

CYBERLUX CORP
Form 10KSB
April 03, 2008

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, 2007

Commission file number 000-33415

CYBERLUX CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

91-2048978

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

4625 Creekstone Drive, Suite 130

Research Triangle Park

Durham, North Carolina

(Address of principal executive offices)

27703

(zip code)

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

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

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

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

Yes No

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

Yes No

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

Total revenues for Fiscal Year 2007 were \$721,148, with an unfulfilled order backlog of \$386,182.

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, 2007, was \$11,572,283.

As of March 31, 2008 there were 566,806,183 shares of issuer's common stock outstanding.

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

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

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	3
Item 2.	Properties	10
Item 3.	Legal Proceedings	10
Item 4.	Submission of Matters to a Vote of Security Holders	11
PART II		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	12
Item 6.	Management's Discussion and Analysis of Financial Condition and Results Of Operations	26
Item 7.	Financial Statements	41
Item 8.	Changes in and Disagreements with Accountants on Auditing and Financial Disclosure	42
Item 8A(T.)	Controls and Procedures	43
Item 8B.	Other Information	44
PART III		
Item 9.	Directors and Executive Officers of the Registrant	45
Item 10.	Executive Compensation	48
Item 11.	Security Ownership of Certain Beneficial Owners and Management	49
Item 12.	Certain Relationships and Related Transactions	51
PART IV		
Item 13.	Exhibits	53
Item 14.	Principal Accountant Fees and Services	58
Signatures		59

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

We are developing and marketing new product applications of solid-state diodal illumination (TM) that demonstrate added value over traditional lighting systems. Using proprietary technology, we are creating a family of products including portable illumination systems for military and Homeland Security, retail products, commercial task and accent lighting, emergency and security lighting. We believe our solid-state lighting technology offers extended light life, greater energy efficiency and greater overall cost effectiveness than other existing forms of illumination. Our business model is to address the large lighting industry market segments with solid-state lighting products and technologies, including our proprietary hybrid lighting technology, that includes military and Homeland Security applications, direct and indirect task and accent lighting applications, indoor/outdoor downlighting applications, commercial and residential lighting applications..

For the military and Homeland Security portable illumination products, our target markets include all branches of the military and all government organizations providing homeland security services, such as border control and airport security. For our retail products, our target customers include the home improvement and consumer goods retailers.

On January 16, 2007, we, along with UTEK Corporation, a specialty finance company focused on technology transfer, announced that we had acquired Hybrid Lighting Technologies, Inc., a wholly owned subsidiary of UTEK in a restricted stock transaction. Hybrid Lighting Technologies, Inc. holds a worldwide exclusive license for an inorganic light emitting source for LEDs developed at the University of California-Santa Barbara. The technology provides for the method and practice for creating a white or multiple colored lighting source by combining the photoluminescence from polymer and/or organic films with emissions from an electrically-powered, solid state, inorganic light source.

On January 18, 2007, we announced that we intend to introduce breakthrough lighting products created through the combination of the hybrid organic / inorganic white and multi-color lighting technology acquired from the University of California-Santa Barbara with the Scattered Photon ExtractionTM (SPE) technology acquired from Rensselaer Polytechnic Institute. Cyberlux will commercialize the resulting proprietary lighting technology as "Hybrid White Light" (HWL) and "Hybrid Multi-color Light" (HML). The resulting lighting technology will yield a lower cost, more energy-efficient lighting source than currently available in solid-state light-emitting diode (LED) solutions.

Traditional LED lighting sources produce light when a solid-state material emits a photon through a phosphor down-conversion material to create white and multi-color light. With HWL and HML, the phosphor is replaced with a

less costly, more efficient polymer or organic film down-conversion material. In addition, the use of the SPE technology further improves the light output and efficacy of the resulting light source. Because of the fundamental difference in the nature of the HWL and HML technologies, We intend to broadly market the technology across large lighting industry market segments through OEM licensing and our product solutions for direct and indirect task and accent lighting applications, indoor/outdoor down-lighting applications, residential and office lighting applications, and military and Homeland Security applications.

We acquired the worldwide exclusive rights to patent 5,966,393 “Hybrid Light-Emitting Sources for Efficient and Cost Effective White Lighting and for Full-Color Applications” from the University of California - Santa Barbara through a restricted stock transaction between Cyberlux Corporation, UTEK and the University, which include capital for the acceleration of the technology commercialization. The technology patent defines the method and practice for creating a white or multi-colored lighting source by combining the photoluminescence of polymers and/or organic films with photon emissions from a solid-state inorganic light source. The principle inventors include Nobel Laureate Dr. Alan Heeger and Dr. Steven DenBaars, Professor of Materials and Co-Director of the Solid-State Lighting Center at the University of California-Santa Barbara, who will advise us on the hybrid organic/inorganic lighting technology commercialization.

Earlier in November 2006, we acquired the worldwide exclusive rights to the pending patents for the Scattered Photon Extraction™ technology and methods developed at Rensselaer Polytechnic Institute. The SPE technology enables light-emitting sources to operate at a higher luminous efficacy where traditional phosphor, or down-conversion materials such as photoluminescence polymers and/or organic films as defined by patent 5,966,393, are placed at locations remote from the photon-emitting solid-state inorganic light source. Specifically, the use of the SPE methods result in a greater than 60 % improvement in light output and efficacy compared to standard commercial white LEDs.

On January 25, 2007, we announced that we had completed development of the next generation of our WatchDog Portable Covert Illumination System for the United States Air Force and shipped the next order to the Air Mobility Battlelab.

The Air Mobility Battlelab explores high-payoff concepts, technologies, and tactics to advance the distinctive capabilities of Rapid Global Mobility and Agile Combat Support. The next generation WatchDog advanced solid-state LED security lighting system was developed by Cyberlux in conjunction with the Air Mobility Battlelab for the United States Air Force. Upon completion of the new system capabilities, the WatchDog system was shipped to Fort Dix Air Force Base for use within the USAF Air Mobility Command.

The second generation WatchDog system provides security lighting for an exterior boundary of 600 x 600 feet with either visible light or covert infrared light that is compatible with night-vision goggles (NVGs), more than double the first generation system. It was designed to protect military assets on the ground, such as an airplane, by creating a 'lightless' zone around the asset while illuminating the surrounding protection boundary. In covert illumination mode, the system increases the visibility of NVGs by almost 6- fold.

The additional order for the second generation WatchDog system, which costs \$15,113 on the GSA contract, was placed by the Air Mobility Battlelab for field deployment within various USAF Commands.

As part of the procurement process, the USAF Air Mobility Battlelab conducted a Best Value Determination / Sole Source study that evaluated the WatchDog system against any other available General Services Administration (GSA) contract-approved product and confirmed that the WatchDog system is one- of-a-kind in its capabilities and the only product that meets or exceeds the Battlelab's portable covert illumination system requirements.

We were one of 26 competing companies to submit proposals to develop a lightweight, portable lighting system for both visible lighting and infrared lighting compatible with night vision goggles. Cyberlux was selected during the USAF competitive review process to develop the Portable Covert Illumination System, which weighs less than 50 pounds, including batteries. The system can easily be carried to remote locations and deployed quickly, and with highly efficient LED technology, the system can provide lighting for several days with a single battery charge.

On February 12, 2007, we announced that our unique BrightEye VaC™ System was now fully operational and had been delivered to the United States Air Force (USAF). The USAF Air Mobility Battlelab (AMB) selected Cyberlux and awarded the Company a contract for the covert and visible lighting system. Our products meet the important needs of

the United States military defense initiatives of rapid global mobility and agile combat readiness.

4

On March 21, 2007, we had successfully completed the field testing of the new BrightEye high-performance solid-state LED lighting system conducted by the United States Air Force Air Mobility Battlelab at Fort Huachuca, AZ. The new BrightEye VaC Portable Illumination System is the latest product developed by us to fulfill the recent USAF contract for portable, battery-powered visible and covert lighting systems.

As part of the new product introduction process, the USAF Air Mobility Battlelab conducts rigorous field testing of new products in environments that simulate actual usage. The BrightEye lighting system was tested in both visible and covert lighting modes that demonstrated an advanced security lighting capability for force protection or first responders; operated as an equipment maintenance illumination system; and performed as a ground operations lighting source for a C-130 aircraft. All testing scenarios exceeded Air Mobility Battlelab requirements, including operating surface illumination, system battery-power runtime, deployment set-up times and system weight.

The illumination capacity of the BrightEye was measured during the field test by the research unit of the USAF. The Air Force Research Laboratory determined that two BrightEye systems working in tandem will provide an equivalent level of operational lighting as the currently specified FL-1D floodlights that are used across all Armed Services.

The BrightEye VaC Portable Illumination System is designed as a portable visible and infrared night-vision compatible illumination system for first responders, force protection, aircraft maintenance, expeditionary airbase protection, general mission lighting and other portable, high-intensity lighting applications. Contained in an easily deployed wheeled carrying case and using advanced optics, battery power and advanced solid-state lighting technology, the BrightEye system is capable of eliminating the space-consuming bulk, noise and energy consumption issues associated with the current generator-powered incandescent lighting systems. Moreover, the BrightEye provides both standard white lighting and covert night-vision compatible lighting which is not available in the traditional FL-1D floodlight.

On April 25, 2007, we received orders for two BrightEye Visible and Covert Portable Illumination Systems from the National Guard Bureau. The BrightEye VaC Portable Illumination System is the latest product we developed to address the growing need for portable, battery-powered visible and covert lighting systems within most sectors of the United States Armed Forces.

The National Guard will initially use the two BrightEye systems in field exercises for Night Vision operations and Night Vision Goggle (NVG) training. Beyond these field exercises, the National Guard requires rapidly deployable portable covert and visible lighting systems for disaster response preparedness, border patrol support, homeland defense operations, and global military deployments. The National Guard provides each State with units trained and equipped to protect life and property, and provides the Nation with units trained, equipped and ready to defend the United States and its interests around the world.

On April 30, 2007, we received additional orders from The Home Depot, our existing major home improvement retail customer in preparation for the 2007 hurricane season. With initial hurricane season orders in excess of \$100,000, the retail customer will expand availability of the EverOn multi-purpose portable lighting product to stores that serve the hurricane belt states.

EverOn is a portable battery powered lighting device that provides from 30 to 500 hours of light from one battery set, including 500 hours of a low, nightlight level light; 60 hours of a medium, room-filling light; and 30 hours of intensely bright white light.

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

On May 21, 2007, we received a new order for the BrightEye Visible and Covert Portable Illumination System from the New York State National Guard. The BrightEye VaC Portable Illumination System is the latest portable, battery-powered visible and covert lighting system we developed to address the needs across the United States Armed Forces. The light weight BrightEye System can be rapidly deployed and operational by one service person as a 'stadium-type' illumination source in under five minutes of set-up time.

The New York State National Guard is the first of the 50 state-level Guard units to purchase a BrightEye system. Last month, the National Guard Bureau, the federal-level Guard organization, purchased two BrightEye systems for field trials. Across all states, the National Guard require rapidly deployable portable covert and visible lighting systems for disaster response, border patrol support, homeland defense operations, and global military deployments. The New York Unit will utilize the BrightEye system for Night Vision Goggle (NVG) operations during their upcoming deployment to Iraq.

On May 23, 2007, we announced that had produced the first prototype of our Hybrid Lighting Technology (HTL) and demonstrated the initial capabilities in a laboratory environment. The prototype lighting device combined the Scattered Photon Extraction(TM) (SPE) technology acquired from Rensselaer Polytechnic Institute with the hybrid organic/inorganic white and multi-color lighting technology acquired from the University of California-Santa Barbara to achieve our 'Proof of Principle' milestone. This one-of-a-kind lighting technology is exclusively licensed and proprietarily owned by us. As the HTL technology progresses through the next series of commercialization milestones, we will publish results that are anticipated to exceed existing lighting fixture efficiencies. We will commercialize the resulting proprietary lighting technology as 'Hybrid White Light' (HWL) and 'Hybrid Multi-color Light' (HML).

On June 26, 2007, we completed the valuation process of our Hybrid White Light (HWL) and our Hybrid Color Light (HCL) by an independent third party. The value in our 'proof of concept' or pre-commercialization state was estimated at \$5.0 million. This is in addition to the valuation of our EverOn product at \$4.8 million in the second quarter 2006.

On June 27, 2007, we announced that we had received a new order for the BrightEye Visible and Covert Portable Illumination System from the Louisiana National Guard. The Louisiana State National Guard is the second state-level Guard unit to purchase a BrightEye system. The Louisiana Unit will utilize the BrightEye system for disaster response during the current hurricane season and for Night Vision Goggle (NVG) operations during upcoming deployments.

On July 12, 2007, we announced that the patented Keon KeyCap(tm) product has been selected by Bank of America, the nation's largest bank as a promotional marketing product. In support of the marketing program, we had received an order to supply 250,000 branded Keon KeyCap products for use in ongoing marketing programs that support the Bank's Home Equity customers.

