CYBERLUX CORP
Form 10QSB
November 16, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10QSB
(Mark One)

|X| Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2005

|_| 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, 2005
Commission file number 000-33415

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

Nevada 91-2048178
(State of Incorporation) (IRS Employer Identification No.)

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

(Address of Principal Executive Offices)

(919) 474-9000

Issuer's Telephone Number

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

Yes |X| No |_|

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

Yes |_| No |X|

As of November 7, 2005, the Company had 75,075,001 shares of its par value $0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes |_| No |X|

CYBERLUX CORPORATION

Quarterly Report on Form 10-QSB for the

Quarterly Period Ending September 30, 2005

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Balance Sheets:
September 30, 2005 (Unaudited) and December 31, 2004 (Audited)

Condensed Statements of Losses:
Three and Nine Months Ended September 30, 2005 and 2004 (Unaudited)

Condensed Statements of Cash Flows:
Nine Months Ended September 30, 2005 and 2004 (Unaudited)

Notes to Unaudited Condensed Financial Information:
September 30, 2005 6-1

Item 2. Management Discussion and Analysis 1

Item 3. Controls and Procedures 2

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 2

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

Item 3. Defaults Upon Senior Securities 2

Item 4. Submission of Matters to a Vote of Security Holders 2

Item 5. Other Information 2

Item 6. Exhibits 2

Signatures 2

CYBERLUX CORPORATION
CONDENSED BALANCE SHEETS
(UNAUDITED)

		September 30, 2005
Assets		
Current assets:		
Cash & cash equivalents	$	17,383
Accounts Receivable, Allowance for Doubtful Accounts is $ -0-		2,454

Inventory	443,312
Other current assets	63,894
Total current assets	527,044
Property, plant and equipment, net of accumulated depreciation of $ 104,825 and $92,335, respectively	59,813
Other Assets:	
Patents	83,404
Total Assets	$ 670,260
Liabilities and Deficiency in Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 742,425
Accrued liabilities	437,008
Short-term notes payable - shareholders	386,595
Short-term notes payable	27,500
Total current liabilities	1,593,528
Long-term liabilities:	
Notes payable	1,154,158
Total long-term liabilities	1,154,158
Deficiency Stockholders' equity:	
Preferred stock, $0.001 par value, 200 shares authorized, Class A, 66.3606 and 151.8606 shares issued and outstanding as of September 30, 2005 and December 31, 2004 respectively	1
Preferred stock, $0.001 par value, 800,000 shares authorized, Class B, 800,000 and 0 shares issued and outstanding as of September 30, 2005 and December 31, 2004 respectively	800
Common stock, $0.001 par value, 300,000,000 shares authorized, 74,550,001 and 23,770,233 shares issued and outstanding as of September 30, 2005 and December 31, 2004 respectively	74,550
Additional paid-in capital	11,494,624
Accumulated deficit	(13,647,401)
Deficiency in stockholders' equity	(2,077,425)
Total liabilities and (deficiency) in stockholders' equity	$ 670,260

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

CYBERLUX CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September 30, 2005	For the Three Months Ended September 30, 2004	For the September 2005
Revenue	$ 12,434	$ 2,082	$ 26,
Cost of goods sold	(75,503)	(15,724)	(104,
Gross margin (loss)	(63,069)	(13,642)	(78,
Operating Expenses:			
Marketing and advertising	97,718	21,830	235,
Depreciation and amortization	5,892	14,159	19,
Research and development	142,537	34,086	262,
General and administrative expenses	539,263	533,167	1,347,
Total operating expenses	785,410	603,242	1,864,
(Loss) from operations	(848,479)	(616,884)	(1,942,
Other income/(expense)			
Other Income	-	-	
Interest income	49	1	
Interest expense	(101,555)	(598,741)	(270,
Debt acquisition costs	(492,476)		(586,
Net Loss before provision for income taxes and preferred dividend	(1,442,461)	(1,215,624)	(2,799,
Income taxes (benefit)	-	-	
Net loss	(1,442,461)	(1,215,624)	(2,799,
Preferred dividend - Beneficial conversion discount on convertible preferred	-		
Net loss available to common stockholders	$ (1,442,461)	$ (1,215,624)	$ (2,799,
Weighted average number of common shares outstanding, basic and fully diluted	72,881,110	19,388,317	47,503,
Net loss per share - Basic and fully diluted	$ (0.02)	$ (0.06)	$ (0
Preferred dividend	$ 24,000	$ 24,000	$ 72,

