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CYBERLUX CORP  
Form 10QSB  
August 18, 2005

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 June 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 June 30, 2005  
Commission file number 000-33415

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

Nevada  
(State of Incorporation)

91-2048178  
(IRS Employer Identification No.)

4625 Creekstone Drive  
Suite 100  
Research Triangle Park  
Durham, NC 27703  
(Address of Principal Executive Offices)

(919) 474-9700  
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  No

As of August 8, 2005, the Company had 73,300,001 shares of its par value \$0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes  No

CYBERLUX CORPORATION  
Quarterly Report on Form 10-QSB for the  
Quarterly Period Ending June 30, 2005

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CYBERLUX CORPORATION  
CONDENSED BALANCE SHEETS  
(UNAUDITED)

	June 30, 2005 Unaudited -----	December -----
Assets		
Current assets:		
Cash & cash equivalents	\$ 141,652	\$

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Accounts Receivable - allowance for doubtful accounts of \$ 0	10,000	
Prepaid expenses	156,792	
	-----	-----
Total current assets	308,444	
Property, plant and equipment, net of accumulated depreciation of \$ 104,825 and \$92,335, respectively	60,694	
Other Assets:		
Patents	78,270	
	-----	-----
Total Assets	\$ 447,408	\$
	=====	=====
Liabilities and Deficiency in Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 164,556	\$
Accrued liabilities	379,927	
Short-term notes payable - shareholders	366,595	
Short-term notes payable	27,500	
	-----	-----
Total current liabilities	938,578	
Long-term liabilities:		
Convertible debentures, net of discounts (Note B)	1,107,497	1
Deficiency in Stockholders' equity:		
Preferred stock, \$0.001 par value, 200 shares authorized, Class A, 86.8606 and 151.8606 shares issued and outstanding as of June 30, 2005 and December 31, 2004 respectively	1	
Preferred stock, \$0.001 par value, 800,000 shares authorized, Class B, 800,000 issued and outstanding as of June 30, 2005 and December 31, 2004	800	
Common stock, \$0.001 par value, 300,000,000 shares authorized, 62,952,001 and 23,770,233 shares issued and outstanding as of June 30, 2005 and December 31, 2004, respectively	62,952	
Additional paid-in capital	10,542,519	9
Accumulated deficit	(12,204,939)	(10)
	-----	-----
Deficiency in stockholders' equity	(1,598,667)	(1)
	-----	-----
Total liabilities and (deficiency) in stockholders' equity	\$ 447,408	\$
	=====	=====

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

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CYBERLUX CORPORATION  
CONDENSED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Three Months Ended June 30, 2005	Months Ended June 30, 2004	For the Six Months Ended June 30, 2005
	-----	-----	-----
Revenue	\$ 200	\$ 11,238	\$ 13,768
Cost of goods sold	(23,117)	(7,992)	(29,487)
	-----	-----	-----
Gross margin (loss)	(22,917)	3,246	(15,718)
Operating Expenses:			
Marketing and advertising	116,349	21,830	137,672
Depreciation and amortization	4,886	13,361	13,180
Research and development	100,883	34,086	119,580
General and administrative expenses	468,356	447,435	808,196
Total operating expenses	690,475	516,712	1,078,628
(Loss) from operations	(713,392)	(513,466)	(1,094,346)
Other income/(expense)			
Other Income	--	(10,441)	--
Interest income	0	62	300
Interest expense	(125,873)	(5,434)	(168,879)
Debt acquisition costs	(94,331)		(94,331)
Net Loss before provision for income taxes and preferred dividend	(933,596)	(529,279)	(1,357,255)
Income taxes (benefit)	--	--	
Net loss	(933,596)	(529,279)	(1,357,255)
Preferred dividend - Beneficial conversion discount on convertible preferred	--		
Net loss available to common stockholders	\$ (933,596)	\$ (529,279)	\$ (1,357,255)
Weighted average number of common shares outstanding, basic and fully diluted	41,216,067	15,169,191	34,604,651
Net loss per share - Basic and fully diluted	\$ (0.02)	\$ (0.03)	\$ (0.04)
Preferred dividend	\$ 24,000	\$ 24,000	\$ 48,000

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

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Cyberlux Corporation  
 CONDENSED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY FOR THE  
 PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2005  
 (Unaudited)

