

CYBERLUX CORP  
Form 10-Q  
November 14, 2008

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

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2008.

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

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

For the Period Ended September 30, 2008

Commission file number 000-33415

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

Nevada  
(State of Incorporation)

91-2048978  
(IRS Employer Identification No.)

4625 Creekstone Drive  
Suite 130  
Research Triangle Park  
Durham, NC 27703

(Address of Principal Executive Offices)

(919) 474-9700  
Issuer's Telephone Number

Indicate by check mark whether the issuer (1) 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 large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated Filer  accelerated filer  non-accelerated filer  Smaller reporting Company

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

Yes  No

Number of shares outstanding of the issuer's Common Stock as of November 14, 2008: 766,426,120

---

CYBERLUX CORPORATION

Quarterly Report on Form 10-Q for the  
Quarterly Period Ending September 30, 2008

Table of Contents

**PART I. FINANCIAL INFORMATION**

<b>Item 1.</b>	<b>Financial Statements</b>	
	Condensed Consolidated Balance Sheets: September 30, 2008 (Unaudited) and December 31, 2007 (Audited)	3
	Condensed Consolidated Statements of Losses: Three and Nine months Ended September 30, 2008 and 2007 (Unaudited)	4
	Condensed Consolidated Statements of Cash Flows: Nine months Ended September 30, 2008 and 2007 (Unaudited)	5
	Notes to Unaudited Condensed Consolidated Financial Information: September 30, 2008	6-36
<b>Item 2.</b>	<b>Management Discussion and Analysis</b>	37
<b>Item 3.</b>	<b>Controls and Procedures</b>	43

**PART II. OTHER INFORMATION**

<b>Item 1.</b>	<b>Legal Proceedings</b>	44
<b>Item 2.</b>	<b>Unregistered Sales of Equity Securities and Use of Proceeds</b>	44
<b>Item 3.</b>	<b>Defaults Upon Senior Securities</b>	45
<b>Item 4.</b>	<b>Submission of Matters to a Vote of Security Holders</b>	45
<b>Item 5.</b>	<b>Other Information</b>	45
<b>Item 6.</b>	<b>Exhibits</b>	45
<b>Signatures</b>		46

**CYBERLUX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	(unaudited) September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash & cash equivalents	\$ 290	\$ 626
Accounts receivable, net of allowance for doubtful accounts of \$1,803	53,927	77,815
Inventories, net of allowance of \$43,333	54,251	157,379
Other current assets	17,500	10,000
Total current assets	125,968	245,820
Property, plant and equipment, net of accumulated depreciation of \$189,338 and \$169,171, respectively	54,440	74,607
Other assets		
Deposits	24,400	24,400
Patents and development costs, net of accumulated amortization of \$1,214,056 and \$819,639, respectively	2,760,918	3,155,335
Total other assets	2,785,318	3,179,735
Total Assets	\$ 2,965,726	\$ 3,500,162
<b>LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Cash overdraft	\$ 7,137	\$ 33,178
Accounts payable	1,050,295	733,538
Accrued liabilities	2,978,209	2,345,133
Short-term notes payable - related parties	418,823	397,064
Short-term notes payable	39,804	196,067
Short-term convertible notes payable	4,805,175	3,050,510
Total current liabilities	9,299,443	6,755,490
Long-term liabilities:		
Derivative liability relating to convertible debentures	23,899,079	17,334,621
Warrant liability relating to convertible debentures	977,938	4,509,538
Total long-term liabilities	24,877,017	21,844,159
Total liabilities	34,176,460	28,599,649
Commitments and Contingencies		

Redeemable Series A convertible preferred stock, \$0.001 par value; 200 shares designated, 26.9806 and 28.9806 issued and outstanding as of September 30, 2008 and December 31, 2007; liquidation preference of \$219,892 and \$231,845 as of September 30, 2008 and December 31, 2007, respectively	134,900	144,900
<b>DEFICIENCY IN STOCKHOLDERS' EQUITY</b>		
Class B convertible preferred stock, \$0.001 par value, 3,650,000 shares designated; 3,650,000 shares issued and outstanding for September 30, 2008 and December 31, 2007; liquidation preference of \$3,650,000 as of September 30, 2008 and December 31, 2007	3,650	3,650
Class C convertible preferred stock, \$0.001 par value, 700,000 shares designated; 150,000 shares issued and outstanding for September 30, 2008 and December 31, 2007, liquidation preference of \$3,910,490 and \$3,823,230, as of September 30, 2008 and December 31, 2007, respectively	150	150
Common stock, \$0.001 par value, 900,000,000 shares authorized; 717,713,999 and 552,342,881 shares issued and outstanding as of September 30, 2008 and December 31, 2007	717,714	552,343
Additional paid-in capital	17,162,032	15,286,709
Accumulated deficit	(49,229,180)	(41,087,239)
Deficiency in stockholders' equity	(31,345,634)	(25,244,387)
Total liabilities and (deficiency) in stockholders' equity	\$ 2,965,726	\$ 3,500,162