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

Cyberlux Corporation
Condensed Statement of Cash Flows
(Unaudited)

	For the Nine Mont September 30, 2005
Cash flows provided by (from-used in) operating activities	
Net (loss) available to common stockholders	$ (2,799,717)
Depreciation and amortization	19,073
Beneficial conversion discount - preferred stock dividend	-
Amortization of debt discount - beneficial conversion feature of convertible note (Note D)	219,697
Amortization of debt discount - value of warrants attached to convertible note (Note D)	
Shares issued for previously incurred debt	
Shares issued/(cancelled) for factoring deposit	
Warrants issued to consultants for services	14,160
Warrants issued in connection with financing	385,333
Preferred shares issued for conversion of accrued management fees	-
Preferred shares issued for previously incurred debt	
Shares issued for consulting services	126,000
Decrease (increase) in accounts receivable	(2,454)
Decrease (increase) in inventories	(443,312)
(Increase) decrease in prepaid expenses	4,509
(Increase) decrease in other assets	(52,860)
Increase (decrease) in accrued interest	85,139
Increase (decrease) in accrued liabilities	28,461
(Decrease) increase in management fee payable-related party	-
(Decrease) increase in other accounts payable	566,331
Net cash (used in) operating activities	(1,849,640)
Cash flows provided by (used in) investing activities	
Payments for property, plant and equipment	(35,867)

Cash (used in) investing activities	(35,867)
Cash flows provide by (used in) financing activities	
Payments for (proceeds from) short-term notes payable, net	-
(Payments for) proceeds from short-term notes payable-shareholders (net)	(12,485)
Proceeds from advance deposits	-
(Payments for) Proceeds from convertible long-term notes	1,500,000
Proceeds from issuance of preferred stock	
Proceeds from subscriptions receivable	
Issuance of common stock	
Net cash provided by (used in) financing activities	1,487,515
Net increase (decrease) in cash	(397,992)
Cash - beginning	415,375
Cash - ending	$ 17,383
Supplemental disclosures:	
Interest Paid	$ 82,470
Income Taxes Paid	-
Non-Cash investing and financing activities:	
Shares issued for research and development and consulting	126,000
Shares issued for conversion of debt	420,608
Warrants issued in connection with financing	373,592
Warrants issued to consultants for services	14,160
Warrants issued detachable with convertible preferred shares	
Shares issued in connection with factoring	-
Amortization of debt discount - beneficial conversion feature of convertible note (Note D)	219,697
Amortization of debt discount - value of warrants attached to convertible note (Note D)	
Beneficial conversion discount on convertible preferred stock	-
Convertible preferred shares issued for note payable and accrued interest	-
Convertible preferred shares issued for accrued management fees	-

The accompanying notes are an integral part of these unaudited

condensed financial statements

CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the nine-month period ended September 30, 2005, are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated December 31, 2004 financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2004.

Business and Basis of Presentation

Cyberlux Corporation (the "Company") is incorporated under the laws of the State of Nevada. The Company, which has transitioned from a development state enterprise, 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, 2005, the Company has accumulated losses of $13,647,401.

Revenue Recognition

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

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 consolidated financial position and results of operations was not significant.

Estimates

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

Cash and cash equivalents

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

Property, plant and equipment

Property and equipment are recorded at cost. Minor additions and renewals are expensed in the year incurred. Major additions and renewals are capitalized and depreciated over their estimated useful lives. Depreciation is calculated using the straight-line method over the estimated useful lives

Reclassification

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

CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

Impairment of long lived assets

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

Fair value of financial instruments

Fair value estimates discussed herein are based upon certain market assumptions

and pertinent information available to management as of September 30, 2005and 2004. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash and accounts payable. Fair values were assumed to approximate carrying values for cash and payables because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.

Stock-Based Compensation:

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary charge to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both armua1 and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No.25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No.148 in its financial reports for the year ended December 31,2002 and subsequent years.

