 per share on conversion of notes payable.

In May, 2005, the Company issued 1,700,000 shares of its common stock at \$0.0085 per share on conversion of notes payable.

In May, 2005, the Company issued 3,400,000 shares of its common stock at \$0.0083 per share on conversion of notes payable.

In June, 2005, the Company issued 250,000 shares of its common stock at \$0.02 per share in exchange for services.

In June, 2005, the Company issued 6,800,000 shares of its common stock at \$0.0083 per share on conversion of notes payable.

In June, 2005, the Company issued 2,400,000 shares of its common stock at \$0.0092 per share on conversion of notes payable.

In June, 2005, the Company issued 7,900,000 shares of its common stock at \$0.0085 per share on conversion of notes payable.

In July, 2005, the Company issued 9,573,000 shares of its common stock at \$0.0085 per share on conversion of notes payable.

In August, 2005, the Company issued 1,000,000 shares of its common stock at \$0.097 per share in exchange for services.

During the three months ended September 30, 2005, holders converted 20.5 shares of preferred stock - Class A into 1,025,000 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In October, 2005, the Company issued 400,000 shares of its common stock at \$0.07 per share in exchange for services.

In December, 2005, the Company issued 333,333 shares of its common stock at \$0.091 per share in exchange for services.

During the three months ended December 31, 2005, holders converted 6.5 shares of preferred stock - Class A into 325,000 shares of common stock at. Each share of preferred stock is convertible into 50,000 shares of common stock.

F-20

Edgar Filing: CYBERLUX CORP - Form 10KSB

NOTE G -STOCK OPTIONS AND WARRANTS

CLASS A WARRANTS

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to shareholders at December 31, 2005.

Exercise Prices	Warrants Outstanding			Warrants Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 0.03	25,000,000	5	\$ 0.03	25,000,000	\$ 0.03	
0.10	891,500	5	0.10	891,500	0.10	
0.15	699,500	5	0.15	699,500	0.15	
0.20	1,845,000	3	0.20	1,845,000	0.20	
0.25	8,751,564	2	0.25	8,751,564	0.25	
0.50	2,600,000	5	0.50	2,600,000	0.50	
1.05	8,643,064	2	1.05	8,643,064	1.05	
	48,430,628	3.85	\$ 0.29	48,430,628	\$ 0.29	

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2003	15,895,000	\$ 0.54
Granted	12,156,128	0.39
Exercised	(851,000)	(0.25)
Canceled or expired	(3,919,000)	(0.25)
Outstanding at December 31, 2004	23,281,128	\$ 0.58
Granted	26,499,500	0.03
Exercised	--	--
Canceled or expired	(1,350,000)	(0.25)
Outstanding at December 31, 2005	48,430,628	\$ 0.29

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

F-21

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE G -STOCK OPTIONS AND WARRANTS (CONTINUED)

EMPLOYEE STOCK OPTIONS

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

Options Outstanding				Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 0.2125	2,000,000	4	\$ 0.2125	2,000,000	\$ 0.2125	
0.2125	2,000,000	5	0.2125	2,000,000	0.2125	
0.10	12,000,000	6	0.10	12,000,000	0.10	
0.0295	17,580,000	7.5	0.0295	17,580,000	0.0295	
	33,580,000	6.6	\$ 0.076	33,580,000	\$ 0.076	

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2003	2,000,000	\$ 0.2125
Granted	2,000,000	\$ 0.2125
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2004	4,000,000	\$ 0.2125
Granted	29,580,000	\$ 0.058
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2005	33,580,000	\$ 0.076

The weighted-average fair value of stock options granted to employees during the year ended December 31, 2005 and 2004 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	For the years ended December 31,	
	2005	2004
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	2%	2%
Expected stock price volatility	255%	149%
Expected dividend payout	--	--
Expected option life-years (a)	7	6

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

F-22

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE G - STOCK OPTIONS AND WARRANTS (CONTINUED)

Edgar Filing: CYBERLUX CORP - Form 10KSB

If the Company recognized compensation cost for the stock options and warrants for the non-qualified employee stock option plan in accordance with SF AS No.123, the Company's pro forma net loss and net loss per share (basic) would have been \$(10,469,042) and \$(0.18) for the year ended December 31, 2005 and net income of \$2,030,718 and \$0.04 for the year ended December 31, 2004, respectively.