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

**CYBERLUX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>REVENUE:</b>	\$ 69,256	\$ 298,459	\$ 401,162	\$ 521,814
Cost of goods sold	(47,295)	(227,932)	(267,815)	(402,608)
Gross margin (loss)	21,961	70,527	133,347	119,206
<b>OPERATING EXPENSES:</b>				
Depreciation	6,209	5,332	20,167	16,981
Research and development	—	42,466	1,386	121,951
General and administrative expenses	1,351,634	629,606	2,890,873	2,865,387
Total operating expenses	1,357,843	677,404	2,912,426	3,004,319
<b>NET LOSS FROM OPERATIONS</b>	<b>(1,335,882)</b>	<b>(606,877)</b>	<b>(2,779,079)</b>	<b>(2,885,113)</b>
Debt forgiveness	—	—	—	381,652
Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities	2,754,714	(56,164,992)	(3,032,859)	(65,227,499)
Interest expense, net	(517,553)	(631,731)	(1,887,066)	(1,829,729)
Debt acquisition costs	9,289	(34,381)	(442,423)	(77,751)
Net Income (loss) before provision for income taxes	910,568	(57,437,981)	(8,141,427)	(69,638,440)
Income taxes (benefit)	—	—	515	—
<b>INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS</b>	<b>\$ 910,568</b>	<b>\$ (57,437,981)</b>	<b>\$ (8,141,942)</b>	<b>\$ (69,638,440)</b>
Weighted average number of common shares outstanding-basic	667,942,486	494,297,678	602,506,202	327,087,037
Weighted average number of common shares outstanding-fully diluted	Note A			
Income (loss) per share-basic	\$ 0.00	\$ (0.12)	\$ (0.01)	\$ (0.21)
Loss per share-fully diluted	Note A			
Preferred dividend	\$ 24,000	\$ 24,000	\$ 72,000	\$ 72,000

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

4

---

**CYBERLUX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(unaudited)**

Nine months ended September 30,  
2008 2007

**CASH FLOWS FROM OPERATING  
ACTIVITIES:**

Net income (loss) available to common stockholders	\$ (8,141,942)	\$ (69,638,440)
Adjustments to reconcile net income (loss) to cash used in operating activities		
Depreciation	20,167	16,981
Amortization	394,417	394,417
Common stock issued in connection issuance of debt	385,108	—
Common stock issued in connection with services rendered	878,800	118,110
Preferred stock issued as compensation	—	370,500
Gain on repurchase and cancellation of warrants		(381,652)
Beneficial conversion feature relating to convertible debenture	184,736	—
Accretion of convertible notes payable	1,254,665	1,408,058
Unrealized (gain) loss on adjustment of derivative and warrant liability to fair value of underlying securities	3,032,858	65,227,499
(Increase) decrease in:		
Accounts receivable	23,888	85,272
Inventories	103,128	88,393
Prepaid expenses and other assets	(7,500)	12,543
Increase (decrease) in:		
Cash overdraft	(26,041)	68,350
Accounts payable	372,758	92,929
Accrued liabilities	633,076	343,689
Net cash (used in) operating activities	(891,882)	(1,793,351)

**CASH FLOWS FROM INVESTING  
ACTIVITIES:**

Net cash acquired in connection with acquisition of Hybrid Lighting Technologies, Inc	—	150,000
Acquisition of fixed assets	—	(11,314)
Net cash provided by (used in) investing activities:	—	138,686

**CASH FLOWS FROM FINANCING  
ACTIVITIES:**

Net proceeds from issuance of convertible debentures	500,000	1,000,000
--	---------	-----------