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

	For the nine months ended September 30,	
	2005	2004
Net loss attributable to common stockholders -as reported	$(2,799,717)	$(4,013,836)
Add. Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	--	--
Deduct Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	(718,800)	--
Net loss -Pro Forma	$(3,518,517)	$(4,013,836)
Net loss attributable to common stockholders - Pro forma	$(3,518,517)	$(4,013,836)
Basic (and assuming dilution) loss per share - as reported	$ (0.06)	$ (0.24)

Basic (and assuming dilution) loss per share - Pro forma	$ (0.07)	$ (0.24)

CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

Loss per share

Net loss per share is provided in accordance with Statement of Financial Accounting Standards No.128 (SF AS #128) Earnings Per Share. Basic loss per share is computed by dividing losses available to common stockholders by the weighted average number of common shares outstanding during the period.

Segment reporting

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

Income taxes

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

Recent pronouncements

In November, 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for normal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that"... under certain circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. "This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal". In addition,

this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the Company. In December, 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67" (SFAS 152). The amendments made by Statement 152. This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP 04-2), Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance of SOP 04-2. This Statement id effective for financial statements for fiscal years beginning after June 15, 2005, with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations, or cash flows.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised, 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third quarter of fiscal year, 2005. Currently the Company accounts for its share-based payment transactions under the provisions of APB25, which does not necessarily require the recognition of compensation costs in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of fiscal year 2005 and thereafter.

NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

Recent pronouncements (Continued)

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions ("SFAS 153"). This Statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value if determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is

effective for nonmonetary transactions in the fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

NOTE B-NOTES PAYABLE AND CONVERTIBLE DEBENTURES

Notes payable at September 30, 2005 and December 31, 2004 are as follows:

10 % convertible note payable, unsecured and due September, 2003; accrued and unpaid interest due at maturity ; Note holder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $ .50 per share. The company is in violation of the loan covenants.	
10% convertible notes payable, unsecured and due March, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $ .50 per share. The Company is in violation of the loan covenants.	
10% convertible note payable in the original amount of $1,500,000, and due September, 2006. Interest is payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) $0.72; b) 50% of the average of the three lowest intraday trading prices for the common stock. The full principal amount of the secured convertible notes is due upon a default under the terms of the secured convertible notes. The note is secured by substantially all of the Company's assets, including the assets of wholly owned subsidiaries and intellectual property. As of September 30, 2005 the Note holder has converted $565,539 of the principal to common stock of the Company.	
10% convertible note payable in the original amount of $1,500,000, and due July 19, 2008. Interest is 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; b) 50% of the average of the three lowest intraday trading prices for the common stock. The full principal amount of the secured convertible notes is due upon a default under the terms of the secured convertible notes. The note is secured by substantially all of the Company's assets, including the assets of wholly owned subsidiaries and intellectual property.	1,
Unamortized Beneficial Conversion	(1,
	1,
Less: current portion	
Total	$1,

CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

(Unaudited)

NOTE C -STOCKHOLDER'S EQUITY

Preferred Stock

The Company has authorized 200 shares of Preferred Class A stock, with a par value of $.001 per share. As of September 30, 2005, the Company has 66.3606 shares of Preferred Class A shares issued and outstanding

The Company has authorized 800,000 shares of Preferred Class B stock, with a par value of $.001 per share. As of September 30, 2005, the Company has 800,000 shares of Preferred Class B shares issued and outstanding. The Preferred Class B shares accumulates interest, payable as dividends at the rate of 12% per annum. For the year ended December 31, 2004 $96,000 in dividends were accumulated. For the period ended September 30, 2005 an additional $72,000 in dividends were accumulated. These dividends are not recorded until declared by the Company.

Common Stock

The Company has authorized 300,000,000 shares of common stock, with a par value of $.001 per share. As of September 30, 2005, the Company has 74,550,001 shares issued and outstanding.

During the three months ended March 31, 2005, holders converted 38.5 shares of preferred stock - Class A into 1,925,000 shares of common stock at $.10 per share.

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

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

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

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

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

During the three months ended June 30, 2005, holders converted 26.5 shares of preferred stock - Class A into 1,325,000 shares of common stock at $.10 per share.