NOTE H -RELATED PARTY TRANSACTIONS

The Company incurred management fees to its officers totaling \$0 and \$445,9970 during the years ended December 31, 2005 and December 31, 2004, respectively. Unpaid management fees aggregate \$ 0 and \$0 as of December 31, 2004 and 2003, respectively. In May, 2004 the Board of Directors converted \$723,670 in unpaid management fees to Preferred Class B shares of the Company at a rate of \$1.00 per preferred share. The Company also issued notes payable to officers in the amount of \$283,835 for the balance of the unpaid management fees.

From time to time, the Company's principal officers have advanced funds to the Company for working capital purposes in the form of unsecured promissory notes, accruing interest at 12% per annum. As of December 31, 2005 and 2004, the balance due to the officers was \$366,595 and \$399,080, respectively.

NOTE I -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.

Operating Lease Commitments

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

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

Litigation

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

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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

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

F-23

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE I - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation (continued)

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

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

On April 18, 2001, we filed a civil complaint against Light Technology, Inc., Ervin J. Rachwal, Safe-Light Industries, LLC a/k/a JFER Innovations Group, LLC, James Meyer and John Fleming alleging fraud, breach of contract, monies lent, misappropriation of trade secrets, conspiracy and sought injunctive relief against the defendants to prevent them from misappropriating trade secrets as well as to recover monetary damages. On May 11, 2001, the Court granted a temporary injunction against the Defendants. On June 5, 2001, the Defendants filed their Answer denying the allegations of the Complaint and filed a counterclaim alleging fraud, violation of Trade Secret Act, breach of contract and money lent.

On January 18, 2002, the Court granted the Defendants' Motion to Dissolve the Injunction. On January 28, 2002, we filed a Motion for Rehearing or Clarification of the Motion to Dissolve. A hearing on our Motion for Rehearing or Clarification of the Motion to Dissolve was scheduled for March 18, 2002, but was canceled by the Court and has not been rescheduled. In accordance with Florida's Rules of Civil Procedure, when a Motion to dissolve is granted, this order is stayed and the injunction remains in effect until the Court rules on a Motion for Rehearing or Clarification of the Motion to Dissolve. Therefore, the injunction still remains in effect until the Court rules on this Motion.

On November 17, 2005, we filed a Motion Notice of Dismissal based on lack of prosecution. On January 25, 2006, the Court issued a Final Order of Dismissal.

NOTE J- (LOSS) INCOME PER SHARE

Edgar Filing: CYBERLUX CORP - Form 10KSB

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

	For the year ended December 31, 2005	2004
Net income (loss) available to common stockholders	\$ (9,410,657)	\$ 3,103,049
Basic income/(loss) per share	(0.17)	\$ 0.19
Fully diluted income/(loss) per share	\$ (0.17)	\$ 0.06
Weighted average common shares outstanding (basic)	54,490,102	16,701,174
Weighted average common shares outstanding (fully diluted)	211,355,239	48,201,174

As of December 31, 2005, 156,865,137 potential shares were excluded from the shares used to calculate diluted loss per share as their inclusion would reduce net loss per share.

NOTE K - INCOME TAXES

The Company has adopted Financial Accounting Standards No. 109, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns.

Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant. A management estimate that at December 31, 2005, the Company has available for federal income tax purposes a net operating loss carry forward of approximately \$18,500,000, expiring in the year 2023, that may be used to offset future taxable income. Due to significant changes in the Company's ownership, the future use of its existing net operating losses may be limited.

F-24

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE K - INCOME TAXES (CONTINUED)

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.

Components of deferred tax asset as of December 31, 2005 are as follows:

Non current:

Net operating loss carry forward	\$ 6,300,000	
Valuation allowance	(6,300,000)	

Net deferred tax asset	\$ --	

Edgar Filing: CYBERLUX CORP - Form 10KSB

=====

NOTE L- GOING CONCERN MATTERS

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, as of December 31, 2005, the Company incurred accumulated losses of \$18,641,941. The Company's current liabilities exceeded its current assets by \$1433,902 as of December 31, 2005. 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.