	Common Stock		Preferred Stock		Additional Paid in Capital	Stock Subscription Receivable
	Shares	Amount	Shares	Amount		
Balance, December 31, 2004	23,770,233	\$23,771	\$800,152	\$ 801	\$9,099,302	\$ -
Shares issued in January, 2005 for Preferred A conversion	1,675,000	1,675	(34)	--	(1,675)	-
Shares issued in January, 2005 for note payable at \$0.0248 per share	1,035,221	1,035	--	--	24,638	-
Shares issued in January, 2005 for note payable at \$0.0135 per share	1,035,221	1,035	--	--	12,940	-
Shares issued in February, 2005 for Preferred A conversion	250,000	250	(5)	--	(250)	-
Shares issued in February, 2005 for note payable at \$0.00883 per share	1,035,221	1,035	--	--	8,106	-
Shares issued in March, 2005 for note payable at \$0.01358 per share	1,035,221	1,035	--	--	13,024	-
Shares issued in March, 2005 for note payable at \$0.00983 per share	1,035,221	1,036	--	--	9,141	-
Warrants issued in March in exchange for services	--	--	--	--	14,160	-
Shares issued in April, 2005 for Preferred A conversion	250,000	250	(5)	--	(250)	-
Common Shares issued in April, 2005 in exchange for services valued at \$0.03 per share	800,000	800			23,200	-
Shares issued in April, 2005 for note payable at \$0.0118 per share	1,035,221	1,035			11,181	-
Shares issued in April, 2005 for note payable at \$0.011 per share	1,035,221	1,035			10,352	-
Shares issued in May, 2005 for note payable at \$0.0108 per share	1,035,221	1,035			10,145	-
Shares issued in May, 2005 for						

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note payable at \$0.0105 per share	1,600,000	1,600			15,200	
Shares issued in May, 2005 for note payable at \$0.0103 per share	1,100,000	1,100			10,230	
Shares issued in May, 2005 for note payable at \$0.0088 per share	1,700,000	1,700			13,260	
Shares issued in May, 2005 for note payable at \$0.0085 per share	1,700,000	1,700			12,750	
Shares issued in May, 2005 for note payable at \$0.0083 per share	3,400,000	3,400			24,820	
Shares issued in June, 2005 for Preferred A conversion	1,075,000	1,075	(22)		(1,075)	
Common Shares issued in June, 2005 in exchange for services valued at \$0.02 per share	250,000	250			4,750	
Shares issued in June, 2005 for note payable at \$0.0083 per share	6,800,000	6,800			49,640	
Shares issued in June, 2005 for note payable at \$0.0092 per share	2,400,000	2,400			19,680	
Shares issued in June, 2005 for note payable at \$0.0085 per share	7,900,000	7,900			59,250	
Beneficial conversion feature of convertible debentures (Note D)					1,100,000	
Net (Loss)	--	--	--	--	--	
Balance, June 30, 2005	62,952,001	\$62,952	\$800,087	\$ 801	\$10,542,519	\$

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

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Cyberlux Corporation  
Condensed Statement of Cash Flows  
(Unaudited)

	For the Six Months June 30, 2005	J
	-----	-----
Cash flows provided by (from-used in) operating activities		
Net (loss) available to common stockholders	\$(1,357,255)	\$
Depreciation and amortization	13,180	
Beneficial conversion discount - preferred stock dividend	--	

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Amortization of debt discount - beneficial conversion feature of convertible note (Note D)	91,667
Shares issued for previously incurred debt	--
Warrants issued to consultants for services	14,160
Warrants issued in connection with financing	--
Preferred shares issued for conversion of accrued management fees	--
Preferred shares issued for previously incurred debt	
Shares issued for consulting services	29,000
Shares issued for factoring agreement	
Decrease (increase) in accounts receivable	(10,000)
(Increase) decrease in prepaid expenses	(88,389)
(Increase) decrease in other assets	(47,726)
Increase (decrease) in accrued interest	50,976
Increase (decrease) in accrued liabilities	5,543
(Decrease) increase in management fee payable-related party	--
(Decrease) increase in other accounts payable	(11,537)
Net cash (used in) operating activities	(1,310,382)
Cash flows provided by (used in) investing activities	
Payments for property, plant and equipment	(30,856)
Cash (used in) investing activities	(30,856)
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)	(32,485)
Proceeds from advance deposits	--
(Payments for) Proceeds from convertible long-term notes	1,100,000
Proceeds from issuance of preferred stock	
Proceeds from subscriptions receivable	
Issuance of common stock	
Net cash provided by (used in) financing activities	1,067,515