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

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

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

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

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

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

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

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

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

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

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

NOTE C -STOCKHOLDER'S EQUITY (Continued)

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

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

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

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

During the three months ended September 30, 2005, holders converted 20.5 shares of preferred stock - Class A into 1,025,000 shares of common stock at $.10 per share.

NOTE D -STOCK OPTIONS

Class A Warrants

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to shareholders at September 30,2005.

		Warrants Outstanding		Wa
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisa

$ 0.03	25,000,000	5	$ 0.03	25,000,0
0.10	91,500	4	$ 0.10	91,5
0.20	1,845,000	3	0.20	1,845,0
0.25	8,751,564	2	0.25	8,751,5
0.50	2,600,000	5	0.50	2,600,0
$ 1.05	8,643,064	2	1.05	8,643,0
	46,931,128	3.61	$ 0.29	46,931,1

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

	Number of Shares	We Pr
Outstanding at December 31,2004	22,821,128	
Granted	25,400,000	
Exercised	--	
Canceled or expired	(1,350,000)	
Outstanding at September 30, 2005	46,931,128	

Warrants granted during the period ended September 30, 2005 include 25,000,000 issued in connection with debt financing. The warrants are exercisable until five years after the date of issuance at a purchase price of $0.03 per share. In addition the exercise price is adjusted in the event common stock is issued at a price below the market, with the exception of any securities issued as of the date of the warrant.

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.

	Options Outstanding			Options E
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual life (Years)	Weighted Average Exercise Price	Number Exerci
$ 0.2125	2,000,000	4	$ 0.2125	2,00
$ 0.2125	2,000,000	5	0.2125	2,00
0.10	12,000,000	6	0.10	
0.0295	12,000,000	7.5	0.0295	12,00
	28,000,000	6.4	$ 0.086	16,00

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2004	4,000,000	$0.2125
Granted	24,000,000	$0.065
Exercised	--	--
Canceled or expired	--	--
Outstanding at September 30, 2005	28,000,000	$0.086

The weighted-average fair value of stock options granted to employees during the period ended September 30, 2005 and 2004 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	For the Nine Months Ended September 30	
	2005	2004
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	2%	1.5%
Expected stock price volatility	255%	149%
Expected dividend payout	--	--
Expected option life-years (a)	6	6

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

If the Company recognized compensation cost for the stock options and warrants for the non-qualified employee stock option plan in accordance with SF AS No.123, the Company's pro forma net loss and net loss per share would have been $(3,518,517) and $(0.07) for the nine months ended September 30,2005 and $(4,061,836) and $(0.24) for the nine months ended September 30, 2004, respectively.

NOTE E -RELATED PARTY TRANSACTIONS

From time to time, the Company's principal officers have advanced funds to the Company for working capital purposes in the form of unsecured promissory notes, accruing interest at 12% per annum. As of September 30, 2005 and December 31, 2004, the balance due to the officers was $ 386,595 and $399,080, respectively.

NOTE F -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.

NOTE G- LOSSES PER SHARE

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

	For the Nine Months Ended September 30, 2005	2004
Net loss available to Common stockholders	$(2,799,717)	$(4,013,836)
Basic and diluted loss per share	(0.06)	(0.24)
Weighted average common shares outstanding	47,503,678	17,080,605

NOTE I- GOING CONCERN MATTERS

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements for the nine months ended September 30, 2005 and for the period from inception through December 31,2004, the Company incurred losses from operations of $(2,799,717) and $(10,847,683), respectively. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

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

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

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

NOTE J-SUBSEQUENT EVENTS

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on October 21, 2005 for the sale of (i) $800,000 in secured convertible notes and (ii) warrants to buy 800,000 shares of our common stock.

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 are in the development stage and our efforts have been principally devoted to designing, developing and marketing advanced lighting systems that utilize white (and other) light emitting diodes as illumination elements.

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

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

On July 11,2005. we announced the fulfillment of initial orders for the Aeon product line and the continued expansion of the Aeon sales network that connects dealers with customers. The Aeon sales network is comprised of dealers and lighting industry professionals who meet a range of criteria including their market reach, years in business, annual revenue, customer base and their ability to effectively represent Aeon products with our solid-state lighting technology.