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

NOTE M - BUSINESS CONCENTRATION

Sales to 5 major customers approximated \$20,006 or 37% of total sales for the year ended December 31, 2005.

Purchases from the Company's 5 major suppliers approximated \$418,530 or 81% of total purchases for the year ended December 31, 2005.

Sales to 1 major customer totaled \$10,000 or 42% for the year ended December 31, 2004.

F-25

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE N- RESTATEMENT

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

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

In accordance with Accounting Principles Board Opinion, Accounting Changes (APB 20) the necessary corrections to apply the accounting principles on the aforementioned transactions are currently reflected in the reported 2004 financial information. The impact to the previously issued 2004 financial statements is as follows:

	2004 financial statement balance prior to restatement	2004 financial statement balance post restatement	Acco (dec)
	-----	-----	-----
Net income (loss):	\$ (6,825,848)	\$ 3,103,049	\$
Equity (deficit)	\$ (1,723,810)	\$ (3,887,248)	\$
Assets	\$ 557,341	\$ 557,341	
Liabilities	\$ 2,281,151	\$ 3,685,286	\$
Income (loss) per share-basic	\$ (0.41)	\$ 0.19	\$
Income (loss) per share-fully diluted	\$ (0.41)	\$ 0.06	\$

The resulting effects on the prior period adjustments on 2004 cash flows by area are as follows:

	2004 cash flow statement balance prior to restatement	2004 cash flow statement balance post restatement	Amount increase (decrease) in 200 cash flow statement
	-----	-----	-----
Net cash from operating activities	\$ (1,954,562)	\$ (1,785,773)	\$ 168,789
Net cash from investing activities	\$ (21,859)	\$ (21,859)	\$ -
Net cash from financing activities	\$ 2,375,548	\$ 2,206,760	\$ (168,788)

NOTE O- SUBSEQUENT EVENTS

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:

Edgar Filing: CYBERLUX CORP - Form 10KSB

CYBERLUX CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE O- SUBSEQUENT EVENTS (CONTINUED)

- o \$0.10; or
- o 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 \$.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 \$.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.

March 2006 Loan

On March 30, 2006 we entered into a financing agreement with the International Capital Group, LLC whereby our Directors pledged 4,000,000 shares of their personal common stock as collateral for a loan in the amount of \$152,400. The loan carries an interest rate of 4.99% payable quarterly and has a maturity of March 31, 2009.

Conversions

On March 3, 2006 the holders of the Secured Convertible Note dated September 23, 2004 exercised a partial conversion and were issued 791,369 shares of common stock at a conversion price of \$.04 per share.

Edgar Filing: CYBERLUX CORP - Form 10KSB

Holders of 8.38 Series A Preferred Stock were issued 419,032 shares of the Company's common stock.

F-27

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

None.

ITEM 8A - CONTROLS AND PROCEDURES

- A) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. As of December 31, 2005, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934. Please see the subsection "Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls" below.
- B) CHANGES IN INTERNAL CONTROLS. There were no changes in internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is likely to materially effect, the Company's internal control over financial reporting.

SIGNIFICANT DEFICIENCIES IN DISCLOSURE CONTROLS AND PROCEDURES OR INTERNAL CONTROLS

During our preparation of our Form 10-KSB for the year ended December 31, 2005, which did not occur until the quarter ended March 31, 2006, we identified certain material weaknesses. These material weaknesses will result in the restatement of previously reported financial statements. As defined by the Public Company Accounting Oversight Board Auditing Standard No.2, a material weakness is a significant control deficiency or a combination of significant control deficiencies that result in there being more than a remote likelihood that a material misstatement in the annual or interim financial statements will not be prevented or detected. These deficiencies and issues include:

- o During the financial reporting process, we determined that we lacked adequate accounting staff.
- o Inability to timely close our books and financial reporting requirement.
- o Need for restatement of prior financial statements as a result of a recent SEC interpretation of accounting for common stock and warrants with registration rights under EITF 00-19.