The Keon KeyCap is the practical lighting solution for every consumer who carries keys. Each Keon is a flexible elastic LED (Light Emitting Diode) light that fits around a standard key head and emits a bright diodal(tm) beam of light at the touch of one's finger down the key shaft onto the intended keyhole or other targeted surfaces.

On July 19, 2007, we reported that the new BrightEye high-performance solid-state LED lighting system had successfully completed the capability testing conducted by the National Guard staff at the Center for National

Response in West Virginia. All testing scenarios met or exceeded our expectations for the BrightEye System's capabilities, including operating surface illumination, system battery-power runtime, deployment set-up times and system weight.

The Center for National Response (CNR) is uniquely suited as a multipurpose exercise facility. This facility is designed to meet a wide range of Weapons of Mass Destruction Consequence Management and Counter Terrorism requirements for the Department of Defense, Federal, State, and Local organizations. The CNR is an operational component of the Joint Interoperability Test Command (JITC), a National Guard training activity operated by the National Guard Bureau and the Adjutant General of West Virginia. The CNR is a flexible Weapons of Mass Destruction (WMD) training complex that provides multi-scenario exercises for the military or joint operations with military and first responders. The tunnel's physical configuration enhances experience at the individual, unit, and multi- organization/agency level. It serves as a valuable asset in preparing both military and civilian response teams to meet future threats and challenges. The tunnel is ideal for consequence and crisis management emergency response exercises and provides a realistic environment where emergency response teams can readily practice their techniques in mitigating the effects of a WMD incident.

All testing scenarios met or exceeded our expectations for the BrightEye System's capabilities, including operating surface illumination, system battery-power runtime, deployment set-up times and system weight.

On September 18, 2007, we announced that we had been awarded a supplier agreement from The Boeing Company for lighting equipment in support of the Secure Border Initiative net (SBInet) project. We were awarded the supplier agreement based on our response to the SBInet VICD 605002 request for quote (RFQ) for mobile lighting systems. We quoted the BrightEye Portable Visible and Covert 10 Meter Tower Lighting System for intended use along the Mexican and Canadian borders as an added level of security for Customs and Border Patrol personnel and as an added level of deterrence for potential border violators. As part of The Boeing Company Basic Ordering Agreement, we provided quotes of \$25,256 to \$31,185 per unit in 100 unit increments from 1-500 units. Under this Agreement, the unit demand for our products is solely determined by The Boeing Company.

On September 26, 2007, we announced that the USAF Air Mobility Battlelab, or AMB, recently demonstrated the capabilities of our BrightEye Portable Solid-State LED Lighting System - an AMB initiative.

For its demonstration periods, the BrightEye was evaluated at both Fort Huachuca, Ariz., and Fort Dix, N.J. Air Mobility Command expeditionary support equipment subject-matter experts participated in several scenarios to showcase BrightEye capabilities.

Feedback from the field demonstrations show the current portable generator-powered lighting options do not provide the absolute portability required for AMC's evolving expeditionary mission. Their bulky size, noise and energy consumption reduce AMC's ability to efficiently and expeditiously deploy support forces globally in any environment.

Research also showed the Bright Eye is 97-percent smaller and weighs 94- percent less than the current diesel-powered incandescent lighting system. Its small size, weight and added infrared capability can 'enhance AMC's ability to project air and space power' across all spectrums of expeditionary operations by minimizing the support footprint, maximizing the available aircraft cargo floor area and reducing the amount of airlift needed for rapid force projection.

Overall, the Air Mobility Battlelab demonstrated a unique system capable of providing expeditionary forces across all armed services.

On October 29, 2007, we announced that we had received a commitment for 17 BrightEYE Visible and Covert Portable Illumination Systems from the National Guard Bureau. This most recent National Guard Order for 17 Systems equates to \$313,004 in revenue, which follows the initial order in April for \$37,072.

On November 19, 2007, we reported that the Fiscal Year 2008 Department of Defense Appropriations legislation contains 8 million dollars to equip the United States Air Force with our BrightEye Visible and Covert Portable

Illumination Systems. Over the last several years, the BrightEye lighting technology has undergone successful field testing by various United States Air Force commands. In addition, we hold General Service Administration (GSA) contract GS-07F-9409S under the Federal Supply Schedule 56 for Specialty Lighting products.

On December 3, 2007, we announced we had received and fulfilled a system order from The Boeing Company associated with the SBInet deployment. This purchase was made under the SBInet Basic Ordering Agreement that we and Boeing entered into earlier this year.

Intellectual Property

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

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

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

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

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

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

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

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

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

Ser. No. 11/336,562 - The patent application is directed to a portable light system having a body, an arm pivotally attached to the body, and one or more lighting elements disposed at one end of the arm. The portable light device further includes a handle, one or more batteries, an on-off switch, and one or more power cords for transmitting or receiving electrical energy. The portable light device is adapted to operate in a spot light mode of illumination, a flood light mode of illumination, or a combination thereof. The device benefits from the use of LEDs as an illumination source. LEDs provide optimum lumen output with considerably less power consumption than conventional lighting devices. Finally, the device provides real-time battery life information to a user such that the performance of the device may be tailored to extend or shorten expected battery life as needed.

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

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

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

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

REGULATION

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

RESEARCH AND DEVELOPMENT ACTIVITIES

We anticipate continuing to incur research and development expenditures in connection with the development of our Portable Illumination System during the next twelve months. In addition, we will continue to incur research and development expenditures in connection with the commercialization of our Hybrid Lighting Technology.

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

Employees

We currently have 20 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 130, Research Triangle Park, Durham, North Carolina 27703. Our telephone number at that office is (919) 474-9700 and our facsimile number is (919) 474-9712. We lease 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 present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us. We maintain websites at www.cyberlux.com and www.luxSel.com. The information contained on those websites is not deemed to be a part of this annual report.

ITEM 3. LEGAL PROCEEDINGS

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

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

On September 5, 2007, we announced that we had commenced an action against AJW Partners, LLC, AJW Offshore, LTD., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLC, (the “Defendants”) in the United States District Court for the Southern District of New York for violations of the anti-fraud provisions of the Securities Act of 1934, fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, breach of implied covenant of good faith and fair dealing and conversion. The complaint alleges that the Defendants utilized an illegal trading scheme involving deceptive secured loan financings to convert shares of Company’s common stock for the Defendants’ own use and benefit. The trading scheme involved the Defendants manipulating the Company’s stock price downward by short sales. In addition the complaint seeks declaratory, injunctive and monetary relief.

On September 13, 2007, Britannia Law Office commenced an action against us and our President, Mark D. Schmidt, in the General Court of Justice, Superior Court Division, Durham County, North Carolina, alleging breach of contract, additional payments due under contract, unjust enrichment, fraud and unfair trade practices arising out of a consultant agreement. Plaintiff seeks compensation pursuant to a consulting agreement of \$30,000 and the issuance of five million shares of the Company’s common stock. These motions are currently pending. We believe that their claims are without merit and we will vigorously defend these claims.

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

None.

PART II**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

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

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

	High(\$)	Low (\$)
2004		
First Quarter	0.53	0.19
Second Quarter	0.85	0.27
Third Quarter	0.55	0.23
Fourth Quarter	0.35	0.06
2005		
First Quarter	0.07	0.02
Second Quarter	0.20	0.05
Third Quarter	0.15	0.05
Fourth Quarter	0.15	0.06
2006		
First Quarter	0.12	0.06
Second Quarter	0.08	0.06
Third Quarter	0.07	0.04
Fourth Quarter	0.05	0.02
2007		
First Quarter	0.04	0.01
Second Quarter	0.02	0.01
Third Quarter	0.0083	0.0021
Fourth Quarter	0.037	0.0195
2008		
First Quarter (1)	0.0215	0.021

(1) As of March 28, 2007

DESCRIPTION OF SECURITIES**Common Stock**

On January 23, 2008, we amended our Articles of Incorporation to increase our authorized shares from 700,000,000 shares to 950,000,000 shares of common stock, par value \$.001. As of March 31, 2007, there were 566,806,183 shares of common stock outstanding. Holders of the common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefore. Upon the liquidation, dissolution, or winding up of our company, the holders of common stock are entitled to share ratably in all of our assets which are

legally available for distribution after payment of all debts and other liabilities and liquidation preference of any outstanding common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

Preferred Stock

Our Articles of Incorporation authorize the issuance of 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.

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, 2008, we had 26.9806 shares of our Series A Convertible Preferred Stock issued and outstanding. Each share is convertible into 50,000 shares of common stock. The Series A Convertible Preferred have the following designations and rights:

Maturity:	Perpetual Preferred
Dividend:	12% per annum. The dividend shall be payable semi-annually in cash or common stock at our option.
Fixed Conversion Price:	The Series A Convertible Preferred shall be convertible into common stock at \$0.10 per share.
Stated Value:	\$5,000 per share
Mandatory Conversion:	Beginning 180 days from the effective date of a registration statement, if the closing bid price for our common stock exceeds \$1.50 for a period of 10 consecutive trading days, we have the right to force the holders to convert the Series A Convertible Preferred into common stock at the applicable conversion price.
Limitations on Conversion.	Each holder of the Series A Convertible Preferred shares shall not convert the shares into common stock such that the number of shares of common stock issued after the conversion would exceed, when aggregated with all other shares of common stock owned by such holder at such time, in excess of 4.99% of our then issued and outstanding shares of common stock.
No Voting Rights.	The holders of the Series A convertible shares have no voting rights until their shares are converted to common shares.

The Board of Directors, pursuant to our Articles of Incorporation and By-Laws, authorized Series B Convertible Preferred Stock which was issued to officers and directors in order to convert accrued management fees and other liabilities into 3,650,000 shares of the Series B Preferred Stock. The Series B Convertible Preferred Stock has the following designations and rights:

Term:	Perpetual Preferred
Dividend:	12% per annum
Conversion:	Each share of the Series B Convertible Preferred Stock may be converted to 10 shares of our common stock at the option of the bearer.
Voting Rights:	Except with respect to transactions upon which the Series B Preferred stock shall be entitled to vote separately, the Series B Preferred Stock shall have superior voting rights equal to ten times the number of shares of Common Stock such holder of Series B Preferred Stock would receive upon conversion of such holder's shares of Series B Preferred Stock. The conversion price is \$0.10 per share.

Series C - Convertible Preferred stock

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

Term:	Perpetual Preferred
Dividend:	5% per annum
Conversion:	The shares of the Series C Preferred are convertible, at the option of the holder into common shares one year from issuance.
No Voting Rights.	The holders of the Series A convertible shares have no voting rights until their shares are converted to common shares.

Common stock

Options

There are currently options outstanding that have been issued to our officers and directors to purchase 45,002,317 shares of our common stock.

Warrants

In connection with a Securities Purchase Agreement dated March 27, 2006, we issued warrants to purchase 19,000,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share.

Edgar Filing: CYBERLUX CORP - Form 10KSB

In connection with a Securities Purchase Agreement dated July 27, 2006, we issued warrants to purchase 15,000,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.06 per share.

In connection with a Securities Purchase Agreement dated September 26, 2006, we issued warrants to purchase 10,000,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.06 per share.

14

In connection with a Securities Purchase Agreement dated December 20, 2006, 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 \$0.06 per share.

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.

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:

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

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

· \$0.72; or

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

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

Our right to repay the notes is exercisable on not less than ten trading days prior written notice to the holders of the secured convertible notes. For notice purposes, a trading day is any day on which our common stock is traded for any

period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.50 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

APRIL 2005 SECURITIES PURCHASE AGREEMENT

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

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

- \$600,000 was disbursed on April 22, 2005;
- \$500,000 was disbursed on May 24, 2005; and
- \$400,000 was disbursed on July 19, 2005.

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

· \$0.03; or

- 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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 following the issue date of the secured convertible notes.

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.03 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

OCTOBER 2005 STOCK PURCHASE AGREEMENT

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

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

\$0.03; or

·25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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

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

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

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

DECEMBER 2005 STOCK PURCHASE AGREEMENT

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

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

\$0.10; or

·25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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 notice purposes, a trading day is any day on which our common stock is traded for any period on the OTC Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secured convertible notes have the right at all times to convert all or any portion of the secured convertible notes prior to payment of the prepayment amount.

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.15 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

MARCH 2006 STOCK PURCHASE AGREEMENT

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

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

\$0.06; or

·25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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

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

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

any conversions of the secured convertible notes by the holders for that month. The principal amount of the secured convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

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

JULY 2006 STOCK PURCHASE AGREEMENT

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

The notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

\$0.06; or

·25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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

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

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

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

SEPTEMBER 2006 STOCK PURCHASE AGREEMENT

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

purchase 10,000,000 shares of our common stock.

19

The notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

\$0.06; or

·25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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

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

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

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

DECEMBER 2006 STOCK PURCHASE AGREEMENT

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

The notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of:

\$0.06; or

·25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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

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

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

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

APRIL 2007 SECURITIES PURCHASE AGREEMENT

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

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

The secured convertible notes bear interest at 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.10 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.02 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. No dividend can be issued while the notes are in effect.

MAY 2007 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on May 3, 2007, for the sale of (i) \$150,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on May 1, 2007.