On July 13, 2005, we unveiled the KEON KeyCap(tm), a new product designed to provide consumers with a long-lasting, slender sleeve of electronics that turns a standard key into a practical lighting element. The patented KEON KeyCap(tm) is the practical lighting solution for every consumer who carries keys. Each KEON is a sturdy elastic surround that fits standard key heads and features an electronics package that focuses a bright diodal(tm) beam of light down the key shaft. When its miniaturized button is depressed, the KEON KeyCap(tm) directs light precisely into the intended keyhole or other targeted surfaces.

On July 28, 2005, we announced the formation of a joint venture with Bruni Industria Mobili SRL that will address the solid-state lighting needs of the European marketplace. Bruni Industria Mobili SRL, a 51-year-old furniture, fixture and consumer products manufacturing conglomerate located in Sora, Italy, is one of the largest manufacturers of furnishing products, including lighting

products and fixtures for the European market. Under the terms of the agreement, we granted Bruni Industria the European marketing and distribution rights our products, and will integrate our technology into Bruni Industria products.

14

On July 21, 2005, the North Carolina Technology Association (NCTA) invited us to serve on NCTA's Defense and Security Steering Committee. NCTA is the primary voice of the technology industry in North Carolina and is dedicated to growing and strengthening the technology industry through increasing public awareness and influencing key public policy issues. Security has become an increasingly important focus within the nation and North Carolina. With one of the largest military presences in the country, NCTA is focused on building a Defense and Security Business Cluster across North Carolina to leverage federal investment associated with the military presence in North Carolina. With the Cyberlux headquarters in the heart of North Carolina's Research Triangle Park, the appointment to NCTA's Defense and Security Steering Committee will give us the opportunity to participate in planning future homeland security, military and defense industry initiatives.

On July 25, 2005, we unveiled the RelyOn ultra-bright light with power plant, a new product designed to provide homeowners and professionals with a portable, long-lasting work and emergency light. RelyOn is the first product in the world to use Cree's latest 3-watt solid-state lighting technology, providing superior performance over conventional lighting products. The patent-pending RelyOn is a practical lighting solution for every consumer and professional who needs versatile, long-lasting light. The powerful, water- resistant and portable lighting system is designed to provide a perpetual and rechargeable light source during the most extreme conditions, including power grid failures caused by natural or man-made disasters. Delivering more than 60 hours of light on a single charge, the RelyOn can be recharged from a wall outlet or a vehicle charging port. AC and DC power adapters are built into RelyOn. As a power plant, the RelyOn can recharge mobile phones and other 12-volt DC devices through a built-in power port.

On August 10, 2005, we introduced the EverOn Multi-Purpose Emergency Light, the latest solid-state lighting technology that provides more than 60 hours of light using four AA batteries and is 90 percent more energy efficient than conventional incandescent flashlights. The EverOn is packaged in our patent-pending and field-proven hand-held elliptical parabolic reflector product design, providing a practical, portable emergency lighting solution for every consumer who has experienced the unease and inconvenience of power outages caused by natural or man-made disasters. Designed originally to provide homeowners with portable, long- lasting, emergency lighting during the hurricane season, the new EverOn is a sturdy, virtually indestructible, lighting product that provides over 60 hours of comfortable room-filling light on the medium setting and over 30 hours of intensely bright white light on the highest setting, all in a 7, by 3.5 by 2.4 inch package. 'The EverOn product builds on the demonstrated success of the original Home Safety Light, which was used for emergency lighting support during last year's Hurricane Charlie relief effort and by workers involved in the Thai island Phuket tsunami disaster recovery. The EverOn contains 6 bright white and 4 amber diodal(tm) lighting elements that never require replacement. The EverOn has three light settings including a low, nightlight level; a medium, room-filling light level; and a high, spotlight level. In recent bench tests by Independent Testing Laboratories, Inc., the EverOn Multi-Purpose Light was shown to operate for over 60 hours at the medium setting and over 30 hours at high setting using one set of 4 AA batteries.