Lack of Adequate Accounting Staff

Edgar Filing: CYBERLUX CORP - Form 10KSB

Previously, in connection with the preparation of the books and records for this annual report on Form 10-KSB, we relied solely upon our Chief Financial Officer to handle the financial accounting. As a result of recent interpretations by the SEC regarding certain accounting standards, as discussed below, together with an increase in our business operations, we realized that we do not have enough personnel that are qualified to handle all of our accounting requirements.

Inability to Timely Close Our Books

Resulting mainly from the lack of adequate accounting staff, as discussed above, we were unable to timely close our financial books and records for the year ended December 31, 2005. As a result, we were unable to provide the required information to our independent auditors on a timely basis.

Restatement of Prior Financial Statements

In accordance with Emerging Issues Task Force ("EITF") 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in the Company's Own Stock," and EITF 05-04, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF 00-19," because the maximum potential liquidated damages for failure to maintain an effective registration statement is greater than the difference in fair values between registered and unregistered shares, the value of the common stock subject to registration should be classified as temporary equity. Additionally, in accordance with EITF 00-19 and the terms of the above warrants, the fair value of the warrants should be recorded as a liability, with an offsetting reduction to shareholders' equity. The warrant liability is initially measured at fair value using the Black-Scholes option pricing model, and is then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings.

The SEC recently announced its interpretation of the accounting for common stock and warrants with registration rights under EITF 00-19. The SEC concluded that for agreements containing registration rights where significant liquidated damages could be required to be paid to the holder of the instrument in the event the issuer fails to maintain the effectiveness of a registration statement for a preset time period, the common stock subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly must be reflected between liabilities and shareholders' equity in the balance sheet until the conditions are eliminated. In analyzing instruments under EITF 00-19, the SEC concluded that the likelihood or probability related to the failure to maintain an effective registration statement is not a factor.

As a result, we have restated our financial statements for the year ended December 31, 2004 and will need to restate the interim financial statements for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005. We believe that this change does not reflect upon the controls in place as we believe this will be a one-time restatement due to the recent interpretation of accounting rules by the SEC in December 2005.

REMEDICATION TO OUR DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

In response to the significant deficiencies in our internal controls and procedures disclosed above, we took actions during the first quarter of 2006 to correct these issues. In order to remediate the weakness resulting from our lack of adequate accounting staff, we have engaged an independent contractor with extensive CFO-level management and SEC reporting experience in public companies to assist in the closing process.

In order to remediate the timely closing of our books, in addition to the independent contractor that we have engaged, we are in the process of developing

Edgar Filing: CYBERLUX CORP - Form 10KSB

closing checklists delineating tasks, preparation responsibilities, and review responsibilities targeting specific completion dates. The checklist will provide evidentiary support of work performed and reviewed. Specific checklist will be developed for non-quarter end months, quarter end months, and the annual close. These checklists will be implemented in the 2nd quarter 2006 close process and utilized in the preparation of the 2nd quarter 2006 Form 10-QSB and subsequent period ends.

As these changes to our internal controls and procedures did not occur until after December 31, 2005, we believe these changes will be effective for the quarter ended June 30, 2006, however, we will be unsure until they are tested at that time.

ITEM 8B. OTHER INFORMATION

None.

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
Donald F. Evans	71	Chief Executive Officer and Chairman of the Board of Directors
Mark D. Schmidt	41	President, Chief Operating Officer and Director
John W. Ringo	61	Secretary, Corporate Counsel and Director
Alan H. Ninneman	62	Senior Vice President and Director
David D. Downing	56	Chief Financial Officer and Treasurer

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.

DONALD F. EVANS. Mr. Evans has been our Chief Executive Officer and Chairman of the Board since May 2000. Between 1979 and May 2000, Mr. Evans was the Managing Partner of Research Econometrics, a North Carolina based corporation, where Mr. Evans began an investigative research study into the feasibility of a long-term electrochemical interim lighting system. From June 1996 until March 1999, Mr. Evans represented the investment interest of Research Econometrics in Waste Reduction Products Corporation, a privately held North Carolina corporation. Mr. Evans also served on the Board of Directors of Waste Reduction Products Corporation. Mr. Evans graduated from the University of North Carolina, Chapel Hill, NC with a BS Degree in Economics.