Edgar Filing: CYBERLUX CORP - Form 10-Q

Proceeds from sale of common stock	526,050		
Proceeds from exercise of warrants	—		—
Proceeds from sale of warrants	—		158,723
Net proceeds (payments) from borrowing on long term basis	(156,263)		20,290
Net proceeds (payments) to notes payable, related parties	21,759		81,470
Net cash provided by (used in) financing activities:	891,546		1,260,483
Net increase (decrease) in cash and cash equivalents	(336)		(394,182)
Cash and cash equivalents at beginning of period	626		395,812
Cash and cash equivalents at end of period	\$ 290	\$	1,630
Supplemental disclosures:			
Interest Paid	\$ —	\$	—
Income Taxes Paid	—		—
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Unrealized (gain) loss in adjustment of derivative and warrant liability to fair value of underlying securities	\$ 3,032,858	\$	65,227,499
Common stock issued for services rendered	\$ 878,800	\$	118,110
Preferred stock issued as compensation	\$ —	\$	370,500

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE A-SUMMARY OF ACCOUNTING POLICIES**

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three and nine month periods ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ended December 31, 2008. The unaudited condensed financial statements should be read in conjunction with the December 31, 2007 financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2007.

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 September 30, 2008, the Company has accumulated losses of \$49,229,180.

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.

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, 2008 and December 31, 2007, the Company did not have any deferred revenue.

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

Reclassification

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

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At September 30, 2008 and December 31, 2007, allowance for doubtful receivable was \$1,803 and \$8,646, respectively.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**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 G, the Company granted stock options over the years to employees of the Company under a non-qualified employee stock option plan. As of September 30, 2008, 52,432,307 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.

Net Income (loss) Per Common Share

The Company computes earnings per share under Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). Net earnings (losses) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the period. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible preferred shares and the exercise of the Company's stock options and warrants (calculated using the treasury stock method). During the three and nine months ended September 30, 2008 and 2007, common stock equivalents are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per common share.

The following reconciliation of net income and share amounts used in the computation of income (loss) per share for the three months ended September 30, 2008:

	Three Months Ended September 30, 2008
Net income used in computing basic net income per share	\$ 910,568
Impact of assumed assumptions:	
Accretion of convertible debenture charged to interest expense	374,575
Impact of equity classified as liability:	
Gain on warrant liability marked to fair value	(2,754,714)
Net loss in computing diluted net loss per share:	\$ (1,469,571)

The weighted average shares outstanding used in the basic net income per share computations for the three months ended September 30, 2008 was 667,942,486. In determining the number of shares used in computing diluted loss per share, the Company did not add approximately 5,340,576,417 potentially dilutive securities for the three months ended September 30, 2008 because the effect would be anti-dilutive. The potentially dilutive securities added were mostly attributable to the warrants, options and convertible debentures outstanding. As a result, the diluted loss per share for the three months ended September 30, 2008 was \$0.00.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)**Patents

The Company acquired in December 2006, for \$2,270,000, 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 \$394,417 for the nine months ended September 30, 2008 and 2007. Patents are comprised of the following:

Description	Cost	Accumulated amortization and impairments	Net carrying value at September 30, 2008
Development costs	\$ 293,750	\$ 293,750	\$ -0-
Patents	2,294,224	573,556	1,720,668
Patents	1,387,000	346,750	1,040,250
Total	\$ 3,974,974	\$ 1,214,056	\$ 2,760,918

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 591%; and risk free interest rate from 0.98% to 2.98%. 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 \$816,586 in liquidation damages.

Recent accounting pronouncements

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "*Accounting for Certain Investments in Debt and Equity Securities*" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "*Fair Value Measurements*". The adoption of SFAS No. 159 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)**

Recent accounting pronouncements (continued)

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 consolidated 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 consolidated financial position results of operations or cash flows.

In June 2007, the Accounting Standards Executive Committee issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1"). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the "Audit Guide"). SOP 07-1 was originally determined to be effective for fiscal years beginning on or after December 15, 2007, however, on February 6, 2008, FASB issued a final Staff Position indefinitely deferring the effective date and prohibiting early adoption of SOP 07-1 while addressing implementation issues.

In June 2007, the FASB ratified the consensus in EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of EITF 07-3 will have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement. EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company has not yet evaluated the potential impact



of adopting EITF 07-1 on our consolidated financial position, results of operations or cash flows.

In March 2008, the FASB” issued SFAS No. 161, “*Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133*” (“SFAS No. 161”). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. We are currently evaluating the impact of SFAS No. 161, if any, will have on our consolidated financial position, results of operations or cash flows.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

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

In April 2008, the FASB issued FSP No. FAS 142-3, "*Determination of the Useful Life of Intangible Assets*". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "*Goodwill and Other Intangible Assets*". We are required to adopt FSP 142-3 on September 1, 2009, earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. We are currently evaluating the impact of FSP 142-3 on our consolidated financial position, results of operations or cash flows.