On August 16, 2005, we announced that the U.S. Patent Office has awarded us a patent for our Apparatus and Methods for Providing an Emergency Lighting

Augmentation System. The claims awarded by the U.S. Patent Office address a lighting system capable of providing long-term solutions for emergency and interim lighting. Specifically, these claims address the solid-state lighting elements and associated devices for providing emergency or temporal lighting mounted adjacent to the existing lighting system; the control circuit in electronic communication with solid-state lighting system including wireless communication; the power sensing technology for sensing power disruption in a main power supply which illuminates the lighting elements upon sensing power disruption to determining the electrical power state of an environment. Specifically, the patent addresses an electrochemical lighting system capable of providing prolonged illumination with the use of light emitting diodes (LEDs) as the illumination source. The patent embodies lighting devices capable of providing long-term solutions for interim and emergency lighting via an array of LEDs, the means for providing electrical energy to the LED array, the capability of multi-level light intensity consistent with light longevity and power source relationships including conventional A/C, solar, various electrochemical assemblies or all other means of electrical energy support. The development of Cyberlux's ReliaBright Emergency Lighting System (ELS) led to the patent filing. The ReliaBright ELS is designed to retrofit as an augmentation to existing lighting systems in commercial buildings, and it can be adapted for a variety of applications and uses. These claims lead to new opportunities for the ReliaBright ELS technology in the commercial, military and homeland security markets. The product includes a control module powered by a constant charge battery and monitored by a sensor. The sensor differentiates between 'power-off at the wall switch' and 'power-out in the building's electrical service.' The system's light intensity is determined by the number of solid-state lighting elements that are connected in series. Light levels range from 'moonlight' to 'daylight' consistent with the needs of the space in which the ReliaBright ELS is installed.

15

On September 7, 2005, we introduced the Emergency Response Retail Campaign to provide the new EverOn Multi-Purpose Emergency Light to retailers and consumers during the hurricane season. The EverOn product is the latest in solid-state lighting technology and provides more than 60 hours of light using four AA batteries and is 90 percent more energy efficient than conventional lanterns or incandescent flashlights. Under the EverOn Emergency Retail Campaign, we have readied pre- packaged bulk shippers of the EverOn product for immediate distribution to retailers and emergency response organizations. Emergency Management officials in Collier County, Florida relied on the Home Safety Light, the previous version of the EverOn, as an emergency lighting source in hurricane shelters and for victims needing medical assistance in the aftermath of Hurricane Dennis in July 2005. In August 2005, the officials announced that they have listed the EverOn Emergency Light to be a standard product in their disaster relief inventory.

On September 15, 2005, we introduced our e-commerce Web site, www.LuxSel.com, as our on-line retail outlet for consumer solid-state LED lighting products, including the EverOn, Keon and RelyOn products.

On September 23, 2005, we announced a partnership with Smart Products, Inc to extend the reach of our retail products in the retail channel. Smart Products, Inc., a full service retail sales organization, will market, sell and support our EverOn, Keon and RelyOn LED solid-state lighting products in their strategic U.S. retail accounts.

On September 28, 2005, we announced a partnership with Duggan & Brown, Inc.to extend the reach of our retail products in the retail channel. Duggan & Brown, Inc., a full service retail sales organization, has offices in Abington,

PA for northeastern United States coverage, Barrington, IL for central and western United States coverage and Naples, FL for southeastern United States coverage. Under the terms of the agreement, Dugan & Brown will market, sell and support our EverOn, Keon and RelyOn innovative LED solid-state lighting products in their strategic U.S. retail, on-air shopping, catalog and direct mail accounts.

Results of Operations

Nine months ended September 30, 2005 compared to the Nine months ended September 30, 2004

REVENUES

Revenues for the nine months ended September 30, 2005 were $26,202 as compared to $23,288 for the same period ended September 30, 2004.

OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2005 were $1,864,038 as compared to $2,551,709 for the same period ended September 30, 2004. Included in the nine months ended September 30, 2005 are $235,389 in expenses for market development and literature. This compares to $10,380 for the nine months ended September 30, 2004.

Three months ended September 30, 2005 compared to the three months ended September 30, 2004

REVENUES

Revenues for the three months ended September 30, 2005 were $12,434 as compared to $2,082 for the same period ended September 30, 2004.