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

The secured convertible notes bear interest at 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.10 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.02 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

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

The proceeds received from the sale of the secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and purchasing inventory. No dividend can be issued while the notes are in effect.

JUNE 6, 2007 SECURITIES PURCHASE AGREEMENT

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

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

The secured convertible notes bear interest at 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.10 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.02 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

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

The proceeds received from the sale of the secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and purchasing inventory. No dividend can be issued while the notes are in effect.

JUNE 20, 2007 SECURITIES AGREEMENT

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

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

The secured convertible notes bear interest at 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.10 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance

at a purchase price of \$0.02 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

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

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

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

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

JULY 2007 SECURITIES PURCHASE AGREEMENT

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

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

The secured convertible notes bear interest at 8%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.02 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.02 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common

stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

24

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

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

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

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

Penny Stock Regulation.

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

- A description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- A description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities' laws;

- A brief, clear, narrative description of a dealer market, including “bid” and “ask” prices for penny stocks and the significance of the spread between the “bid” and “ask” price;

- A toll-free telephone number for inquiries on disciplinary actions;

- Definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and

- Such other information and in such form (including language, type, size and format), as the Securities and Exchange Commission shall require by rule or regulation.

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

- The bid and offer quotations for the penny stock;

- The compensation of the broker-dealer and its salesperson in the transaction;

- The number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and

- Monthly account statements showing the market value of each penny stock held in the customer’s account.

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

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

Recent Sales of Unregistered Securities

On May 25, 2007, pursuant to a Warrant Purchase Agreement, we sold warrants to purchase 100 million shares of our common stock (the “Warrants”) to Deutsche Bank for \$150,000. The Warrants are exercisable until May 22, 2012 at an exercise price equal to a 50% discount to market based on the average closing price of the Company’s common stock for twenty trading days prior to notice of exercise, subject to adjustment.

On October 10, 2007, we issued 200,000 shares of our common stock to John Evans as a bonus for work performed.

On October 17, 2007, pursuant to a Warrant Purchase Agreement, we sold warrants to purchase 50 million shares of our common stock (the “Warrants”) to Deutsche Bank for \$600,000. The Warrants are exercisable until October 17, 2012 at an exercise price equal to a 50% discount to market based on the average closing price of the Company’s common stock for twenty trading days prior to notice of exercise, subject to adjustment.

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.

26

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 the military and homeland security, residential and commercial markets, We design and engineer products that adapt technology advancements from semiconductor manufacturers, including Cree, Inc., for use in products that serve our selected markets.

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 solid-state lighting 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.

During 2006 and 2007, we made important progress in the Company's business development and sales, technology portfolio and financing capability, progress that will result in the creation of a successful, sustainable enterprise during 2008.

Military / Homeland Security Business Development and Sales

During 2006, we began pursuing the Military / Homeland Security market with a Cyberlux product category known as 'Portable Illumination Systems' which provide bright white LED lighting and covert night vision-compatible lighting in a self-contained portable battery powered system. In September of 2006, we signed a contract with United States Air Force (USAF) to deliver a commercial off the shelf (COTS) version of our BrightEye product for use as an battery-powered visible and covert lighting for expeditionary military force deployment. In February of 2007, we delivered the BrightEye VAC product to the USAF for field testing and evaluation. In September of 2007, the USAF completed the field testing and reported that the BrightEye system provided a 54% annual operations and maintenance cost savings, a 63% daily operational cost savings, and a 97% space / 94% weight savings when compared to their current lighting system. As a result, we were successful in securing \$8M in USAF acquisition budget in the 2008 Department of Defense budget. We are currently preparing to manufacture the first \$5M in USAF purchase orders for BrightEye systems. We believe that the remaining \$3M will be purchased during the 2008 fiscal year, but we have yet to receive commitments to confirm the mix of products to be purchased. In addition in December 2007, we received an order from the National Guard Bureau for \$313,004 to supply 17 BrightEye Systems to the National Guard emergency responder units to be used as the tactical lighting solution for disaster response. We are currently producing and shipping BrightEye units to fulfill this purchase order by March 2008.

Also during 2006, we registered with the Department of Homeland Security (DHS) as a Secure Border Initiative subcontractor for the opportunity to provide advanced lighting capability to the effort to secure the northern and southern U.S. borders. Once The Boeing Company was awarded the contract as the prime contractor to deploy the Secure Border Initiative solution, known as SBInet, we began marketing the Cyberlux BrightEye technology to Boeing and the appropriate DHS organizations. In September of 2007, we were selected as an SBInet lighting system supplier and executed a SBInet supplier contract with The Boeing Company to provide advanced portable lighting systems for the SBInet mobile infrastructure solution. In November of 2007, we received the first purchase order from The Boeing Company for our BrightEye 10M Tower Lighting System for \$31,185, which we produced and shipped to Boeing in November. The SBInet Mobile Infrastructure team is in field tests with the BrightEye 10M Tower System and we expect to deploy the System during 3Q/4Q 2008 timeframe.

Retail Business Development and Sales

During 2006 after several years of attempts, we were successful in closing the sale of our EverOn product to Wal-mart Stores, Inc., our largest retail customer to date, for \$39,793 and continued our on-air EverOn sales relationship QVC that resulted in \$42,350. The importance of the Wal-Mart contract was demonstrated when we were able to use this sale as a reference when we closed the sale of our EverOn product with The Home Depot for \$64,507 in October 2006. In 2007, The Home Depot business increased to \$139,167 and continues to grow in already in 2008. With several major retailers as customers, we now have the experience to build further retail sales during 2008.

Technology Portfolio

Between November of 2006 and January of 2007, we acquired the world-wide exclusive rights to two technologies that when combined create a breakthrough in solid-state lighting capability. Through the combination of the hybrid organic / inorganic white and multi-color lighting technology acquired from the University of California-Santa Barbara (UCSB) with the Scattered Photon Extraction™ (SPE) technology acquired from Rensselaer Polytechnic Institute (RPI), Cyberlux will commercialize the resulting proprietary lighting technology as “Hybrid Lighting Technology” (HLT) and market the core technology under the “LumenOptic” technology brand. We expect the resulting lighting technology to yield a lower cost, more energy-efficient lighting source than currently available in solid-state light-emitting diode (LED) solutions.

Specifically, we acquired the worldwide exclusive rights to patent 5,966,393 “Hybrid Light-Emitting Sources for Efficient and Cost Effective White Lighting and for Full-Color Applications” from UCSB. This technology patent defines the method and practice for creating a white or multi-colored lighting source by combining the photoluminescence of polymers and/or organic films with photon emissions from a solid-state inorganic light source. The principle inventors include Nobel Laureate Dr. Alan Heeger and Dr. Steven DenBaars, Professor of Materials and Co-Director of the UCSB Solid-State Lighting Center, who will advise the Company on the HLT technology commercialization.

In addition, we acquired the worldwide exclusive rights to five pending patents that define the Scattered Photon Extraction technology method and practice from RPI. The principle inventor from RPI is the Director of the RPI Lighting Research Center, Dr. Nadarajah Narendran. Dr. Narendran will also be advising the Company on the HLT technology commercialization.

Based on the technology acquired from UCSB and RPI, both leading solid-state lighting research institutions, we are positioned to introduce compelling lighting products to the \$12B lighting industry. The Company’s ability to commercialize, innovative and introduce proprietary lighting technologies such as HLT, either in unique Cyberlux products or through an OEM licensing model, will capture the opportunity for major advances in the lighting industry where low cost, energy efficient lighting solutions are in high demand for the foreseeable future.

Traditional LED lighting sources produce light when a solid-state material emits a photon through a phosphor downconversion material to create white and multi-color light. With HLT, the phosphor is replaced with a less costly, more efficient polymer or organic film downconversion material. In addition, HLT utilizes the SPE technology to optically maximize the light output of the lighting source. Because of the fundamental difference in the nature of the HLT technologies compared to traditional LEDs, we intends to broadly market the technology across large lighting industry market segments through OEM licensing and Cyberlux product solutions. During December of 2007, we began negotiations with a major lighting fixture manufacturer on licensing some or all of the HLT technology for future product development.

Financing Capability

During 2007, we began a financing relationship with Deutsche Bank through two warrant purchase agreements that resulted in financings of \$760K in 2007 through warrant exercise. We anticipate long-term financing relationship with Deutsche Bank that will also include purchase order financing as continue to grow through the significant expansion of our Military / Homeland Security business. Our ability to move from a toxic financing relationship with the NIR Group to a traditional warrant purchase relationship with Deutsche Bank is a significant step for the Company, and we intend to utilize this relationship to continually improve our business operations and our balance sheet.

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:

stock-based compensation;

revenue recognition; and

derivatives

Stock-Based Compensation

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

Revenue Recognition

Revenues are recognized in the period that products are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive

evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At September 30, 2007 and December 31, 2006, the Company did not have any deferred revenue.

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

Derivative Financial Instruments

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

Registration rights

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

RESULTS OF OPERATIONS

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

Revenues for the year ended December 31, 2007 were \$721,148. This compares to revenues of \$ 484,988 for the year ended December 31, 2006.

Cost of goods sold were \$514,231 for 2007 compared with \$377,524 for 2006.

Operating expenses for the year ended December 31, 2007 were \$3,875,669 compared with \$5,276,890 for the year ended December 31, 2006. Included in expenses for 2007 was \$198,178 for consulting services compared with \$1,002,702 for the previous year.

	For the Years Ended	
	12/31/2007	12/31/2006
Salaries & benefits	1,893,994	2,962,413
Marketing and advertising	163,278	143,010
Rent	81,265	58,407
Insurance	13,690	27,495
Depreciation	27,706	23,360
Amortization	525,889	-
Impairment Loss Research and development	164,793	225,770
Legal expense	224,657	208,019
Accounting services	45,029	147,435
Investor relations	19,788	49,791
Travel, living and entertainment	150,658	176,919
Office expenses	550,898	199,583
Bad debt expense	14,024	51,986
	3,677,491	4,274,188

Interest expense (Net of interest income) for 2007 was \$2,645,375 compared to \$2,585,708 for 2006. Included in interest expense for 2006 is \$1,926,625 which was booked to recognize the imbedded beneficial conversion feature of the \$4,500,000 convertible notes payable entered into during the 3rd and 4th quarters of 2004, 2005 and 2006.

The net loss realized for 2007 was \$15,619,897, or \$0.04 per share on an average of 383,858,373 shares outstanding and compares to net loss of \$6,775,400, or \$0.07 per share on an average of 94,515,133 shares outstanding for the year 2006.

Liquidity and Capital Resources

As of December 31, 2007, we had a working capital deficit of \$6,509,670. As a result of our operating losses for the year ended December 31, 2007, we generated a cash flow deficit of \$2,452,046 from operating activities. Cash flows generated through investing activities was \$1,950,860 during the year ended December 31, 2007. We met our cash requirements during this period through the issuance of \$1,000,000 Convertible Notes Payable and \$758,723 from the sale of Warrants .

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

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

Our independent certified public accountant has stated in their report, dated as of March , 2008, 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.

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 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.

May 2006 Loan

On May 18, 2006 we entered into a financing agreement with SmartHedge, LLC whereby our Directors pledged 2,772,206 shares of their personal common stock as collateral for a loan in the amount of \$103,403.28. The loan carries an interest rate of 5.19% payable quarterly and has a maturity of May 31, 2009.

June 2006 Loan

On June 19, 2006, we entered into a financing agreement with SmartHedge, LLC whereby our Directors pledged 6,000,000 shares of their personal common stock as collateral for a loan in the amount of \$168,000. The loan carries an interest rate of 5.19% and has a maturity of June 30, 2009.

32

July 2006 Stock Purchase Agreement

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

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

The secured convertible notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.06 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 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.

September 2006 Stock Purchase Agreement

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on September 26, 2006, for the sale of (i) \$280,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on September 26, 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 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.06 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 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 2006 Stock Purchase Agreement

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on December 20, 2006, for the sale of (i) \$600,000 in secured convertible notes, and (ii) warrants to purchase 20,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on December 20, 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 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.06 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 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.

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

Recent Accounting Pronouncements

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

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

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

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

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

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

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the

recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

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

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

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

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company does not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

Product Research and Development

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

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

Acquisition or Disposition of Plant and Equipment

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

Risk Factors

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

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

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

Risks Relating to Our Business:

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

We incurred a net loss of \$15,619,897 for the year ended December 31, 2007 compared to a net loss of \$6,775,400 for the year ended December 31, 2006. 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 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 28, 2008, our independent auditors stated that our financial statements for the year ended December 31, 2007 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, 2007 in the amount of \$15,619,897. 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 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.

Edgar Filing: CYBERLUX CORP - Form 10KSB

On October 10, 2007, we issued 3,650,000 shares of Series B Convertible Preferred Stock to our officers and directors which are convertible into 36,500,000 shares of common stock and, in the aggregate, have the right to cast 365,000,000 million votes in any vote by our shareholders. 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:

· election of our board of directors;

removal of any of our directors;

amendment of our certificate of incorporation or bylaws; and

· adoption of measures that could delay or prevent a change in control or impede a merger, takeover or other business combination involving us.