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

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

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

**NOTE B-CONVERTIBLE DEBENTURES**

Notes payable at September 30, 2008 and December 31, 2007:

	September 30, 2008			December 31, 2007		
	Gross Principal Amount	Less: Unamortized Discount	Net	Gross Principal Amount	Less: Unamortized Discount	Net
10% convertible note payable, unsecured and	\$ 2,500	—\$	2,500	\$ 2,500	—\$	2,500

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

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	—	\$ 1,094,091	\$ 1,094,091	\$ 158,665	\$ 935,426
--	--------------	---	--------------	--------------	------------	------------

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

	September 30, 2008			December 31, 2007		
	Gross Principal Amount	Less: Unamortized Discount	Net	Gross Principal Amount	Less: Unamortized Discount	Net
<p>10% convertible debenture, due three years from date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.6 or b) 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)</p>	\$ 800,000	\$ 16,804	\$ 783,196	\$ 800,000	\$ 216,986	\$ 583,014
<p>8% convertible debenture, due three years from date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading</p>	700,000	56,256	643,744	700,000	231,416	468,584

prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights (see below)

8% convertible debenture, due 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	80,822	419,178	500,000	205,936	294,064
---------	--------	---------	---------	---------	---------

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

500,000	136,986	363,014	500,000	262,100	237,900
---------	---------	---------	---------	---------	---------

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)

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	\$	92,055	\$	187,945	\$	280,000	\$	162,119	\$	117,881
--	----	---------	----	--------	----	---------	----	---------	----	---------	----	---------

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

	September 30, 2008			December 31, 2007		
	Gross Principal Amount	Less: Unamortized Discount	Net	Gross Principal Amount	Less: Unamortized Discount	Net
6% convertible debenture, due December 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)	\$ 600,000	\$ 243,836	\$ 356,164	\$ 600,000	\$ 393,973	\$ 206,027
8% convertible debenture, due April 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days	400,000	206,027	193,973	400,000	306,119	93,881

before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)

8% convertible debenture, due 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	79,041	70,959	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

150,000	83,288	66,712	150,000	120,822	29,178
---------	--------	--------	---------	---------	--------



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

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

\$	150,000	\$	87,260	\$	62,740	\$	150,000	\$	124,795	\$	25,205
----	---------	----	--------	----	--------	----	---------	----	---------	----	--------

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

	September 30, 2008			December 31, 2007		
	Gross Principal Amount	Less: Unamortized Discount	Net	Gross Principal Amount	Less: Unamortized Discount	Net
<p>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)</p>	\$ 150,000	\$ 89,041	\$ 60,959	\$ 150,000	\$ 126,575	\$ 23,425
<p>6% convertible debenture (warrant), maturing March 2015 with interest accruing until conversion. The warrant is exercisable at the greater of a) \$0.012 or b) 75% of the average of three lowest intraday trading prices for the common stock on a principal market for</p>	\$ 500,000	—	500,000	\$ —	\$ —	—

twenty days before, but including, conversion date. The Company issued 6,763,300 shares of its common stock as security.

Total	5,976,591	(1,171,416)	4,805,175	5,476,591	(2,426,081)	3,050,510
Less: current maturities:	5,976,591	(1,171,416)	4,805,175	5,476,591	(2,426,081)	3,050,510
Long term portion	\$ -0-	\$ -0-	\$ 0-	\$ -0-	\$ -0-	\$ -0-

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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for total proceeds of \$1,352,067. The proceeds that the Company received were net of prepaid interest of \$72,933 representing the first eight month’s interest and related fees and costs of \$75,000.

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

The Securities Purchase Agreement contains the following covenants:

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

As of September 30, 2008 and 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.

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$158,665 and \$75,669, 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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$800,000 in exchange for total proceeds of \$775,000. The proceeds that the Company received were net of related fees and costs of \$25,000.

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

The Securities Purchase Agreement contains the following covenants:

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

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

As of September 30, 2008 and 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.

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$200,183 and \$200,183, 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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$700,000 in exchange for total proceeds of \$675,000. The proceeds that the Company received were net of related fees and costs of \$25,000.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

The Securities Purchase Agreement contains the following covenants:

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

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

As of September 30, 2008 and 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.