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Net increase (decrease) in cash	----- (273,723)
Cash - beginning	415,375
Cash - ending	\$ 141,652
Supplemental disclosures:	
Interest Paid	\$ 9,537
Income Taxes Paid	--
Non-Cash investing and financing activities:	
Shares issued for research and development and consulting	29,000
Shares issued for conversion of debt	--
Warrants issued in connection with financing	273,967
Warrants issued to consultants for services	14,160
Warrants issued detachable with convertible preferred shares	
Shares issued in connection with factoring	--
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

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CYBERLUX CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
JUNE 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 six-month period ended June 30,



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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 June 30, 2005, the Company has accumulated losses of \$12,204,939.

### 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

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### Reclassification

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

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

### NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

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#### Impairment of long lived assets

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

#### Fair value of financial instruments

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

#### Concentrations of Credit Risk

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

#### 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

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prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No.25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No.148 in its financial reports for the year ended December 31,2002 and subsequent years.

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

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

NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Net loss attributable to common stockholders -as reported	\$ (933,596)	\$ (529,279)	\$ (1,357,255)	\$ (2,798,213)
Add. Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	--	--	--	0
Deduct Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	--	--	(478,800)	0
Net loss -Pro Forma	\$ (933,596)	\$ (529,279)	\$ (1,836,055)	\$ (2,798,213)
Net loss attributable to common stockholders - Pro forma	\$ (933,596)	\$ (529,279)	\$ (1,836,055)	\$ (2,798,213)
Basic (and assuming dilution) loss per share -as reported	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.22)
Basic (and assuming dilution) loss per share - Pro forma	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.22)

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

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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.

### 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

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

NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

Recent pronouncements (Continued)

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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.

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 is 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.

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

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

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CYBERLUX CORPORATION  
 NOTES TO CONDENSED FINANCIAL STATEMENTS  
 JUNE 30, 005  
 (Unaudited)

NOTE B-NOTES PAYABLE AND CONVERTIBLE DEBENTURES

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

	2005
10 % convertible note payable, unsecured and due September, 2003; accrued and unpaid interest due at maturity ; Note holder has the option to convert 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	\$ 2,500
10% convertible notes payable, unsecured and due March, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of \$ .50 per share. The Company is in violation of the loan covenants	25, 000
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 June 30, 2005 the Note holder has converted \$484,169 of the principal to common stock of the Company	1,015,831
10% convertible note payable in the original amount of \$1,100,000, 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. The discount on the note is 1,008,333 related to beneficial interest of conversion features and warrants.	91,666
	1,134,997
Less: current portion	(27,500)
Total	\$ 1,107,497

NOTE C -STOCKHOLDER'S EQUITY

-----

Preferred Stock

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The Company has authorized 200 shares of Preferred Class A stock, with a par value of \$.001 per share. As of June 30, 2005, the Company has 86.8606 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 June 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 June 30, 2005 an additional \$48,000 in dividends were accumulated. These dividends are not recorded until declared by the Company.

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

NOTE C -STOCKHOLDER'S EQUITY (Continued)  
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Common Stock

The Company has authorized 300,000,000 shares of common stock, with a par value of \$.001 per share. As of June 30, 2005, the Company has 62,952,001 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.

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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.

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.

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

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 June 30,2005.

Exercise Prices	Number Outstanding	Warrants Outstanding		Warrants Exercisable	
		Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.03	18,333,333	5	\$ 0.03	18,333,333	\$ 0.03
0.10	91,500	4	\$ 0.10	91,500	0.10



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0.20	1,845,000	3	0.20	1,845,000	0.20
0.25	8,751,564	2	0.25	8,751,564	0.25
0.50	2,600,000	5	0.50	2,600,000	0.50
\$1.05	8,643,064	2	1.05	8,643,064	1.05
	-----			-----	
	40,264,461	3.61	\$ 0.34	40,264,461	\$ 0.34
	=====			=====	

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

	Number of Shares	Weighted Average Price Per Share
	-----	-----
Outstanding at December 31, 2004	22,881,128	\$ 0.58
Granted	18,733,333	0.03
Exercised	--	--
Canceled or expired	(1,350,000)	(0.25)
	-----	-----
Outstanding at June 30, 2005	40,264,461	\$0.34
	=====	=====

Warrants granted during the period ended June 30, 2005 include 18,333,333 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. In addition, 400,000 warrants were issued at \$0.20 in exchange for services.