OPERATING EXPENSES

Operating expenses for the three months ended September 30, 2005 were $785,410 as compared to $603,242 for the same period ended September 30, 2004. Included in the three months ended June 30, 2005 are $97,718 in expenses for market development and literature. This compares to $21,830 for the nine months ended September 30, 2004.

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, 2005, we had a working capital deficit of $1,066,484. This compares to a working capital deficit of $442,303 as of December 31, 2004. As a result of our operating losses for the nine months ended September 30, 2005, we generated a cash flow deficit of $1,849,640 from operating activities.

Cash flows used in investing activities was $35,867 during the quarter. Cash flows from financing activities provided $1,487,515 from the issuance of convertible notes payable for the first six months ended September 30, 2005.

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, 2004, Form 10-KSB, as amended, that we have incurred operating losses in the last two years, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on October 21, 2005 for the sale of (i) $800,000 in secured convertible notes and (ii) warrants to buy 800,000 shares of our common stock.

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

The secured convertible notes bear interest at 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) $0.06 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of $0.10 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

Since the conversion price will be less than the market price of the

common stock at the time the secured convertible notes are issued, we anticipate recognizing a charge relating to the beneficial conversion feature of the secured convertible notes during the quarter in which they are issued

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.

Critical Accounting Policies

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

- stock-based compensation; and
- revenue recognition.

Stock-Based Compensation

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

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

Revenue Recognition

For revenue from product sales, the Company recognizes revenue in

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

18

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No.141, "Business Combinations" (SFAS No. 141), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). The FASB also issued Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" (SFAS No. 143), and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144) in August and October 2001, respectively.

SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. The adoption of SFAS No. 141 had no material impact on the Company's financial statements.

Effective January 1, 2002, the Company adopted SFAS No. 142. Under the new rules, the Company will no longer amortize goodwill and other intangible assets with indefinite lives, but such assets will be subject to periodic testing for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs to be included in results from operations may be necessary. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption.

Any goodwill impairment loss recognized as a result of the transitional goodwill impairment test will be recorded as a cumulative effect of a change in accounting principle no later than the end of fiscal year 2002. The adoption of SFAS No. 142 had no material impact on the Company's financial statements

SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective in fiscal years beginning after June 15, 2002, with early adoption permitted. The Company expects that the provisions of SFAS No. 143 will not have a material impact on its results of operations and financial position upon adoption. The Company plans to adopt SFAS No. 143 effective January 1, 2003.

SFAS No. 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS No. 144 superseded Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), and APB Opinion No. 30, "Reporting the Results of Operations -

Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The Company adopted SFAS No. 144 effective January 1, 2002. The adoption of SFAS No. 144 had no material impact on Company's financial statements.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that a similar to sale-leaseback transactions. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In October 2002, the FASB issued Statement No. 147, "Acquisitions of Certain Financial Institutions-an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", which removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. In addition, this Statement amends SFAS No. 144, Accounting for the Impairment or Disposal of

Long-Lived Assets, to include in its scope long-term customer relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. The requirements relating to acquisitions of financial institutions are effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions related to accounting for the impairment or disposal of certain long-term customer-relationship intangible assets are effective on October 1, 2002. The adoption of this Statement did not have a material impact to the Company's financial position or results of operations as the Company has not engaged in either of these activities.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure

provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of this statement did not have a material impact on the Company's financial position or results of operations as the Company has not elected to change to the fair value based method of accounting for stock-based employee compensation.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation 46 changes the criteria by which one company includes another entity in its consolidated financial statements. Previously, the criteria were based on control through voting interest. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

Product Research and Development

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

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

Acquisition or Disposition of Plant and Equipment

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

RISK FACTORS

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

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

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

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

We incurred net losses of $6,825,848 for the year ended December 31, 2004 and $2,230,806 for the year ended December 31, 2003. For the nine months ended September 30, 2005, we incurred a net loss of $2,799,717. As of September 30, 2005, we had an accumulated deficit of $13,647,401. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

If We Are Unable to Obtain Additional Funding Our Business Operations Will be Harmed and If We Do Obtain Additional Financing Our Then Existing Shareholders May Suffer Substantial Dilution.

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

Our Independent Auditors Have Expressed Substantial Doubt About Our Ability to Continue As a Going Concern, Which May Hinder Our Ability to Obtain Future Financing.