For the nine month period ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$175,160 and \$174,521, respectively.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

As of September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$460,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

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

The Securities Purchase Agreement contains the following covenants:

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

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

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

As of September 30, 2008 and 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

For the nine month period ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$125,114 and \$124,657, 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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$490,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

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

The Securities Purchase Agreement contains the following covenants:

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

The Company agreed to file a registration statement with the SEC to affect the registration of the shares of its common stock underlying the Security Purchase Agreement and the warrants within 30 days from the date of receipt of written demand of the Investors. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 90 days after the date of the Securities Purchase

Agreement. If the Registration Statement is not filed and/or not declared effective as described above, the Company will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

As of September 30, 2008 and 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.

For the nine month period ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$125,114 and \$124,657, 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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$280,000 in exchange for total proceeds of \$259,858. The proceeds that the Company received were net of related fees and costs of \$20,142.

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

Securities Purchase Agreement up to the proceeds amount and to fair value as of each subsequent balance sheet date. At the inception of the Securities Purchase Agreement, the Company allocated \$100,513 and \$179,487 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

As of September 30, 2008 and 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.

For the nine months period ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$70,064 and \$69,808, 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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$600,000 in exchange for total proceeds of \$590,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

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

The Securities Purchase Agreement contains the following covenants:

20

---

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

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

As of September 30, 2008 and 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.

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$150,137 and \$149,589, 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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$400,000 in exchange for total proceeds of \$360,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

The Securities Purchase Agreement contains the following covenants:

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

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

As of September 30, 2008 and 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.

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$100,091 and \$60,274, respectively.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

As of September 30 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

The Securities Purchase Agreement contains the following covenants:

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

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

registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

As of September 30, 2008 and 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$37,535 and \$20,822, respectively.

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

As of September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

The Securities Purchase Agreement contains the following covenants:

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

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



will be required to pay liquidated damages in the form of cash or the Company's common stock, at the Company's discretion, in an amount equal to 2% of the unpaid principal balance per month to the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction (including, without limitation, as to volume by each holder thereof) under the 1933 Act.

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

As of September 30, 2008 and 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.

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$37,535 and \$16,576.

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 September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

the Securities Purchase Agreement, the Company allocated \$135,966 and \$14,034 to the embedded derivatives and related warrants, respectively.

The Securities Purchase Agreement contains the following covenants:

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

As of September 30, 2008 and 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.

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$37,535 and \$12,603, respectively.

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

including, conversion date. The effective interest rate at the date of inception was 85.13% per annum.

As of September 30, 2008, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

The Securities Purchase Agreement contains the following covenants:

26

---

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

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

As of September 30, 2008 and 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.

For the nine months ended September 30, 2008 and 2007, the Company amortized the debt discount and charged to interest expense \$37,535 and \$10,822, respectively.

As of September 30, 2008, the Company has accrued \$816,586 in default provision liabilities and liquidated damages relating to the above described Securities Purchase Agreements.

On March 10, 2008, the Company sold a warrant to purchase 20,833,333 shares of its common stock at the greater of a) \$0.012 or b) 75% of the average of three lowest intraday trading prices for the common stock on a principal market for twenty days before, but including, conversion date. The warrant exercise amount accrues interest at 0.5% per month until exercised.

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE B-CONVERTIBLE DEBENTURES (continued)**

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

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

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

- The Company allocated the proceeds received between convertible debt and detachable warrants based upon the relative fair market values on the dates the proceeds were received. The fair values of the detachable warrants and the embedded derivatives were determined under the Black-Scholes option pricing formula and the intrinsic method, respectively
- Subsequent to the initial recording, the increase (or decrease) in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula and the increase (or decrease) in the intrinsic value of the embedded derivatives of the convertible debentures are recorded as adjustments to the liabilities at September 30, 2008 and December 31, 2007, respectively.
- The expense relating to the increase (or decrease) in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives is included as other income item as a gain or loss arising from convertible financing on the Company's balance sheet.
- Accreted principal of \$4,805,175 and \$3,048,010 as of September 30, 2008 and December 31, 2007.

**NOTE C-WARRANT LIABILITY**

Total warrant liability as of September 30, 2008 and December 31, 2007 is comprised of the following:

	September 30, 2008	December 31, 2007
Fair value of warrants relating to convertible debentures	\$ 412,451	\$ 1,874,970
Fair value of other outstanding warrants	565,487	2,634,568
<b>Total</b>	<b>\$ 977,938</b>	<b>\$ 4,509,538</b>

Warrants were valued at the date of inception and at September 30, 2008 and December 31, 2007 using the Black Scholes Option Pricing Model.