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

Risks Relating to Our Common Stock:

We Have Issued a Large Amount of Stock in Lieu of Cash for Payment of Expenses and Expect to Continue this Practice in the Future. Such Issuances of Stock Will Cause Dilution to Our Existing Stockholders.

Due to our limited economic resources, we try to issue stock in lieu of cash for payment of expenses and services provided for us. In 2006, we issued 14,063,216 shares of common stock in exchange for expenses and services rendered. We anticipate issuing shares of common stock whenever possible in lieu of cash to conserve our financial position. The number of shares of common stock issued is directly related to our stock price at the time of issuance. In the event that our stock price drops, we will be required to issue larger amounts of shares for expenses and services rendered, if the other party is willing to accept stock at all. The issuance of shares of common stock will have the effect of diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.

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

Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

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

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

- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

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

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

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

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

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

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

Trends, Risks and Uncertainties

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

ITEM 7. FINANCIAL STATEMENTS

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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

CYBERLUX CORPORATION

INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Registered Certified Public Accounting Firms	F-1 - F-2
Consolidated Balance Sheets at December 31, 2007 and 2006	F-3
Consolidated Statements of Operations for the Years ended December 31, 2007 and 2006	F-4
Consolidated Statement of Deficiency in Stockholders' Equity for the Years ended December 31, 2007 and 2006	F-5 - F-9
Consolidated Statements of Cash Flows for the Years ended December 31, 2007 and 2006	F-10
Notes to Consolidated Financial Statements	F-11 - F-42

Turner, Jones & Associates, PLLC
Certified Public Accountants
108 Center Street, North, 2nd Floor
Vienna, Virginia 22180-5712
(703) 242-6500

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Cyberlux Corporation and subsidiaries as of December 31, 2007, and the related consolidated statements of income, stockholders' equity and cash flows for year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Cyberlux Corporation and subsidiaries as of and for the year ended December 31, 2006. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the period ended December 31, 2006, is based solely on the report of the other auditors.

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

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

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

Vienna, Virginia
March 28, 2008

s/s Turner, Jones & Associates, PLLC

Turner, Jones & Associates, PLLC

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Cyberlux Corporation
Durham, North Carolina

We have audited the accompanying consolidated balance sheet of Cyberlux Corporation (the "Company"), as of December 31, 2006 and the related consolidated statement of losses, deficiency in stockholders' equity, and cash flows for the year ended December 31, 2006. 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 audit.

We conducted our audit 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 audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note L to the consolidated financial statements, the Company has suffered recurring losses from operations. 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.

/s/ RBSM LLP (Formerly known as RUSSELL
BEDFORD STEFANOU MIRCHANDANI LLP)
Certified Public Accountants

New York, NY
April 26, 2007

F-2

CYBERLUX CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
Current assets:		
Cash & cash equivalents	\$ 626	\$ 395,812
Accounts receivable, net of allowance for doubtful accounts of \$8,646 and \$23,502, respectively	77,815	177,085
Inventories, net of allowance of \$43,333	157,379	197,771
Other current assets	10,000	22,232
Total current assets	245,820	792,900
Property, plant and equipment, net of accumulated depreciation of \$169,171 and \$141,465, respectively	74,607	58,313
Other assets		
Deposits	24,400	23,350
Patents and development costs, net of accumulated amortization of \$819,639 and \$293,750, respectively	3,155,335	2,294,224
Total other assets	3,179,735	2,317,574
Total Assets	\$ 3,500,162	\$ 3,168,787
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	\$ 33,178	\$ -
Accounts payable	733,538	564,875
Accrued liabilities	2,345,133	1,694,220
Short-term notes payable - related parties	397,064	454,162
Short-term notes payable	196,067	47,399
Short-term convertible notes payable	3,050,510	2,184,808
Total current liabilities	6,755,490	4,945,464
Long-term liabilities:		
Derivative liability relating to convertible debentures	17,334,621	8,201,086
Warrant liability relating to convertible debentures	4,509,538	2,954,080
Total long-term liabilities	21,844,159	11,155,166
Total liabilities	28,599,649	16,100,630
Commitments and Contingencies		
Redeemable Series A convertible preferred stock, \$0.001 par value; 200 shares designated, 28.9806 and 38.9806 issued and outstanding as of December	144,900	194,900

31, 2007 and 2006, respectively; liquidation preference of \$231,845 and \$264,456 as of December 31, 2007 and 2006, respectively

DEFICIENCY IN STOCKHOLDERS' EQUITY

Class B convertible preferred stock, \$0.001 par value, 3,650,000 shares designated; 3,650,000 and 800,000 shares issued and outstanding for December 31, 2007 and 2006, respectively; liquidation preference of \$3,650,000 and 800,000 as of December 31, 2007 and 2006, respectively	3,650	800
Class C convertible preferred stock, \$0.001 par value, 700,000 shares designated; 150,000 and 100,000 shares issued and outstanding for December 31, 2007 and 2006, respectively, liquidation preference of \$18,522,000 and \$17,640,000, as of December 31, 2007 and 2006, respectively	150	100
Common stock, \$0.001 par value, 700,000,000 shares authorized; 552,342,881 and 128,279,157 shares issued and outstanding as of December 31, 2007 and 2006, respectively	552,343	128,279
Subscription received	-	25,000
Additional paid-in capital	15,286,709	12,186,420
Accumulated deficit	(41,087,239)	(25,467,342)
Deficiency in stockholders' equity	(25,244,387)	(13,126,743)
Total liabilities and (deficiency) in stockholders' equity	\$ 3,500,162	\$ 3,168,787

The accompanying notes are an integral part of these financial statements

CYBERLUX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
REVENUE:	\$ 721,148	\$ 484,988
Cost of goods sold	(514,231)	(377,524)
Gross margin (loss)	206,917	107,464
OPERATING EXPENSES:		
Depreciation	27,706	23,360
Research and development	164,793	225,770
General and administrative expenses	3,683,170	5,027,760
Total operating expenses	3,875,669	5,276,890
NET LOSS FROM OPERATIONS	(3,668,751)	(5,169,426)
Other income/(expense)	381,652	-
Debt forgiveness	-	36,799
Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities	(9,620,645)	953,719
Interest expense, net	(2,645,375)	(2,585,708)
Debt acquisition costs	(66,778)	(10,784)
Net loss before provision for income taxes	(15,619,897)	(6,775,400)
Income taxes (benefit)	-	-
LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (15,619,897)	\$ (6,775,400)
Weighted average number of common shares outstanding-basic and assuming fully diluted	383,858,373	94,515,133
Loss per share-basic and assuming fully diluted	\$ (0.04)	\$ (0.07)
Preferred dividend	\$ 96,000	\$ 96,000

The accompanying notes are an integral part of these financial statements

CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Class B Preferred		Class C Preferred		Common	Stock	Subscription	Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Receivable	Paid in Capital	Deficit	
Balance as of January 1, 2006	800,000	\$ 800	-	-	75,608,334	\$ 75,607	\$ -	\$ 6,382,570	\$ (18,691,942)	\$ (12,232,965)
Common stock issued in January 2006 in exchange for services rendered at \$0.084 per share	-	-	-	-	3,000,000	3,000	-	249,000	-	252,000
Common stock issued in January 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	190,000	190	-	18,810	-	19,000
Common stock issued in January 2006 in exchange for services rendered at \$0.113 per share	-	-	-	-	100,000	100	-	11,200	-	11,300
Common stock issued in February 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	229,032	230	-	22,674	-	22,904
Common stock issued in	-	-	-	-	10,000	10	-	940	-	950

February 2006
in exchange
for services
rendered at
\$0.095 per
share

Common
stock issued in
February 2006
in exchange
for services
rendered at
\$0.092 per
share

-	-	-	-	1,500,000	1,500	-	136,500	-	138,000
---	---	---	---	-----------	-------	---	---------	---	---------

Common
stock issued in
March 2006 as
payment
towards
convertible
debentures

-	-	-	-	791,369	792	-	30,863	-	31,655
---	---	---	---	---------	-----	---	--------	---	--------

Common
stock issued in
connection
with options
exercised at
\$0.085 per
share

-	-	-	-	4,000,000	4,000	-	336,000	-	340,000
---	---	---	---	-----------	-------	---	---------	---	---------

F-5

CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total
Common stock issued in April 2006 in exchange for services rendered at \$0.073 per share	-	-	-	-	492,752	493	-	35,478	-	35,971
Common stock issued in connection with options exercised at \$0.081 per share	-	-	-	-	2,772,206	2,772	-	221,777	-	224,549
Common stock issued in May 2006 in exchange for services rendered at \$0.08 per share	-	-	-	-	2,081,484	2,081	-	164,437	-	166,518
Common stock issued in connection with options exercised at \$0.056 per share	-	-	-	-	6,000,000	6,000	(335,406)	329,406	-	-
Common stock issued in July 2006 in exchange for services rendered at \$.042 per share	-	-	-	-	50,000	50	-	2,050	-	2,100
Fair value of 14,430,000 options granted to employees in July 2006	-	-	-	-	-	-	-	721,500	-	721,500
	-	-	-	-	41,667	42	-	2,458	-	2,500

Common stock
issued in August
2006 in exchange
for services
rendered at \$0.06
per share

Common stock
issued in August
2006 in exchange
for services
rendered at
\$0.051 per share

-	-	-	-	500,000	500	-	25,000	25,500
---	---	---	---	---------	-----	---	--------	--------

Common stock
issued in August
2006 in
connection with
conversion of
preferred stock,
Class A

-	-	-	-	125,000	125	-	12,375	12,500
---	---	---	---	---------	-----	---	--------	--------

Common stock
issued in
September 2006
in exchange for
services rendered
at \$0.067 per
share

-	-	-	-	37,313	37	-	2,463	2,500
---	---	---	---	--------	----	---	-------	-------

F-6

CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Common stock issued in September 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	475,000	475	-	47,025		47,500
Common stock issued in October 2006 as payment towards convertible debentures	-	-	-	-	4,000,000	4,000	-	79,539		83,539
Common stock issued in October 2006 in exchange for services rendered at \$0.045 per share	-	-	-	-	500,000	500	-	22,000		22,500
Common stock issued in October 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	25,000	25	-	2,475	-	2,500
Common stock issued in October 2006 in exchange for services rendered at \$0.037 per share	-	-	-	-	2,600,000	2,600	-	93,600	-	96,200
Debt assumption in settlement of stock subscription in October 2006	-	-	-	-	-	-	335,406	-	-	335,406

Common stock issued in November 2006 as payment towards convertible debentures	-	-	-	-	12,000,000	12,000	-	126,300	-	138,300
--	---	---	---	---	------------	--------	---	---------	---	---------

Common stock issued in November 2006 in exchange for services rendered at \$0.036 per share	-	-	-	-	1,700,000	1,700	-	59,500	-	61,200
---	---	---	---	---	-----------	-------	---	--------	---	--------

Fair value of 20,500,000 options granted to employees in November 2006	-	-	-	-	-	-	-	410,000	-	410,000
--	---	---	---	---	---	---	---	---------	---	---------

Common stock issued in December 2006 as payment towards convertible debentures	-	-	-	-	8,000,000	8,000	-	71,280	-	79,280
--	---	---	---	---	-----------	-------	---	--------	---	--------

Common stock issued in December 2006 in exchange for services rendered at \$0.035 per share	-	-	-	-	1,450,000	1,450	-	49,300	-	50,750
---	---	---	---	---	-----------	-------	---	--------	---	--------

F-7

CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total
Warrants exercised at \$0.25 per share	-	-	-	-	-	-	25,000	-	-	25,000
Preferred Class C stock issued in connection with the acquisition of SPE Technologies, Inc.	-	-	100,000	100	-	-	-	2,519,900	-	2,520,000
Net loss	-	-	-	-	-	-	-	-	(6,775,400)	(6,775,400)
	800,000	800	100,000	100	128,279,157	128,279	25,000	12,186,420	(25,467,342)	(13,126,743)
Common stock issued in January 2007 as payment towards convertible debentures	-	-	-	-	25,564,000	25,564	-	221,932	-	247,496
Warrants exercised at \$0.25 per share	-	-	-	-	100,000	100	(25,000)	24,900	-	-
Preferred Class C stock issued in connection with the acquisition of Hybrid Lighting Technologies, Inc.	-	-	50,000	50	-	-	-	768,450	-	768,500

Common stock issued in connection with the acquisition of Hybrid Lighting Technologies, Inc.	-	-	-	-	26,500,000	26,500	-	742,000	-	768,500
--	---	---	---	---	------------	--------	---	---------	---	---------

Common stock issued in January 2007 in connection with conversion of preferred stock, Class A	-	-	-	-	500,000	500	-	49,500	-	50,000
---	---	---	---	---	---------	-----	---	--------	---	--------

Common stock issued in February 2007 as payment towards convertible debentures	-	-	-	-	24,309,800	24,310	-	160,282	-	184,592
--	---	---	---	---	------------	--------	---	---------	---	---------

Common stock issued in March 2007 as payment towards convertible debentures	-	-	-	-	18,021,800	18,022	-	98,220	-	116,242
---	---	---	---	---	------------	--------	---	--------	---	---------