MARK D. SCHMIDT. Mr. Schmidt has 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 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. 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.

33

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 2005, 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.

34

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;

Edgar Filing: CYBERLUX CORP - Form 10KSB

- (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.

35

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 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	ANNUAL COMPENSATION					
		Salary (\$)	Bonus (\$)	Other Annual Compen- sation (\$)	Restricted Stock Awards (\$)	Options SARs (#)	LTIP Payouts (\$)
-----	----	-----	-----	-----	-----	-----	-----
Donald F. Evans CEO & Chairman	2005	180,000	0	0	-	4,250,000	-
	2004	180,000	0	0	-	550,000	-

Edgar Filing: CYBERLUX CORP - Form 10KSB

-	2003	180,000	0	0	-	700,000

John W. Ringo	2005	76,000	0	0	-	1,500,000
Secretary and	2004	70,500	0	0	-	400,000
Corporate Counsel	2003	102,000	0	0	-	250,000

Alan H. Ninneman	2005	76,000	0	0	-	1,000,000
Senior Vice President	2004	70,500	0	0	-	400,000
	2003	102,000	0	0	-	250,000

Mark D. Schmidt	2005	180,000	0	0	-	4,000,000
President & COO	2004	120,000	0	0	-	650,000
	2003	120,000	0		-	550,000

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.

36

OPTION/SAR GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE (\$/SH)	EXPIRATION DATE
Donald F. Evans	4,250,000	35.42%	\$0.10 /Sh	2011
John W. Ringo	1,500,000	12.5%	\$0.10 /Sh	2011
Alan H. Ninneman	1,000,000	8.33%	\$0.10 /Sh	2011
Mark D. Schmidt	4,000,000	33.33%	\$0.10 /Sh	2011

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.

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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, 2006, there were 27,513,237 stock options granted under the plans that were outstanding.

EMPLOYMENT AGREEMENTS

Donald F. Evans

On July 1, 2000, we entered into an eight-year employment contract with Donald F. Evans to serve as Chief Executive Officer, which was amended on January 1, 2003. The base salary under the agreement is \$180,000 per annum, plus benefits.

Alan H. Ninneman

On July 1, 2000, we entered into an eight-year employment contract with Alan H. Ninneman to serve as Senior Vice President, which was amended on January 1, 2003. The base salary under the agreement is \$102,000 per annum, plus benefits.

37

John W. Ringo

On July 1, 2000, we entered into an eight-year employment contract with John W. Ringo to serve as Secretary and Corporate Counsel, which was amended on January 1, 2003. The base salary under the agreement is \$102,000 per annum, plus benefits.

Mark D. Schmidt

On May 1, 2003, we entered into an employment contract with Mark D. Schmidt to serve as Executive Vice President and Chief Operating Officer until June 30, 2008. The base salary under the agreement is \$180,000 per annum, plus benefits.

38

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 March 31, 2006 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 85,428,735 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 AND ADDRESS OF OWNER -----	TITLE OF CLASS -----	NUMBER OF SHARES OWNED (1) -----	PERCENTAGE OF CLASS (2) -----
Donald F. Evans 4625 Creekstone Drive Suite 100 Research Triangle Park Durham, NC 27703	Common Stock	16,422,784 (3)	16.36%
Mark D. Schmidt 4625 Creekstone Drive Suite 100 Research Triangle Park Durham, NC 27703	Common Stock	11,240,977 (4)	11.65%
Alan H. Ninneman 4625 Creekstone Drive Suite 100 Research Triangle Park Durham, NC 27703	Common Stock	4,516,773 (5)	5.06%
John W. Ringo 4625 Creekstone Drive Suite 100 Research Triangle Park Durham, NC 27703	Common Stock	4,574,403 (6)	5.11%
David Downing 4625 Creekstone Drive Suite 100 Research Triangle Park Durham, NC 27703	Common Stock	2,013,300 (7)	2.32%
All Officers and Directors As a Group (5 persons)	Common Stock	38,768,237 (8)	32.06%
=====			
Donald F. Evans	Preferred B	275,103	34.38%
Mark D. Schmidt	Preferred B	101,000	12.62%
Alan H. Ninneman	Preferred B	180,652	22.58%
John W. Ringo	Preferred B	166,915	20.86%
David Downing	Preferred B	76,330	9.54%

* Less than 1%.