Edgar Filing: CYBERLUX CORP - Form 10-Q

The assumptions used at September 30, 2008 and December 31, 2007 were as follows:

	September 30, 2008	December 31, 2007
Expected volatility	591%	528%
Expected dividend yield	-0-%	-0-%
Average risk free rate	0.92% to 3.61%	3.45%
Expected life (a)	0.50 to 5.78 yrs	1.01 to 6.53 yrs

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE D - NOTE PAYABLE**

Note payable as of September 30, 2008 and December 31, 2007, comprised of the following:

	September 30, 2008	December 31, 2007
Note payable, 24% interest per annum; due in 90 days; secured by specific accounts receivables	\$ 39,804	\$ 196,067

**NOTE E - NOTES AND CONVERTIBLE NOTES PAYABLE-RELATED PARTY**

Notes payable-related party is comprised of the following:

	September 30, 2008	December 31, 2007
Notes payable, 12% per annum; due on demand; unsecured	\$ 158,473	\$ 147,714
Notes payable, 10% per annum, due on demand; unsecured	260,350	249,350
	418,823	397,064
Less: current maturities:	(418,823)	(397,064)
Long term portion:	\$ —	\$ —

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

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

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

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.

Edgar Filing: CYBERLUX CORP - Form 10-Q

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.

29

---

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE F -STOCKHOLDER'S EQUITY (continued)**

**Series A - Convertible Preferred stock (continued)**

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

In the nine months ended September 30, 2008, 1 of the Series A Preferred shareholders exercised the conversion right and exchanged 2 shares of Series A Preferred for 100,000 shares of the Company's common stock

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

The holders of record of the Series A Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$5,000 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series A Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series A Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. As of the nine month period ended September 30, 2008, \$0 in dividends was accumulated.

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

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

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

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

30

---

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE F - STOCKHOLDER'S EQUITY (continued)**

**Series A - Convertible Preferred stock (continued)**

Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black- Scholes option pricing formula, are accrued as adjustments to the liabilities at September 30, 2008 and December 31, 2007, respectively.

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

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

**Series B - Convertible Preferred stock**

On February 19, 2004, the Company filed a Certificate of Designation creating a Series B Convertible Preferred Stock classification for 800,000 shares, increased subsequently to 3,650,000 in 2007.

In January, 2004 and April 2007, the Company issued 800,000 and 2,850,000 shares, respectively, of its Series B Preferred in lieu of certain accrued management service fees payable and notes payable including interest payable thereon totaling \$1,170,500 to officers of the company. The shares of the Series B Preferred are non voting and convertible, at the option of the holder, into common shares at \$0.10 per share per share. The shares issued were valued at \$1.00 per share in 2004 and \$0.13 in 2007, which represented the fair value of the common stock the shares are convertible into. In connection with the transaction, the Company recorded a beneficial conversion discount of \$800,000 - preferred dividend relating to the issuance of the convertible preferred stock in 2004. None of the Series B Preferred shareholders have exercised their conversion right and there are 3,650,000 shares of Series B Preferred shares issued and outstanding at September 30, 2008.

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

The holders of record of the Series B Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$1.00 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series B Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series B Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. As of September 30, 2008 \$1,201,000 in dividends were accumulated.

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE F -STOCKHOLDER'S EQUITY (continued)**

**Series C - Convertible Preferred stock**

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

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

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

**Common stock**

The Company has authorized 950,000,000 shares of common stock, with a par value of \$.001 per share. As of September 30, 2008 and December 31, 2007, the Company has 717,713,999 and 552,142,881 shares issued and outstanding, respectively.

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

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

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

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

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



Edgar Filing: CYBERLUX CORP - Form 10-Q

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

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

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

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

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

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE F -STOCKHOLDER'S EQUITY (continued)**

**Common stock (continued)**

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

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

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

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

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

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

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

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

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

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

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

**NOTE G -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 September 30, 2008:

33

---

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE G - STOCK OPTIONS AND WARRANTS (continued)****Class A Warrants (continued)**

Exercise Price	Number Outstanding	Warrants Outstanding Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Warrants Exercisable Weighted Average Exercise Price
\$ 0.001	50,000,000	4.02	\$ 0.001	50,000,000	0.001
0.02	50,000,000	3.68	0.02	50,000,000	0.02
0.03	25,000,000	1.63	0.03	25,000,000	0.03
0.10	991,500	0.68	0.10	991,500	0.10
0.25	58,500	0.25	0.25	58,500	0.25
0.50	50,000	0.03	0.50	50,000	0.50
1.05	100,000	0.25	1.05	100,000	1.05
0.06775	49,760,443	3.65	0.06775	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, 2006	99,895,000	\$ 0.09
Granted	200,000,000	0.01525
Exercised	(50,239,557)	(0.03)
Canceled or expired	(73,695,000)	(0.07)
Outstanding at December 31, 2007	175,960,443	0.016
Granted	—	—
Exercised	—	—
Canceled or expired	—	—
Outstanding at September 30, 2008	175,960,443	0.016