F-8

CYBERLUX CORPORATION
STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Class B Preferred		Class C Preferred		Common	Stock	Subscription	Additional	Accumulated	Total
	Shares	Stock Amount	Shares	Stock Amount	Shares	Amount	Receivable	Paid in Capital	Deficit	
Common stock issued in April 2007 as payment towards convertible debentures	-	-	-	-	33,357,000	33,357	-	121,197	-	154,554
Preferred stock issued in April 2007 as payment towards compensation	2,850,000	2,850	-	-	-	-	-	367,650	-	370,500
Common stock issued in April 2007 for services rendered at \$0.011 per share	-	-	-	-	2,500,000	2,500	-	25,000	-	27,500
Common stock issued in April 2007 as payment towards related party debentures and related interest	-	-	-	-	5,226,182	5,226	-	99,298	-	104,524
Sale of warrants to purchase common stock in May 2007	-	-	-	-	-	-	-	150,000	-	150,000
Common stock issued in May 2007 as	-	-	-	-	48,579,100	48,579	-	57,766	-	106,345

payment towards convertible debentures										
Exercise of warrants in June 2007	-	-	-	-	32,216,950	32,217	-	95,282	-	127,499
Common stock issued in June 2007 as payment towards convertible debentures	-	-	-	-	60,418,910	60,419	-	25,709	-	86,128
Common stock issued in July 2007 as payment towards convertible debentures	-	-	-	-	90,328,573	90,328	-	11,499	-	101,827
Common stock issued in August 2007 as payment towards convertible debentures	-	-	-	-	11,568,802	11,569		(1,157)	-	10,412
Exercise of warrants in September 2007	-	-	-	-	18,022,607	18,023	-	13,201	-	31,224
Common stock issued in September 2007 for services rendered at \$0.034 per share	-	-	-	-	26,650,000	26,650	-	63,960	-	90,610
Common stock issued in October 2007 for services	-	-	-	-	200,000	200	-	5,600	-	5,800

rendered at
\$0.029 per
share

Net loss	-	-	-	-	-	-	-	-	-	(15,619,897)	(15,619,897)
	3,650,000	\$ 3,650	150,000	\$ 150	552,342,881	\$ 552,343	\$ -	\$ 15,286,709	\$ (41,087,239)	\$ (25,244,387)	

F-9

CYBERLUX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) available to common stockholders	\$ (15,619,897)	\$ (6,775,400)
Adjustments to reconcile net income (loss) to cash used in operating activities		
Depreciation	27,706	23,360
Amortization	525,889	-
Fair value of options issued to officers and employees	-	1,131,500
Fair value of warrants issued for services rendered	-	67,410
Common stock issued in connection with services rendered	123,910	1,432,539
Common stock issued in settlement of debt	-	332,774
Preferred stock issued as compensation	370,500	-
Accretion of convertible notes payable	1,873,298	1,315,610
Gain on repurchase and cancellation of warrants	(381,652)	-
Unrealized (gain) loss on adjustment of derivative and warrant liability to fair value of underlying securities	9,620,645	(953,719)
(Increase) decrease in:		
Accounts receivable	99,270	(167,661)
Inventories	40,392	140,326
Prepaid expenses and other assets	12,232	60,582
Deposits	(1,050)	(23,350)
Increase (decrease) in:		
Cash overdraft	33,178	-
Accounts payable	168,663	(93,055)
Accrued liabilities	654,870	882,063
Net cash (used in) operating activities	(2,452,046)	(2,627,021)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash acquired in connection with acquisition of Hybrid Lighting Technologies, Inc	150,000	-
Net cash acquired in connection with acquisition of SPE Technologies	-	250,000
Payments towards patent rights	-	(5,685)
Acquisition of fixed assets	(44,000)	(18,540)
Net cash provided by (used in) investing activities:	106,000	225,775
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of convertible debentures	1,000,000	1,830,000
Proceeds from exercise of warrants	158,723	25,000
Proceeds from sale of warrants	600,000	-
Net proceeds (payments) from borrowing on long term basis	148,668	479,402
Net proceeds (payments) to notes payable, related parties	43,469	(13,000)
Net cash provided by (used in) financing activities:	1,950,860	2,321,402
Net increase (decrease) in cash and cash equivalents	(395,186)	(79,844)
Cash and cash equivalents at beginning of period	395,812	475,656
Cash and cash equivalents at end of period	\$ 626	\$ 395,812

Supplemental disclosures:

Interest Paid	\$	-	\$	47,139
Income Taxes Paid		-		-

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Unrealized (gain) loss in adjustment of derivative and warrant liability to fair value of underlying securities		9,620,645		(953,719)
Fair value of options issued to officers and employees		-		1,131,500
Common stock issued for services rendered		123,910		1,432,539
Common stock issued in settlement of debt		-		332,774
Preferred stock issued as compensation		370,500		-
Warrants issued for services rendered		-		67,410

The accompanying notes are an integral part of these financial statements

F-10

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE A-SUMMARY OF ACCOUNTING POLICIES

General

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

Business and Basis of Presentation

Cyberlux Corporation (the "Company") is incorporated on May 17, 2000 under the laws of the State of Nevada. Until December 31, 2004, the Company was a development state enterprise as defined under Statement on Financial Accounting Standards No.7, Development Stage Enterprises ("SFAS No.7"). The Company develops, manufactures and markets long-term portable lighting products for commercial and industrial users. While the Company has generated revenues from its sale of products, the Company has incurred expenses, and sustained losses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. As of December 31, 2007, the Company has accumulated losses of \$41,087,239.

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

Acquisitions

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

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

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

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

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

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

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

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenues are recognized in the period that products are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At September 30, 2007 and December 31, 2006, the Company did not have any deferred revenue.

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

Estimates

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

Cash and cash equivalents

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

Foreign Currency Translation

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

Accounts Receivables

Accounts Receivable are shown at December 31, 2007 and December 31, 2006 net of Allowance for Doubtful Accounts in the amounts of \$ 8,646 and \$23,502. Our policy is to provide an allowance when an Account becomes

greater than 90 days past due. An account is charged off when it is determined by management to be uncollectible.

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

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

Inventories

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

Components of inventories as of December 31, 2007 and 2006 are as follows:

	2007	2006
Component parts	\$ 151,940	\$ 239,441
Finished goods	48,772	60,990
	200,712	300,431
Less: allowance for obsolete inventory	(43,333)	(102,660)
	\$ 157,379	\$ 197,771

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Property and Equipment

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

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

Advertising costs

The Company expenses all costs of marketing and advertising as incurred. Marketing and advertising costs totaled \$20,437 and \$143,010 for the year ended December 31, 2007 and 2006, respectively.

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 developments 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 \$164,793 and \$225,770 on research and product development for the year ended December 31, 2006 and 2005, respectively.

Reclassification

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

Impairment of long lived assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS 144). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undercounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SF AS 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, 2007 and 2006. 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, 2007 and 2006, allowance for doubtful receivable was \$8,646 and \$23,502, respectively.

F-13

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Stock based compensation

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

As more fully described in Note I below, the Company granted stock options over the years to employees of the Company under a non-qualified employee stock option plan. As of December 31, 2005, 34,000,000 stock options were outstanding and exercisable.

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

For the year ended December 31, 2006, the Company granted 34,930,000 stock options to employees with exercise prices of \$0.022 to \$0.04 per share expiring ten years from date of issuance. The fair value of the options was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield: 0%; volatility from 364% to 373%; risk free interest rate from 4.57% to 5.04%. The fair value of \$1,131,500 was recorded as a current period charge to earnings.

Segment reporting

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

Income taxes

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

At December 31, 2007, the Company has available for federal income tax purposes a net operating loss carryforward of approximately \$40,000,000, expiring in the year 2023, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. Due to significant changes in the Company's ownership, the future use of its existing net operating losses may be limited. Components of deferred tax assets as of December 31, 2007 are as follows:

F-14

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)Income taxes (continued)

Non current:

Net operating loss carry forward	\$	14,000,000
----------------------------------	----	------------

Valuation allowance		(14,000,000)
---------------------	--	--------------

Net deferred tax asset	\$	—
------------------------	----	---

Patents

The Company acquired in December 2006, for \$2,294,000, and January 2007, for \$1,387,000, patents in conjunction with the acquisitions of SPE Technologies, Inc and Hybrid Lighting Technologies, Inc, respectively. The patents have an estimated useful life of 7 years. Accordingly, the Company recorded an amortization charge to current period earnings of \$525,889 and \$-0 for the years ended December 31, 2007 and 2006, respectively. Patents are comprised of the following:

December 31, 2006:

Description	Cost	Accumulated amortization and impairments	Net carrying value at December 31, 2006
Development costs	\$ 293,750	\$ 293,750	\$ -0-
Patents	2,294,224	-	2,294,224
Total	\$ 2,587,974	\$ 293,750	\$ 2,294,224

December 31, 2007:

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

During the years ended December 31, 2007 and 2006, the Company management performed an evaluation of its intangible assets (Patents) for purposes of determining the implied fair value of the assets at acquisition date(s). The tests indicated that the recorded remaining book value of its patents did not exceed their fair value, as determined by discounted cash flows. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

2008	\$	525,889
------	----	---------

2009	525,889
2010	525,889
2011	525,889
2012 and thereafter	1,051,779
Total	\$ 3,155,335

Comprehensive Income (Loss)

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

F-15

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Liquidity

As shown in the accompanying consolidated financial statements, the Company incurred net loss from operations of \$15,619,897 for the year ended December 31, 2007. The Company's current liabilities exceeded its current assets by \$6,509,670 as of December 31, 2007.

Derivative Financial Instruments

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

Registration rights

In with raising capital through the issuance of Convertible Notes, the Company has issued convertible debentures and warrants in that have registration rights with liquidated damages for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the of the underlying embedded derivative and warrants at the date of issuance was recorded as liabilities on the balance sheet. Liquidated damages are estimated and accrued as a liability at each reporting date. The Company has accrued an estimated \$816.856 in liquidation damages.

Recent accounting pronouncements

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

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

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)Recent accounting pronouncements (continued)

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

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

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

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

NOTE B - PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment at December 31, 2007 and 2006 are as follows:

	2007	2006
Furniture and fixtures	\$ 56,348	\$ 61,855
Office and computer equipment	62,061	34,543
Leasehold improvements	21,989	-
Manufacturing equipment	103,380	103,380

	243,778	199,778
Less: accumulated depreciation	(169,171)	(141,465)
	\$ 74,607	\$ 58,313

During the years ended December 31, 2007 and 2006, depreciation expense charged to operations was \$27,706 and \$23,360, respectively.

NOTE C - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2007 and 2006 are as follows:

	2007	2006
Accounts payable	\$ 733,538	\$ 564,875
Accrued interest and liquidation damages (see Note D below)	1,893,561	1,274,371
Accrued payroll and payroll taxes	155,661	122,669
Other accrued liabilities	295,911	297,180
Total	\$ 3,078,671	\$ 2,259,095

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES

Notes payable at December 31, 2007 and 2006 are as follows:

	Gross Principal Amount	2007 Less: Unamortized Discount	Net	Gross Principal Amount	2006 Less: Unamortized Discount	Net
10% convertible note payable, unsecured and due September, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert note principal together with accrued and unpaid interest to the Company's common stock at a rate of \$0.50 per share. The Company is in violation of the loan covenants	\$ 2,500	-	\$ 2,500	\$ 2,500	-	\$ 2,500
10% convertible debenture, due two years from the date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.72 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and	-	-	-	601,687	-	601,687

intellectual property and registration rights. The Company is in violation of the loan covenants (see below)

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) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below)

1,094,091	158,665	935,426	1,500,000	700,183	799,817
-----------	---------	---------	-----------	---------	---------

10% convertible debenture, due three years from date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.6 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion

800,000	216,986	583,014	800,000	483,653	316,347
---------	---------	---------	---------	---------	---------

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)

8% convertible debenture, due three years from date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights (see below)

	\$	700,000	\$	231,416	\$	468,584	\$	700,000	\$	464,749	\$	235,251
--	----	---------	----	---------	----	---------	----	---------	----	---------	----	---------

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

	Gross Principal Amount	2007 Less: Unamortized Discount	Net	Gross Principal Amount	2006 Less: Unamortized Discount	Net
8% convertible debenture, due March 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)	\$ 500,000	\$ 205,936	\$ 294,064	\$ 500,000	\$ 372,603	\$ 127,397
6% convertible debenture, due July 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The	500,000	262,100	237,900	500,000	428,767	71,233

Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)

6% convertible debenture, due September 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, 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)

	280,000	162,119	117,881	280,000	255,452	24,548
--	---------	---------	---------	---------	---------	--------

6% convertible debenture, due December 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the

	600,000	393,973	206,027	600,000	593,972	6,028
--	---------	---------	---------	---------	---------	-------

note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)

8% convertible debenture, due April 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)

\$ 400,000	\$ 306,119	\$ 93,881	-	-	-
------------	------------	-----------	---	---	---

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

	Gross Principal Amount	2007 Less: Unamortized Discount	Net	Gross Principal Amount	2006 Less: Unamortized Discount	Net
8% convertible debenture, due May 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)	\$ 150,000	\$ 116,575	\$ 33,425	\$ -	\$ -	\$ -
8% convertible debenture, due June 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and	150,000	120,822	29,178	-	-	-

intellectual property and registration rights. (See below)

8% convertible debenture, due June 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)

150,000	124,795	25,205	-	-	-
---------	---------	--------	---	---	---

8% convertible debenture, due July 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)

150,000	126,575	23,425	-	-	-
5,476,591	2,426,081	3,050,510	5,484,187	3,299,379	2,184,808

Less: current maturities:	(5,476,591)	(2,426,081)	(3,050,510)	(5,484,187)	(3,299,379)	(2,184,808)
Long term portion	\$ -0-	\$ -0-	\$ 0-	\$ -0-	\$ -0-	\$ -0-

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 was 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. The effective interest rate at the date of inception was 374.96% per annum.