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.

Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual life (Years)		Number Exercisable	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$ 0.2125	2,000,000	4	\$ 0.2125	2,000,000	\$ 0.2125
0.2125	2,000,000	5	0.2125	2,000,000	0.2125
0.10	12,000,000	6	0.10	12,000,000	0.10
	-----			-----	-----
	16,000,000	5.6	\$ 0.1281	16,000,000	\$ 0.1281
	=====			=====	=====

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	12,000,000	\$ 0.10

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Exercised	--	--
Canceled or expired	--	--
	-----	-----
Outstanding at June 30, 2005	16,000,000	\$0.1281
	=====	=====

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

NOTE D -STOCK OPTIONS (CONTINUED)

The weighted-average fair value of stock options granted to employees during the period ended June 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 Six Months Ended	
	June 30	
	2005	2004
	-----	-----
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	2%	1.5%
Expected stock price volatility	250%	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 \$(1,836,055) and \$(0.05) for the six months ended June 30,2005 and \$(1,858,483) and \$(0.14) for the three months ended June 30, 2004, respectively.

NOTE E -RELATED PARTY TRANSACTIONS

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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 June 30, 2005 and December 31, 2004, the balance due to the officers was \$ 366,595 and \$399,080, respectively.

NOTE F -COMMITMENTS AND CONTINGENCIES

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Consulting Agreements

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

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### NOTE G- LOSSES PER SHARE

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

	For the Six Months Ended June 30,	
	2005	2004
	----	----
Net loss available to Common stockholders	\$ (1,357,255)	\$ (2,798,213)
Basic and diluted loss per share	(0.04)	(0.22)
Weighted average common shares outstanding	34,604,651	13,004,736

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

### NOTE H- GOING CONCERN MATTERS

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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 six months ended June 30, 2005 and for the period from inception through December 31, 2004, the Company incurred losses from operations of \$(1,357,255) 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 its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through the continued developing, marketing and selling of its services and additional equity investment in the Company. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

### NOTE I - SUBSEQUENT EVENTS

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In July, 2005, the Company issued 12,700,000 shares of its common stock at \$0.0085 per share on conversion of notes payable.

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

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

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

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presented to the Kings Park School District administration and we hope the pilot could become a model for emergency lighting throughout other school districts.

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

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

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

In June of 2005, we completed the development of the Keon KeyCap (TM), a new product designed to provide consumers with a long-lasting, slender sleeve of electronics that turns a standard key into a lighting device. The patented Keon 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 directs light precisely into the intended keyhole or other targeted surfaces. We anticipate supply and sales will begin on the Keon in the third quarter of 2005.

In June of 2005, we received confirmation that our Aeon Pro E "Task & Accent" home lighting meets California's Title 24 new residential energy requirements of 40 lumens per watt. Verified by Independent Testing Laboratories, Inc., a third-party independent testing firm, the Aeon Pro E product was confirmed to operate at 55 lumens per watt. The Title 24 California energy requirements went into effect in 1978 to decrease California's energy consumption. Since then, the legislation has saved the state more than \$36 billion in electricity and natural gas costs. The Title 24 standards will be revised in October of 2005 and the new standard of 40 lumens per watt will be required. ITL was founded 50 years ago, is one of the most experienced independent testing labs in the country and provides accurate, unbiased

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information on virtually every type of lighting to lighting manufacturers, designers, architects and the government. Exceeding the Title 24 standards opens up the California market to our Aeon Pro E line and makes these products one of the only alternatives to traditional task and accent lighting for the home. The 55 lumen per watt efficiency of the Aeon Pro E products is an industry-leading efficacy and one that surpasses California's Title 24 requirements of 40 lumens per watt. We anticipate that sales of the Aeon Pro E to grow in the fourth quarter of 2005 when the new standards are in force.

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### Results of Operations

Six months ended June 30, 2005 compared to the six months ended June 30, 2004

#### REVENUES

Revenues for the six months ended June 30, 2005 were \$ 13,768 as compared to \$21,206 for the same period ended June 30, 2004. Included in sales for the six months is a \$10,000 contract with Kings Park School District of Long Island, New York for the installation of our ELS products in a local middle school. This installation is being hailed as a pilot project that could become a model for emergency lighting throughout the State of New York.

#### OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2005 were \$1,078,628 as compared to \$2,184,526 for the same period ended June 30, 2004. Included in the six months ended June 30, 2005 are \$137,672 in expenses for market development and literature. This compares to \$10,380 for the six months ended June 30, 2004.

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

#### REVENUES

Revenues for the three months ended June 30, 2005 were \$200 as compared to \$11,238 for the same period ended June 30, 2004.

#### OPERATING EXPENSES

Operating expenses for the three months ended June 30, 2005 were \$690,475 as compared to \$748,212 for the same period ended June 30, 2004. Included in the three months ended June 30, 2005 are \$116,349 in expenses for market development and literature. This compares to \$21,830 for the six months ended June 30, 2004.

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

### Liquidity and Capital Resources

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As of June 30, 2005, we had a working capital deficit of \$630,134. This compares to a working capital deficit of \$ 442,303 as of December 31, 2004. As a result of our operating losses for the first six months ended June 30, 2005, we generated a cash flow deficit of \$1,310,382 from operating activities. Cash flows used in investing activities was \$30,856 during the quarter. Cash flows from financing activities provided \$1,067,515 from the issuance of convertible notes payable for the first six months ended June 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.

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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 April 22, 2005 for the sale of (i) \$1,500,000 in secured convertible notes and (ii) warrants to buy 25,000,000 shares of our common stock. The investors provided us with an aggregate of \$1,500,000 as follows:

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

The 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 10%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.03 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 \$0.03 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

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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, including the second quarter of fiscal 2005 when \$1,100,000 of secured convertible notes were 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.

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### Off-Balance Sheet Arrangement

We do not have any off-balance sheet arrangements.

### Inflation

In the opinion of management, inflation has not had a material effect on the operations of the Company.

### 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:

- o stock-based compensation; and



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- o revenue recognition.

### Stock-Based Compensation

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

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.

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.

### 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.

### Product Research and Development

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We anticipate incurring approximately \$500,000 in research and development expenditures in connection with the development of our Wireless Lighting System, Aeon cabinet lighting and Cyclone 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.

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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 \$6,025,848 for the year ended December 31, 2004 and \$1,494,556 for the year ended December 31, 2003. For the six months ended June 30, 2005, we incurred a net loss of \$2,730,422. As of June 30, 2005, we had an accumulated deficit of \$13,578,106. 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.

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We will require additional funds to sustain and expand our sales and marketing activities. We anticipate that we will require up to approximately \$900,000 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 \$6,025,848 and \$1,494,556, 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.

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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:

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

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

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

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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.

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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.

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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.

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

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

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### ITEM 3. CONTROLS AND PROCEDURES

- a) Evaluation of Disclosure Controls and Procedures: As of June 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.

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

On May 17, 2005, Zykrnix, Inc., a Colorado corporation, filed a complaint against us and our President, Mark Schmidt, in the District Court, City and County of Denver, State of Colorado (Case No. 05CV3704) claiming damages in the amount of \$211,323.75 and costs for breach of contract, unjust enrichment and fraud by Mark Schmidt.

On June 22, 2005, we filed our Answer and Counterclaim against Zykrnix, claiming damages and costs in the amount of \$2,850,000 for breach of contract, unjust enrichment and negligent misrepresentation. At the same time, Mark Schmidt filed a Motion to Dismiss since Zykrnix failed to adequately plead a claim for fraud. 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.

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During the three months ended June 30, 2005, we issued 1,325,000 shares of common stock for the conversion of 26.5 shares of Class A preferred stock.

In April, 2005, we issued 800,000 shares of our common stock at \$0.03 per share in exchange for services rendered.

In June, 2005, we issued 250,000 shares of our common stock at \$0.02 per share in exchange for services rendered.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC on April 22, 2005 for the sale of (i) \$1,500,000 in secured convertible notes and (ii) a warrants to buy 25,000,000 shares of our common stock.

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

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

The secured convertible notes bear interest at 10%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.03 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.03 per share. In addition the warrants exercise price gets adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of the warrant.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

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

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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)

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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: August 18, 2005

By: /s/ DONALD F. EVANS

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

Date: August 18, 2005

By: /s/ DAVID D. DOWNING

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

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