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

In the year ended December 31, 2007, the Company sold 100,000,000 five year warrants with an exercise price of 50% of the average closing price of the twenty trading days prior to warrant execution. The transaction, to the extent that it is to be satisfied with common stock of the Company would normally be included as equity obligations.

However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host conversion feature, the Company is required to record a liability relating to warrants and as such has recorded the fair value of the embedded conversion feature, using the Black-Scholes option pricing method, as a liability for the current period.

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

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

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

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan at September 30, 2008:

Exercise Prices	Options Outstanding			Weighted Average Exercise Price	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	5.21	\$ 0.2125	2,000,000	\$ 0.2125		
0.2125	2,000,000	5.62	0.2125	2,000,000	0.2125		
0.022	20,500,000	8.12	0.022	20,500,000	0.022		
0.0295	4,000,000	6.60	0.0295	4,000,000	0.0295		
0.04	14,430,000	7.82	0.04	14,430,000	0.04		
0.10	9,502,307	5.51	0.10	9,502,307	0.10		

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2006	52,432,307	0.0562
Granted	—	—
Exercised	—	—
Canceled or expired	—	—
Outstanding at December 31, 2007	52,432,307	0.0562
Granted	—	—
Exercised	—	—
Canceled or expired	—	—
Outstanding at September 30, 2008	52,432,307	\$ 0.0562

The Company did not grant employee stock options in the nine month period ended September 30, 2008 and 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 September 30, 2008 and December 31, 2007, the balance due to the officers was \$418,823 and \$397,064, respectively.

**NOTE I - COMMITMENTS AND CONTINGENCIES**Consulting Agreements

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

35

---

**CYBERLUX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Unaudited)**

**NOTE I - COMMITMENTS AND CONTINGENCIES (continued)****Operating Lease Commitments**

The Company leases office space in Durham, NC on a six year lease expiring December 31, 2012, for an annualized rent payment of \$88,020. Additionally the Company leases warehouse space on a month to month basis for \$550 per month. At September 30, 2008, 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. There was no outstanding litigation as of September 30, 2008.

**NOTE J- GOING CONCERN MATTERS**

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, as of September 30, 2008, the Company incurred accumulated losses of \$49,229,180. The Company's current liabilities exceeded its current assets by \$9,173,475 as of September 30, 2008. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

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

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



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

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties about us, our current and planned products, our current and proposed marketing and sales, and our projected results of operations. There are several important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements. The Company has sought to identify the most significant risks to its business, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurance that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risks before making an investment decision with respect to the Company's stock. The following discussion and analysis should be read in conjunction with the financial statements of the Company and notes thereto. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment from our Management.

### Overview

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

We are developing and marketing new product applications of solid-state diodal illumination (TM) that demonstrate added value over traditional lighting systems. Using proprietary technology, we are creating a family of products 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 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 system products, our target markets include all branches of the military and all government orgainzations 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. In the commercial markets, our task and accent lighting products and emergency and security lighting products address the lighting needs in restaurants, hotels, hospitals, nursing homes, airports, shopping centers and multiple family complexes; long-term evacuation solutions for theaters, office and public buildings; reduced maintenance cost solutions for property managers as applied to walkway, corridor or landscape lighting

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

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

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

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

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

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

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

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

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

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

Results of Operations

Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007

REVENUES

Revenues for the nine months ended September 30, 2008 were \$401,162 as compared to \$521,814 for the same period last year.

38

---

### OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2008 were \$2,912,426 as compared to \$3,004,319 for the same period ended September 30, 2007. Included in the nine months ended September 30, 2008 were \$1,386 in expenses for research & development. This compares to \$121,951 for the nine months ended September 30, 2007.

We reported an unrealized loss for the change in fair value of warrants and debt derivatives of \$3,032,859 as compared to a loss of \$65,227,499 for the same period last year. Although the change of \$62,194,640 is unrelated to our operating activities, the decrease is included in our reported net gain.