F-20

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for net proceeds of \$1,186,281. The proceeds that the Company received were net of prepaid interest of \$50,000 and related fees and costs of \$263,719.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on September 23, 2004. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$1,099,953 and \$400,047 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

Requirement to pay principal and interest when due

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

Change of control

Trading market limitations

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

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to

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

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$-0- and \$86,404, respectively.

F-21

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

The Company entered into a Securities Purchase Agreement with four accredited investors on April 23, 2005 for the issuance of an aggregate of \$1,500,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes was warrants to purchase 25,000,000 shares of the Company’s common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.03 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 270.43% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for total proceeds of \$1,352,067. The proceeds that the Company received were net of prepaid interest of \$72,933 representing the first eight month’s interest and related fees and costs of \$75,000.

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

The Securities Purchase Agreement contains the following covenants:

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

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

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$135,609 and \$500,000, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on October 24, 2005 for the issuance of \$800,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 800,000 shares of the Company's common stock. The Convertible Note accrues interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.06 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 142.28% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$800,000 in exchange for total proceeds of \$775,000. The proceeds that the Company received were net of related fees and costs of \$25,000.

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

The Securities Purchase Agreement contains the following covenants:

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

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's

discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$266,667 and \$266,667, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on December 28, 2005 for the issuance of \$700,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 700,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 158.81% per annum.

As of December 31, 2007, 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.

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

The Securities Purchase Agreement contains the following covenants:

Requirement to pay principal and interest when due

· Provide shares of the Company's common stock to the Holder(s) upon exercise by the Holder(s)

· Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness

· Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement

Change of control

Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's

discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$233,333 and \$233,333, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on March 31, 2006 for the issuance of \$500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 19,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 11.01% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$460,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

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

The Securities Purchase Agreement contains the following covenants:

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

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's

discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$166,667 and \$127,397, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on July 28, 2006 for the issuance of \$500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 15,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 10.00% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$490,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

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

The Securities Purchase Agreement contains the following covenants:

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

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's

discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM" or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$166,667 and \$71,233, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on September 26, 2006 for the issuance of \$280,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 9.36% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$280,000 in exchange for total proceeds of \$259,858. The proceeds that the Company received were net of related fees and costs of \$20,142.

The Company's identified embedded derivatives related to the Securities Purchase Agreement entered into on September 26, 2006. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company allocate the relative fair values of the derivatives and related warrants as of the inception date of the Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$100,513 and \$179,487 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

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

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's

discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$93,333 and \$24,548, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on December 20, 2006 for the issuance of \$600,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 20,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 15.00% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$600,000 in exchange for total proceeds of \$590,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

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

The Securities Purchase Agreement contains the following covenants:

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

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's

discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of December 31, 2007 and 2006, the Company has not maintained an effective registration statement and therefore is in default of the Security Purchase agreement. As such, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Notes issued pursuant to the Purchase Agreement and through the delivery of written notice to the Company by such Holders (the "DEFAULT NOTICE"); the Notes shall become immediately due and payable and the Company shall pay to the Holder an amount equal to the greater of (i) 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment plus (y) Default Interest (at 15% per annum), if any, plus (z) any amounts owed to the Holder pursuant to the Registration Rights Agreement. The then outstanding principal amount of the Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "DEFAULT SUM" or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "DEFAULT AMOUNT") and all other amounts payable hereunder shall immediately become due and payable, together with all costs including legal fees and expenses of collection. If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

For the years ended December 31, 2007 and 2006, the Company amortized the debt discount and charged to interest expense \$200,000 and \$6,027, respectively.

The Company entered into a Securities Purchase Agreement with four accredited investors on April 18, 2007 for the issuance of \$400,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 235.00% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$400,000 in exchange for total proceeds of \$360,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

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

The Securities Purchase Agreement contains the following covenants:

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

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's

discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

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

The Company entered into a Securities Purchase Agreement with four accredited investors on May 1, 2007 for the issuance of \$150,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 80.83% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

The Securities Purchase Agreement contains the following covenants:

Requirement to pay principal and interest when due

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

Change of control

Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable

Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

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

The Company entered into a Securities Purchase Agreement with four accredited investors on June 1, 2007 for the issuance of \$150,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes was warrants to purchase 10,000,000 shares of the Company’s common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 91.87% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

The Securities Purchase Agreement contains the following covenants:

Requirement to pay principal and interest when due

- Provide shares of the Company’s common stock to the Holder(s) upon exercise by the Holder(s)
- Timely file a registration statement with the SEC and obtain effectiveness and maintain effectiveness
- Maintain sufficient number of authorized shares, subject to Stockholder approval for full conversion of any remaining Security Purchase Agreement

Change of control

Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company’s common stock, at the Company’s discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable

Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

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

The Company entered into a Securities Purchase Agreement with four accredited investors on June 30, 2007 for the issuance of \$150,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 85.51% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

The Securities Purchase Agreement contains the following covenants:

Requirement to pay principal and interest when due

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

Change of control

Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable

Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

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

The Company entered into a Securities Purchase Agreement with four accredited investors on July 13, 2007 for the issuance of \$150,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes was warrants to purchase 10,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. The effective interest rate at the date of inception was 85.13% per annum.

As of December 31, 2007, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

The Securities Purchase Agreement contains the following covenants:

Requirement to pay principal and interest when due

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

Change of control

Trading market limitations

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable

Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE D-CONVERTIBLE DEBENTURES (continued)

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

As of December 31, 2007, the Company has accrued \$816,586 in default provision liabilities and liquidated damages relating the to the above described Securities Purchase Agreements.

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

- The Company allocated the proceeds received between convertible debt and detachable warrants based upon the relative fair market values on the dates the proceeds were received. The fair values of the detachable warrants and the embedded derivatives were determined under the Black-Scholes option pricing formula and the intrinsic method, respectively
- Subsequent to the initial recording, the increase (or decrease) in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula and the increase (or decrease) in the intrinsic value of the embedded derivatives of the convertible debentures are recorded as adjustments to the liabilities at December 31, 2006 and 2005, respectively.
- The expense relating to the increase (or decrease) in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives is included as other income item as a gain or loss arising from convertible financing on the Company's balance sheet.

· Accreted principal of \$3,048,010 and \$2,182,308 as of December 31, 2007 and 2006, respectively.

NOTE E-WARRANT LIABILITY

Total warrant liability as of December 31, 2007 and 2006 is comprised of the following:

	2007	2006
Fair value of warrants relating to convertible debentures	\$ 1,874,970	\$ 2,759,305
Fair value of other outstanding warrants	2,634,568	194,775
Total	\$ 4,509,538	\$ 2,954,080

Warrants were valued at the date of inception and at December 31, 2007 and December 31, 2006 using the Black Scholes Option Pricing Model.

The assumptions used at December 31, 2007 and 2006 were as follows:

	2007	2006
Expected volatility	528%	391%
Expected dividend yield	-0-%	-0-%
Average risk free rate	3.45%	4.74%
Expected life (a)	1.01 to 6.53 yrs	0.89 to 7.00 yrs

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

NOTE F - NOTE PAYABLE

Note payable as of December 31, 2007 and 2006, comprised of the following:

	2007	2006
Note payable, 24% interest per annum; due in 90 days; secured by specific accounts receivables	\$ 196,067	\$ 47,399

F-34

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE G - NOTES AND CONVERTIBLE NOTES PAYABLE-RELATED PARTY

Notes payable-related party is comprised of the following:

	2007	2006
Notes payable, 12% per annum; due on demand; unsecured	\$ 147,714	\$ 102,245
Notes payable, 10% per annum, due on demand; unsecured	249,350	251,350
Notes payable, 10% per annum, due on demand, convertible into the Company's common stock after March 2007 at a conversion rate of \$0.02 per share, unsecured	-	100,567
	397,064	454,162
Less: current maturities:	(397,064)	(454,162)
Long term portion:	\$ -	\$ -

NOTE H -STOCKHOLDER'S EQUITY**Series A - Convertible Preferred stock**

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

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

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

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

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

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

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

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

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

The holders of record of the Series A Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$5,000 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series A Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series A Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. As of the period ended December 31, 2006, \$0 in dividends were accumulated.

F-35

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE H -STOCKHOLDER'S EQUITY (continued)

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

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

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

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

- 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, 2006 and 2005, respectively.
- The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants (noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.

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

Series B - Convertible Preferred stock

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

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, 2006.

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.

F-36

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE H - STOCKHOLDER'S EQUITY (continued)

Series B - Convertible Preferred stock (continued)

The holders of record of the Series B Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$1.00 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series B Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series B Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. For the year ended December 31, 2007 \$ 380,000 in dividends were accumulated.

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

Series C - Convertible Preferred stock

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

In December 2006, the Company issued 100,000 shares of its Series C Preferred stock in conjunction with the acquisition of SPE Technologies, Inc. The shares of the Series C Preferred are non voting and convertible, at the option of the holder, into common shares one year from issuance. The number of common shares to be issued per Series C share is adjusted based on the average closing bid price of the previous ten days prior to the date of conversion based on divided into \$25.20 The shares issued were valued at \$25.20 per share, which represented the fair value of the common stock the shares are convertible into. None of the Series C Preferred shareholders have exercised their conversion right and there are 100,000 shares of Series C Preferred shares issued and outstanding at December 31, 2006.

The holders of record of the Series C Preferred shall be entitled to receive cumulative dividends at the rate of five percent per annum (5%), compounded quarterly, on the face value (\$25.00 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series C Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, at the time of conversion. These dividends are not recorded until declared by the Company. For the year ended December 31, 2006 \$-0- in dividends were accumulated.

Common stock

The Company has authorized 700,000,000 shares of common stock, with a par value of \$.001 per share. As of December 31, 2007 and 2006, the Company has 552,142,881 and 128,279,157 shares issued and outstanding, respectively.

During the year ended December 31, 2006, holders converted 20.88 shares of preferred stock - Class A into 1,044,032 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

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

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

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

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

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

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE H -STOCKHOLDER'S EQUITY (continued)

Common stock (continued)

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

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

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

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

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

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

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

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

In October 2006, the Company issued 4,000,000 shares of its common stock at \$0.021 per share on conversion of notes payable

In October 2006, the Company issued 500,000 shares of its common stock at \$0.045 per share in exchange for services.

In October 2006, the Company issued 2,600,000 shares of its common stock at \$0.037 per share in exchange for services.

In November 2006, the Company issued 12,000,000 shares of its common stock at \$0.011 per share on conversion of notes payable.

In November 2006, the Company issued 1,700,000 shares of its common stock at \$0.036 per share in exchange for services.

In December 2006, the Company issued 8,000,000 shares of its common stock at \$0.01 per share on conversion of notes payable.

In December 2006, the Company issued 1,450,000 shares of its common stock at \$0.035 per share in exchange for services.

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

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

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

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

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

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

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

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

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

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

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

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

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

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE H -STOCKHOLDER'S EQUITY (continued)**Common stock (continued)**

In October 2007, the Company issued 200,000 shares of its common stock in exchange for services rendered. The Company valued the shares issued at \$5,800 which approximated the fair value of the shares issued during the periods the services were rendered.

NOTE I -STOCK OPTIONS AND WARRANTS**Class A Warrants**

The following table summarizes the changes in warrants outstanding and related prices for the shares of the Company's common stock issued to shareholders at December 31, 2007:

Exercise Price	Warrants			Warrants	
	Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Exercisable	Weighted Average Exercise Price
\$0.001	50,000,000	4.76	\$ 0.001	50,000,000	0.001
0.02	50,000,000	4.43	0.02	50,000,000	0.02
0.03	25,000,000	2.38	0.03	25,000,000	0.03
0.10	991,500	1.42	0.10	991,500	0.10
0.25	58,500	1.00	0.25	58,500	0.25
0.50	50,000	0.78	0.50	50,000	0.50
1.05	100,000	1.00	1.05	100,000	1.05
0.03075	49,760,443	4.39	0.03075	49,760,443	0.03075 (a)
	175,960,443			175,960,443	

(a) See terms of warrants issued below

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2005	48,431,128	\$ 0.42
Granted	68,750,000	0.07
Exercised	(100,000)	(0.025)
Canceled or expired	(17,186,128)	(0.64)
Outstanding at December 31, 2006	99,895,000	0.09
Granted	200,000,000	0.01525
Exercised	(50,239,557)	(0.03)
Canceled or expired	(73,695,000)	(0.07)
Outstanding at December 31, 2006	175,960,443	0.016

For the year ended December 31, 2006, warrants totaling 64,000,000 were issued in connection with debt financing. The warrants are exercisable until seven years after date of issuance with 19,000,000 at a purchase price of \$0.10 per share, 45,000,000 at \$0.06 per share. The 19,000,000 warrants have a reset provision should the Company issue shares below \$0.10 per share excluding conversion of related debt.