(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 March 31, 2006 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) Based upon 85,428,735 shares issued and outstanding on March 31, 2006.

(3) Includes currently exercisable options to purchase 12,216,754 shares of common stock and 275,103 shares of Series B convertible preferred stock convertible into 2,751,030 shares of common stock and entitled to cast 27,510,300 votes at any meeting of shareholders.

(4) Includes currently exercisable options to purchase 10,030,977 shares of common stock and 101,000 shares of Series B convertible preferred stock convertible into 1,010,000 shares of common stock and entitled to cast 10,100,000 votes at any meeting of shareholders.

(5) Includes currently exercisable options to purchase 2,060,253 shares of common stock and 180,652 shares of Series B convertible preferred stock convertible into 1,806,520 shares of common stock and entitled to cast 18,065,200 votes at any meeting of shareholders.

(6) Includes currently exercisable options to purchase 2,455,253 shares of common stock and 166,915 shares of Series B convertible preferred stock convertible into 1,669,150 shares of common stock and entitled to cast 16,691,500 votes at any meeting of shareholders.

(7) Includes currently exercisable options to purchase 750,000 shares of common stock and 76,330 shares of Series B convertible preferred stock convertible into 763,300 shares of common stock and entitled to cast 7,633,000 votes at any meeting of shareholders.

(8) Includes currently exercisable options to purchase 27,513,237 shares of common stock and 800,000 shares of Series B convertible preferred stock convertible into 8,000,000 shares of common stock and entitled to cast 80,000,000 votes at any meeting of shareholders.

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 \$3,000 to Don Evans, \$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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

Currently, there are still outstanding promissory notes totaling 366,595, which include \$249,350 in unpaid management fees and promissory notes to officers totaling \$117,245. The unpaid management fees include \$90,916 owed to Don Evans; \$82,348 to Al Ninneman and \$76,085 to John Ringo. The outstanding promissory notes to officers include \$3,745 to Al Ninneman, \$3,000 to Don Evans, \$2,000 to Mark Schmidt and \$108,500 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%.

40

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.

Promissory notes were issued to certain officers for loans to the Company for working capital. These Notes are listed as payable upon demand and accrue interest at 12% per annum. Don F. Evans, David D. Downing, Mark Schmidt and Alan H. Ninneman loaned \$3,000, \$108,500, \$2,000 and \$3,745, respectively. 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.

41

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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 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.
- 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

Edgar Filing: CYBERLUX CORP - Form 10KSB

- 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.

43

- 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

44

- 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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.
- 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.

Edgar Filing: CYBERLUX CORP - Form 10KSB

- 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-KSB filed with the Commission on April 15, 2005 and incorporated herein by reference.
- 23.1 Consent of Russell Bedford Stefanou Mirchandani LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

The aggregate fees billed for professional services rendered by Russell Bedford Stefanou Mirchandani LLP 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 2005 and 2004 were \$146,900 and \$56,650 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: April 19, 2006

By: /s/ DONALD F. EVANS

Donald F. Evans
Chief Executive Officer
(Principal Executive Officer)

Dated: April 19, 2006

By: /s/ DAVID D. DOWNING

David D. Downing

Edgar Filing: CYBERLUX CORP - Form 10KSB

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/ DONALD F. EVANS ----- Donald F. Evans	Chief Executive Officer and Chairman of the Board of Directors	April 19, 2006
/s/ MARK D. SCHMIDT ----- Mark D. Schmidt	President, Chief Operating Officer and Director	April 19, 2006
/s/ JOHN W. RINGO ----- John W. Ringo	Secretary, Corporate Counsel and Director	April 19, 2006
/s/ ALAN H. NINNEMAN ----- Alan H. Ninneman	Senior Vice President and Director	April 19, 2006