Three months ended September 30, 2008 compared to the three months ended September 30, 2007

### REVENUES

Revenues for the three months ended September 30, 2008 were \$69,256 as compared to \$298,459 for the same period last year.

### OPERATING EXPENSES

Operating expenses for the three months ended September 30, 2008 were \$1,357,843 as compared to \$2,912,426 for the same period ended September 30, 2007.

We reported an unrealized gain for the change in fair value of warrants and debt derivatives of \$2,754,714 as compared to a loss of \$56,164,992 for the same period last year. Although the change of \$58,919,706 is unrelated to our operating activities, the increase is included in our reported net loss.

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

### Liquidity and Capital Resources

As of September 30, 2008, we had a working capital deficit of \$9,173,475. This compares to a working capital deficit of \$6,509,670 as of December 31, 2007. Accrued interest on notes payable was \$2,272,224 compared to accrued interest of \$1,893,561 as December 31, 2007. Accounts payable as of September 30, 2008 were \$1,050,295 and compares to \$733,538 as compared to December 31, 2007. As a result of our operating losses for the nine months ended September 30, 2008, we generated a cash flow deficit of \$891,882 from operating activities. Cash flows provided by investing activities was \$0 for the nine months ended September 30, 2008 primarily from the cash received with the acquisition of Hybrid Lighting Technologies, Inc. Cash flows from financing activities provided \$891,546 from the borrowing on a long term basis for the nine months ended September 30, 2008.

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 included in our December 31, 2007, Form 10-KSB that we have incurred operating losses in the last two years, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

#### April 2007 Stock 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.

#### May 2007 Stock Purchase Agreement

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

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

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

We will still need additional investments in order to continue operations to cash flow break even. Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing

mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations again.

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

#### June 6, 2007 Stock 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.

#### June 20, 2007 Stock Purchase 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.

#### Critical Accounting Policies

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

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

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

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

#### Non-GAAP Financial Measures

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

#### Inflation

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

#### Off-Balance Sheet Arrangements

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

#### Product Research and Development

We anticipate incurring approximately \$500,000 in research and development expenditures in connection with the development of our military and Homeland Security, portable illumination, system, lighting and our hybrid lighting technology that is based on the recently acquired patent rights from Renssealer Polytechnic Institute and at the University of California Santa Barbara.

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.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

In connection with the preparation of this Report and in accordance with Item 307 of Regulation S-K, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2008 because of remediative action taken to resolve an identified material weakness in our internal control over financial reporting discussed below.

Accounting software in use prior to December 31, 2007 did not provide for the efficient recording of movements in and out of raw materials and work-in-process inventories, without the added manual intervention of accounting department personnel, which presented opportunity for misstatement. During the month of December, 2007 we evaluated and acquired new accounting software that was designed to correct the weakness. This software was installed and implemented effective January 1, 2008. Subsequent evaluation has determined the reliability and accuracy of the recording, storage, and reporting of inventory transactions during the period covered by this report ended September 30, 2008, in accordance with Generally Accepted Accounting Principles.

(b) Changes in Internal Control Over Financial Reporting

During the three month period ended September 30, 2008, there were no changes to our internal control over financial reporting, other than the remediation of a pre-existing material weakness identified above, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

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

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

On September 13, 2007, Britannia Law Office commenced an action against us and our President, Mark D. Schmidt, in the General Court of Justice, Superior Court Division, Durham County, North Carolina, alleging breach of contract, additional payments due under contract, unjust enrichment, fraud and unfair trade practices arising out of a consultant agreement. These motions are currently pending. We believe that their claims are without merit and we will vigorously defend these claims.

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

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

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

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

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

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

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

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

44

---

Item 3. Defaults Upon Senior Securities.

On August 21, 2007, we received a Notice of Default from AJW Partners, LLC, New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC and AJW Offshore, LTD. (collectively, the "Investors"), claiming that we were purportedly in default of certain obligations under our notes issued to the Investors due to our refusal to honor any further conversion of notes to common stock.

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

None.

Item 5. Other Information.

Subsequent Event.

On October 18, 2008, we filed a Protest with the Government Accountability Office against the Air Force for procurement award irregularities.

Item 6. Exhibits

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 Certifications pursuant to 18 U.S.C. Sectopm 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

SIGNATURES

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

CYBERLUX CORPORATION

Date: November 14, 2008

By:

/s/ MARK D. SCHMIDT

Mark D. Schmidt

Chief Executive Officer (Principal Executive Officer)

Date: November 14, 2008

By:

/s/ DAVID D. DOWNING

David D. Downing

Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)