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

In the year ended December 31, 2007, the Company sold 100,000,000 five year warrants with an exercise price of 50% of the average closing price of the twenty trading days prior to warrant execution. The transaction, to the extent that it is to be satisfied with common stock of the Company would normally be included as equity obligations. However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host conversion feature, the Company is required to record a liability relating to warrants and as such has recorded the fair value of the embedded conversion feature, using the Black-Scholes option pricing method, as a liability for the current period.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE I - STOCK OPTIONS AND WARRANTSClass A Warrants (continued)

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

Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan at December 31, 2007:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$0.2125	2,000,000	5.96	\$ 0.2125	2,000,000	\$ 0.2125	
0.2125	2,000,000	6.37	0.2125	2,000,000	0.2125	
0.022	20,500,000	8.87	0.022	20,500,000	0.022	
0.0295	4,000,000	7.35	0.0295	4,000,000	0.0295	
0.04	14,430,000	8.57	0.04	14,430,000	0.04	
0.10	9,502,307	6.26	0.10	9,502,307	0.10	

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2005	34,000,000	\$ 0.076
Granted	34,930,000	0.029
Exercised	(16,497,693)	0.037
Canceled or expired	-	-
Outstanding at December 31, 2006	52,432,307	0.0562
Granted	-	-
Exercised	-	-
Canceled or expired	-	-
Outstanding at December 31, 2007	52,432,307	\$ 0.0562

During the year ended December 31, 2006, the Board of Directors voted to exercised 16,497,693 of their options cashlessly to provide 12,772,206 share of the Company's common stock to be used as collateral in support of short-term financing.

Edgar Filing: CYBERLUX CORP - Form 10KSB

During the year ended December 31, 2006, the Company granted 14,430,000 employee stock options with an exercise price of \$0.04 expiring ten years from issuance. The fair value (determined as described below) of \$721,500 was charged to current period earnings.

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

For the year ended December 31, 2006:

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

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

During the year ended December 31, 2006, the Company granted 20,500,000 employee stock options with an exercise price of \$0.022 expiring ten years from issuance. The fair value (determined as described below) of \$410,000 was charged to current period earnings.

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

F-40

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE I -STOCK OPTIONS AND WARRANTS (continued)Employee Stock Options (continued)

For the year ended December 31,2006:

Significant assumptions (weighted-average):	
Risk-free interest rate at grant date	4.37%
Expected stock price volatility	373%
Expected dividend payout	-
Expected option life-years (a)	10

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

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

NOTE H -RELATED PARTY TRANSACTIONS

From time to time, the Company's principal officers have advanced funds to the Company for working capital purposes in the form of unsecured promissory notes, accruing interest at 10% to 12% per annum. As of December 31, 2007 and 2006, the balance due to the officers was \$397,064 and \$454,162, respectively.

NOTE J -COMMITMENTS AND CONTINGENCIESConsulting 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 six year lease expiring December 31, 2012, for an annualized rent payment of \$88,020. Additionally the Company leases warehouse space on a month to month basis for \$550 per month. For the years ended December 31, 2007 and December 31, 2006, rent expense was \$81,266 and 58,406, respectively. At December 31, 2007, schedule of the future minimum lease payments is as follows:

2008	88,020
2009	88,020
2010	88,020
2011	88,020
2012	88,020

Litigation

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its consolidated financial position, results of operations or liquidity. On April 16, 2007, Casey Tool and Machine Co. filed a complaint against us in the Circuit Court for the Fourth Judicial District, Shelbyville, Illinois, alleging breach of contract for failure to pay \$14,222 on an account payable. We intend to resolve this matter in a judicious manner.

On September 5, 2007, we announced that we had commenced an action against AJW Partners, LLC, AJW Offshore, LTD., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLC, (the "Defendants") in the United States District Court for the Southern District of New York for violations of the anti-fraud provisions of the Securities Act of 1934, fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, breach of implied covenant of good faith and fair dealing and conversion. The complaint alleges that the Defendants utilized an illegal trading scheme involving deceptive secured loan financings to convert shares of Company's common stock for the Defendants' own use and benefit. The trading scheme involved the Defendants manipulating the Company's stock price downward by short sales. In addition the complaint seeks declaratory, injunctive and monetary relief.

On September 13, 2007, Britannia Law Office commenced an action against us and our President, Mark D. Schmidt, in the General Court of Justice, Superior Court Division, Durham County, North Carolina, alleging breach of contract, additional payments due under contract, unjust enrichment, fraud and unfair trade practices arising out of a consultant agreement. Plaintiff seeks compensation pursuant to a consulting agreement of \$30,000 and the issuance of five million shares of the Company's common stock. These motions are currently pending. We believe that their claims are without merit and we will vigorously defend these claims.

Loss Per Share

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

	For the year ended	
	December 31,	
	2007	2006
Net (loss) available to common stockholders	\$ (15,619,897)	\$ (6,775,400)
Basic and diluted (loss) per share	(0.04)	(0.07)
Weighted average common shares outstanding	383,858,373	94,515,133

As of December 31, 2007 and 2006, 1,062,167,415 and 608,419,719 potential shares were excluded from the shares used to calculate loss per share as their inclusion would reduce net loss per share.

CYBERLUX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE K - BUSINESS CONCENTRATION

Sales to 5 major customers approximated \$ 538328.26 or 75% of total sales for the year ended December 31, 2007 (5 major customers approximated \$189,968 or 39% of total sales for the year ended December 31, 2006).

Purchases from the Company's 5 major suppliers accounted for 74% of total purchases for the year ended December 31, 2007 (5 major suppliers accounted for 87.6% of total purchases for the year ended December 31, 2006).

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 consolidated financial statements, as of December 31, 2007, the Company incurred accumulated losses of \$41,087,239. The Company's current liabilities exceeded its current assets by \$6,509,670 as of December 31, 2007. 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.

NOTE M - SUBSEQUENT EVENTS

On January 23, 2008, the Company amended the Articles of Incorporation to increase its authorized shares of Common Stock, par value \$.001, from 700,000,000 to 950,000,000 shares.

The Company completed an equity financing with St. George Investments, LLC (SGI), an Illinois limited liability company, on March 21, 2008 for \$1,500,000. The equity financing is structured as a 25% discount to market Warrant transaction that provides \$500,000 in capital at closing, followed by four tranches of \$250,000 each. Each \$250,000 tranche is staggered at 60-day intervals commencing in six months on September 22, 2008, which is the date that shares are salable pursuant to Rule 144 upon exercise of the Warrant. The Company issued 7,500,000 shares of Common Stock to SGI in order to induce the SGI to purchase the \$1,500,000 Warrant. In addition, 6,763,300 additional shares of Common Stock were issued as Performance Stock in the name of SGI to remain in their original certificated form and remain in escrow with the law firm of Anslow & Jaclin, LLP acting as escrow agent. Once the Warrant transaction is complete, the Performance Stock will be returned out of escrow to the Company.

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

On August 1, 2007, Cyberlux Corporation (the "Company") advised RBSM LLP (Formerly known as Russell Bedford Stefanou Mirchandani LLP) ("RBSM") that the firm was dismissed as the Company's registered public accounting firm. The decision to dismiss RBSM as the Company's independent registered public accounting firm was approved by the Company's Board of Directors on August 1, 2007. Except as noted in the paragraph immediately below, the reports of RBSM on the Company's consolidated financial statements for the years ended December 31, 2006 and 2005 did not contain an adverse opinion or disclaimer of opinion, and such reports were not qualified or modified as to uncertainty, audit scope, or accounting principle.

The reports of RBSM on the Company's consolidated financial statements as of and for the years ended December 31, 2006 and 2005 contained an explanatory paragraph which noted that there was substantial doubt as to the Company's ability to continue as a going concern as the Company has suffered recurring losses from operations.

During the years ended December 31, 2006 and 2005, and through August 1, 2007, the Company has not had any disagreements with RBSM on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to RBSM's satisfaction, would have caused them to make reference thereto in their reports on the Company's consolidated financial statements for such years.

During the years ended December 31, 2006 and 2005, and through August 1, 2007, there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K.

The Company provided RBSM with a copy of this Current Report on Form 8-K prior to its filing with the SEC, and requested that they furnish us with a letter addressed to the SEC stating whether they agree with the statements made in this Current Report, and if not, stating the aspects with which they do not agree. A copy of the letter provided from Russell Bedford Stefanou Mirchandani LLP is filed as Exhibit 16.1 to this Current Report on Form 8-K.

New independent registered public accounting firm

The Company engaged the firm of Turner, Jones & Associates, PLLC, as of August 1, 2007 as its independent registered public accounting firm for the Company's fiscal year ended December 31, 2007. The decision to engage Turner, Jones & Associates, PLLC as the Company's independent registered public accounting firm was approved by the Company's Board of Directors.

During the two most recent fiscal years and through the August 1, 2007, the Company has not consulted with Turner, Jones & Associates, PLLC regarding either:

1. the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report was provided to the Company nor oral advice was provided that Turner, Jones & Associates, PLLC concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or
2. any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-B and the related instruction to Item 304 of Regulation S-B, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-B.

ITEM 8A(T) - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of December 31, 2007, 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 the Chief Financial Officer have concluded that the separation of duties involving the initiation, approval and recording of accounting and financial transactions provide effective and adequate controls. In addition, the Company employs the services of an independent consultant to review our reporting procedures and insure compliance with regulatory reporting requirements.

However, a review of the summarizing and reporting aspects of transactions identified several areas of deficiency as follows:

Deficiency

The present electronic accounting system cannot produce periodic financial statements without the intervention of and additional work performed by the Chief Financial Officer. The present system has been used in its present form since the founding of the Company, and is no longer adequate to meet the reporting needs of a growing concern.

Solution

Management acquired new accounting software late in 2007. The design and installation of that software along with its implementation in January of 2008 should resolve the deficiency.

Deficiency

The present electronic accounting system does not provide for the efficient recording of transactions involving the movement of additions to and sales of product inventory accounts. While our review found no irregularities in the integrity of the information, the additional intervention on the part of accounting personnel to verify the information was determined not only to be cumbersome, but also presented the potential for misstatement.

Solution

The selection process of the accounting software acquired late in 2007, specifically addressed the need for an integrated, reliable solution to the recording and reporting of transactions involving inventory. The design and implementation of the new software in 2008 should resolve the deficiency.

Deficiency

The recording and reporting of periodic entries involving depreciation, amortization, accruals and other adjusting entries have been performed on a quarterly review basis only.

Solution

The design and implementation of the new accounting software in 2008 provides for the entry of periodic, repetitive transactions on a timely basis.

Deficiency

The receipts and disbursements of cash are handled through a single bank account. While our review found no irregularities, it is the opinion of management that controls can be better assured if multiple, special-purpose bank accounts are established.

43

Solution

Management will establish additional, special-purpose accounts to provide for increased control of the cash management function.

ITEM 8B. OTHER INFORMATION

None.

44

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	73	Chief Executive Officer and Chairman of the Board of Directors
Mark D. Schmidt	42	President, Chief Operating Officer and Director
John W. Ringo	62	Secretary, Corporate Counsel and Director
Alan H. Ninneman	64	Senior Vice President and Director
David D. Downing	58	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 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.

Limitation of Liability of Directors

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

Election of Directors and Officers.

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

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

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

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Audit Committee

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

Nominating Committee

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

Code of Conduct

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

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

Compensation Committee

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

ITEM 10. EXECUTIVE COMPENSATION**Termination of Employment**

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

Executive Compensation

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

Summary Compensation Table

Name & Principal Position	Year	ANNUAL COMPENSATION						
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Options SARs (#)	LTIP Payouts (\$)	All Other Compensation
Donald F. Evans CEO & Chairman	2007	180,000						
	2006	180,000	0	0		5,500,000		
	2005	180,000	0	0	-	4,250,000	-	-
	2004	180,000	0	0	-	550,000	-	-
	2003	180,000	0	0	-	700,000	-	-
John W. Ringo Secretary and Corporate Counsel	2007	69,000						
	2006	42,000	0	0	-	1,000,000		
	2005	76,000	0	0	-	1,500,000	-	-
	2004	70,500	0	0	-	400,000	-	-
	2003	102,000	0	0	-	250,000	-	-
Alan H. Ninneman Senior Vice President	2007	69,000						
	2006	42,000	0	0		1,000,000		
	2005	76,000	0	0	-	1,000,000	-	-
	2004	70,500	0	0	-	400,000	-	-
	2003	102,000	0	0	-	250,000	-	-
Mark D. Schmidt	2007	180,000						
	2006	180,000	0	0	-	3,500,000		
	2005	180,000	0	0	-	4,000,000	-	-

Edgar Filing: CYBERLUX CORP - Form 10KSB

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.