In their report dated March 17, 2005, our independent auditors stated that our financial statements for the year ended December 31, 2003 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of losses for the years ended December 31, 2004 and 2003 in the amounts of $6,825,848 and $2,230,806, respectively. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

If We Are Unable to Retain the Services of Messrs. Evans, Schmidt or Ringo, or If We Are Unable to Successfully Recruit Qualified Managerial and Sales Personnel Having Experience in Business, We May Not Be Able to Continue Our Operations.

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

Many Of Our Competitors Are Larger and Have Greater Financial and Other Resources Than We Do and Those Advantages Could Make It Difficult For Us to Compete With Them.

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

Our Trademark and Other Intellectual Property Rights May Not be Adequately Protected Outside the United States, Resulting in Loss of Revenue.

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

Our Principal Stockholders, Officers And Directors Own a Controlling Interest in Our Voting Stock And Investors Will Not Have Any Voice in Our Management.

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

- election of our board of directors;
- removal of any of our directors;

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

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

22

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

Due to our limited economic resources, we try to issue stock in lieu of cash for payment of expenses and services provided for us. In 2004, we issued 6,335,000 shares of common stock in exchange for expenses and services rendered, and we issued 800,000 shares of series B convertible preferred stock to officers and directors in exchange for the retirement of debt owed to them. We anticipate issuing shares of common stock whenever possible in lieu of cash to conserve our financial position. The number of shares of common stock issued is directly related to our stock price at the time of issuance. In the event that our stock price drops, we will be required to issue larger amounts of shares for expenses and services rendered, if the other party is willing to accept stock at all. The issuance of shares of common stock will have the effect of diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

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

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

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

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

exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

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

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

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

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

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

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

23

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

24

ITEM 3. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures: As of September 30, 2005, our management carried out an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls

and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

b) Changes in internal controls: There were no changes in internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially effect, 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. Except as disclosed below, we are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

CASE NUMBER: 2001 CA 005309 NC Div. C.

On May 17, 2005, Zykronix, Inc., a Colorado corporation, filed a complaint against us and our President, Mark Schmidt, in the District Court, City and County of Denver, State of Colorado (Case No. O5CV3704) claiming damages in the amount of $211,323.75 and costs for breach of contract, unjust enrichment and fraud by Mark Schmidt. We previously entered into a contract with Zykronix for them to produce prototypes for several of our new products, which we believe they never satisfactorily completed.

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

INDEX NUMBER: 602727/05 - Supreme Court of the State of New York, County of New York

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

Statement of Claim - Arbitration Before the National Association of Securities Dealers, Inc.

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

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

During the three months ended September 30, 2005, we issued 1,025,000 shares of common stock for the conversion of 20.5 shares of Class A preferred stock.

In July, 2005, we issued 9,573,000 shares of common stock $0.0085 per share on conversion of notes payable.

In August, 2005, we issued 1,000,000 shares of our common stock at $0.097 per share in exchange for services rendered.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits

4.1 Securities Purchase Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.

4.2 Secured Convertible Note issued to AJW Offshore, Ltd., dated October 23, 2005.

4.3 Secured Convertible Note issued to AJW Qualified Partners, LLC, dated October 23, 2005.

4.4 Secured Convertible Note issued to AJW Partners, LLC, dated October 23, 2005.

4.5 Secured Convertible Note issued to New Millennium Capital Partners II, LLC.

4.6 Common Stock Purchase Warrant issued to AJW Offshore, Ltd., dated October 23, 2005.

4.7 Common Stock Purchase Warrant with AJW Qualified Partners, LLC, dated October 23, 2005.

4.8 Common Stock Purchase Warrant with AJW Partners, LLC, dated October 23, 2005.

4.9 Common Stock Purchase Warrant with New Millennium Capital Partners II,

LLC, dated October 23, 2005.

4.10 Registration Rights Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.

4.11 Security Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.

4.12 Intellectual Property Security Agreement, dated as of October 23, 2005, by and among Cyberlux Corporation, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and New Millennium Capital Partners II, LLC.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

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 16, 2005 By: /s/ DONALD F. EVANS

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

Date: November 16, 2005 By: /s/ DAVID D. DOWNING

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