48

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 EXPIRATION DATE
Donald F. Evans	7,000,000	45.83% \$	0.02 /Sh 2013
John W. Ringo	1,500,000	8.33% \$	0.02 /Sh 2013
Alan H. Ninneman	1,500,000	8.33% \$	0.02 /Sh 2013
Mark D. Schmidt	6,000,000	29.16% \$	0.02 /Sh 2013

Stock Option Plans

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

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

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

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

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

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

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

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information, to the best of the Company's knowledge, about the beneficial ownership of its common stock on March 31, 2008, 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 566,806,183 shares of common stock outstanding.

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

NAME AND ADDRESS OF OWNER	TITLE OF CLASS	NUMBER OF SHARES OWNED(1)	PERCENTAGE OF CLASS (2)
Donald F. Evans 4625 Creekstone Drive Suite 130 Research Triangle Park Durham, NC 27703	Common Stock	31,579,845(3)	5.57%
Mark D. Schmidt 4625 Creekstone Drive Suite 130 Research Triangle Park Durham, NC 27703	Common Stock	22,808,748(4)	4.04%
Alan H. Ninneman 4625 Creekstone Drive Suite 130 Research Triangle Park Durham, NC 27703	Common Stock	6,677,583(5)	1.18%
John W. Ringo 4625 Creekstone Drive Suite 130 Research Triangle Park Durham, NC 27703	Common Stock	6,947,583 (6)	1.22%
David Downing 4625 Creekstone Drive Suite 130 Research Triangle Park Durham, NC 27703	Common Stock	3,000,000 (7)	0.52%
All Officers and Directors As a Group (5 persons)	Common Stock	71,013,759(8)	12.52%

Donald F. Evans	Preferred B	1,000,000	27.39%
Mark D. Schmidt	Preferred B	1,000,000	27.39%
Alan H. Ninneman	Preferred B	550,000	13.69%
John W. Ringo	Preferred B	750,000	20.54%
David Downing	Preferred B	350,000	9.58%

(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of May 18, 2007 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 566,806,183 shares issued and outstanding on March 31, 2008.

(3) Includes currently exercisable options to purchase 20,132,915 shares of common stock and 1,000,000 shares of Series B convertible preferred stock convertible into 10,000,000 shares of common stock and entitled to cast 100,000,000 votes at any meeting of shareholders.

(4) Includes currently exercisable options to purchase 15,480,198 shares of common stock and 1,000,000 shares of Series B convertible preferred stock convertible into 10,000,000 shares of common stock and entitled to cast 100,000,000 votes at any meeting of shareholders.

(5) Includes currently exercisable options to purchase 3,694,597 shares of common stock and 550,000 shares of Series B convertible preferred stock convertible into 5,500,000 shares of common stock and entitled to cast 55,000,000 votes at any meeting of shareholders.

(6) Includes currently exercisable options to purchase 3,694,597 shares of common stock and 750,000 shares of Series B convertible preferred stock convertible into 7,500,000 shares of common stock and entitled to cast 75,000,000 votes at any meeting of shareholders.

(7) Includes currently exercisable options to purchase 1,500,000 shares of common stock and 350,000 shares of Series B convertible preferred stock convertible into 3,500,000 shares of common stock and entitled to cast 35,000,000 votes at any meeting of shareholders.

(8) Includes currently exercisable options to purchase 45,002,307 shares of common stock and 3,650,000 shares of Series B convertible preferred stock convertible into 36,500,000 shares of common stock and entitled to cast 365,000,000 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 Stock have certain conversion rights and superior voting privileges as further described in the "Description of Securities" section herein. The Board of Directors, exercising their business judgment, determined that it was in the Company's best interest to issue shares of Series B convertible preferred stock in lieu of accrued management fees. The Board of Directors determined that the terms of the transaction were as fair to the Company as any transactions that could have been made with unaffiliated parties. . On June 17, 2007, the Board of Directors amended the Certificate of Designation for the Series B Convertible Preferred Stock and increased the number of shares to be issued to officers and directors to 3, 650,000 shares.

Currently, there are still outstanding promissory notes totaling 397,064, which include \$249,350 in unpaid management fees and promissory notes to officers totaling \$147,714. The unpaid management fees include \$90,916 owed to Don Evans; \$82,348 to Al Ninneman and \$76,086 to John Ringo. The outstanding promissory notes to officers include \$17,745 to Al Ninneman, and \$129,969 to Dave Downing. The promissory notes were issued to officers who lent us funds for working capital purposes. The promissory notes are payable on demand and accrue interest at an annual rate of 12%.

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

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

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

PART IV

ITEM 13. EXHIBITS

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

Edgar Filing: CYBERLUX CORP - Form 10KSB

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

the Commission on April 28, 2005 and incorporated herein by reference.

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

- 4.43 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.
- 4.44 Secured Convertible Note issued to AJW Offshore, Ltd., dated October 23, 2005.
- 4.45 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated October 23, 2005.
- 4.46 Secured Convertible Note issued to AJW Partners, LLC, dated October 23, 2005.
- 4.47 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.48 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated October 23, 2005.
- 4.49 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated October 23, 2005.
- 4.50 Common Stock Purchase Warrant with AJW Partners, LLC, dated October 23, 2005.
- 4.51 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated October 23, 2005.
- 4.52 Registration Rights Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.53 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.
- 4.54 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.
- 4.55 Securities Purchase Agreement, dated as of December 28, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.56 Secured Convertible Note issued to AJW Offshore, Ltd., dated December 28, 2005.
- 4.57 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated December 28, 2005.
- 4.58 Secured Convertible Note issued to AJW Partners, LLC, dated December 28, 2005.
- 4.59 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.60 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated December 28, 2005.
- 4.61 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated December 28, 2005.
- 4.62 Common Stock Purchase Warrant with AJW Partners, LLC, dated December 28, 2005.

4.63 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated December 28, 2005.

56

Edgar Filing: CYBERLUX CORP - Form 10KSB

- 4.64 Registration Rights Agreement, dated as of December 28, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.65 Security Agreement, dated as of December 28, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.66 Intellectual Property Security Agreement, dated as of December 28, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.67 Securities Purchase Agreement, dated as of March 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.68 Secured Convertible Note issued to AJW Offshore, Ltd., dated March 27, 2006.
- 4.69 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated March 27, 2006.
- 4.70 Secured Convertible Note issued to AJW Partners, LLC, dated March 27, 2006.
- 4.71 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.72 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated March 27, 2006.
- 4.73 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated March 27, 2006.
- 4.74 Common Stock Purchase Warrant with AJW Partners, LLC, dated March 27, 2006.
- 4.75 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated March 27, 2006.
- 4.76 Registration Rights Agreement, dated as of March 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.77 Security Agreement, dated as of March 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.78 Intellectual Property Security Agreement, dated as of March 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.79 Securities Purchase Agreement, dated as of July 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.80 Secured Convertible Note issued to AJW Offshore, Ltd., dated July 27, 2006.

Edgar Filing: CYBERLUX CORP - Form 10KSB

- 4.81 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated July 27, 2006.
- 4.82 Secured Convertible Note issued to AJW Partners, LLC, dated July 27, 2006.
- 4.83 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.84 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated July 27, 2006.
- 4.85 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated July 27, 2006.
- 4.86 Common Stock Purchase Warrant with AJW Partners, LLC, dated July 27, 2006.
- 4.87 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated July 27, 2006.
- 4.88 Registration Rights Agreement, dated as of July 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.89 Security Agreement, dated as of July 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.90 Intellectual Property Security Agreement, dated as of July 27, 2006, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.

57

Edgar Filing: CYBERLUX CORP - Form 10KSB

- 4.91 Securities Purchase Agreement dated as of April 16, 2007, by and among Cyberlux Corporation AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.92 Secured Convertible Note issued to AJW Offshore, Ltd., dated April 16, 2007.
- 4.93 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated April 16,2007.
- 4.94 Secured Convertible Note issued to AJW Partners, LLC, dated April 16,2007.
- 4.95 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.96 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated April 16,2007.
- 4.97 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated April 16,2007.
- 4.98 Common Stock Purchase Warrant with AJW Partners, LLC, dated April 16,2007.
- 4.99 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated April 16,2007.
- 4.100 Registration Rights Agreement, dated as of April 16,2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.101 Security Agreement, dated as of April 16,2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.102 Intellectual Property Security Agreement, dated as of April 16,2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.103 Securities Purchase Agreement dated as of May 3, 2007, by and among Cyberlux Corporation AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.104 Secured Convertible Note issued to AJW Offshore, Ltd., dated May 3, 2007.
- 4.105 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated May 3, 2007.
- 4.106 Secured Convertible Note issued to AJW Partners, LLC, dated May 3, 2007.
- 4.107 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.108 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated May 3, 2007.
- 4.109 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated May 3, 2007.

- 4.110 Common Stock Purchase Warrant with AJW Partners, LLC, dated May 3, 2007.
- 4.111 Common Stock Purchase Warrant with New Millennium Capital Partners II, LLC, dated May 3, 2007.
- 4.112 Registration Rights Agreement, dated as of May 3, 2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.113 Security Agreement, dated as of May 3, 2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.114 Intellectual Property Security Agreement, dated as of May 3, 2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.115 Securities Purchase Agreement dated as of June 4, 2007, by and among Cyberlux Corporation AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.116 Secured Convertible Note issued to AJW Offshore, Ltd., dated June 4, 2007.
- 4.117 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated June 4, 2007.
- 4.118 Secured Convertible Note issued to AJW Partners, LLC, dated June 4, 2007.
- 4.119 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.120 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated June 4, 2007.
- 4.121 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated June 4, 2007.
- 4.122 Common Stock Purchase Warrant with AJW Partners, LLC, dated June 4, 2007.
- 4.123 Common Stock purchase Warrant with New Millennium Capital Partners II, LLC, dated June 4, 2007.
- 4.124 Registration Rights Agreement, dated as of June 4,2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.125 Security Agreement, dated as of June 4,2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.126 Intellectual Property Security Agreement dated as of June 4,2007 by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.

Edgar Filing: CYBERLUX CORP - Form 10KSB

- 4.127 Securities Purchase Agreement dated as of June 20, 2007, by and among Cyberlux Corporation AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.128 Secured Convertible Note issued to AJW Offshore, Ltd., dated June 20, 2007.
- 4.129 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated June 20, 2007.

59

Edgar Filing: CYBERLUX CORP - Form 10KSB

- 4.130 Secured Convertible Note issued to AJW Partners, LLC, dated June 20, 2007.
- 4.131 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.132 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated June 20, 2007.
- 4.133 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated June 20, 2007.
- 4.134 Common Stock Purchase Warrant with AJW Partners, LLC, dated June 20, 2007.
- 4.135 Common Stock purchase Warrant with New Millennium Capital Partners II, LLC, dated June 20, 2007.
- 4.136 Registration Rights Agreement, dated as of June 20, 2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.137 Security Agreement, dated as of June 20, 2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.138 Intellectual Property Security Agreement dated as of June 20, 2007 by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.127 Securities Purchase Agreement dated as of July 13, 2007, by and among Cyberlux Corporation AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.128 Secured Convertible Note issued to AJW Offshore, Ltd., dated July 13, 2007.
- 4.129 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated July 13, 2007.
- 4.130 Secured Convertible Note issued to AJW Partners, LLC, dated July 13, 2007.
- 4.131 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.
- 4.132 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated July 13, 2007.
- 4.133 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated July 13, 2007.
- 4.134 Common Stock Purchase Warrant with AJW Partners, LLC, dated July 13, 2007.
- 4.135 Common Stock purchase Warrant with New Millennium Capital Partners II, LLC, dated July 13, 2007.
- 4.136 Registration Rights Agreement, dated as of July 13, 2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.

- 4.137 Security Agreement, dated as of July 13, 2007, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.
- 4.138 Intellectual Property Security Agreement dated as of July 13, 2007 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.
- 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 Turner Jones & Associates, PLLC
- 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)

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 2006 was \$47,500.

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

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: March 31, 2008

By: /s/ DONALD F. EVANS

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

Dated: March 31, 2008

By: /s/ DAVID D. DOWNING

David D. Downing
 Chief Financial Officer
 (Principal Financial Officer)

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

SIGNATURE	TITLE	DATE
/s/ DONALD F. EVANS Donald F. Evans	Chief Executive Officer and Chairman of the Board of Directors	March 31, 2008
/s/ MARK D. SCHMIDT Mark D. Schmidt	President, Chief Operating Officer and Director	March 31, 2008
/s/ JOHN W. RINGO John W. Ringo	Secretary, Corporate Counsel and Director	March 31, 2008
/s/ ALAN H. NINNEMAN Alan H. Ninneman	Senior Vice President and Director	March 31, 2008