

CYBERLUX CORP
Form 10KSB
May 21, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2006

Commission file number 000-33415

CYBERLUX CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

91-2048978

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

4625 Creekstone Drive, Suite 130

Research Triangle Park

Durham, North Carolina

(Address of principal executive offices)

27703

(zip code)

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

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 par value

(Title if Class)

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

Yes No

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

Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to Form 10-KSB.

Yes No Delinquent filers are disclosed herein.

Total revenues for Fiscal Year 2006 were \$484,988.

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The aggregate market value of the Common Stock held by non-affiliates (as affiliates are defined in Rule 12b-2 of the Exchange Act) of the registrant, computed by reference to the average of the high and low price on May 18, 2007, was approximately \$1,983,525.

As of May 18, 2007 there were 276,844,639 shares of issuer's common stock outstanding.

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

CYBERLUX CORPORATION
ANNUAL REPORT ON FORM 10-KSB
For the Fiscal Year Ended December 31, 2006

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This Form 10-KSB contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are necessarily based on certain assumptions and are subject to significant risks and uncertainties. These forward-looking statements are based on management's expectations as of the date hereof, and the Company does not undertake any responsibility to update any of these statements in the future. Actual future performance and results could differ from that contained in or suggested by these forward-looking statements as a result of factors set forth in this Form 10-KSB (including those sections hereof incorporated by reference from other filings with the Securities and Exchange Commission), in particular as set forth in the "Management's Discussion and Analysis and Results of Operation" under Item 6.

In this form 10-KSB references to "Cyberlux", "the Company", "we," "us," and "our" refer to Cyberlux Corporation.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW

We are a Nevada corporation that was incorporated on May 17, 2000. We were founded to design, develop, market and sell advanced lighting systems that utilize light emitting diodes as illumination elements. White diodes are a relatively new phenomenon that offer major advances in illumination technology. Our diodes consume 92% less energy than incandescent counterparts to produce comparable light output. In electrochemical (battery powered) applications, this diminution of energy consumption positions our lighting solutions as more durable and reliable than other interim lighting alternatives. In standard alternating current electrical applications, the calculated life of LEDs as lighting elements is over 20 years versus 750 hours for traditional incandescent light bulbs. These exceptional performance characteristics, diminutive energy consumption and extended life, have prompted diode implementation in traffic lights and automotive brake lights, but have not yet significantly occurred in our area of focus, diodal illumination (tm). Diodal illumination is the production of light through the use of white light emitting diodes. A light emitting diode is a chemical compound that produces a visible light when an electrical current is applied. This production of light through a diode is contrasted with light from a typical light bulb, in which light is produced as a by-product of a burning filament contained within a vacuum globe. The diode uses 92% less energy to produce comparable light to that of a traditional light bulb.

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

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

We believe our solid-state lighting is superior to traditional lighting in several ways:

- 1)Energy Consumption -our lighting currently consume 75% less energy than traditional incandescent bulbs and 30% less energy than most fluorescent bulbs.
- 2)Virtually Heatless - The lighting elements do not "burn" a filament or gas to create light. Therefore, they do not have the extreme heat of incandescent or gas (xenon) bulbs.

- 3) Longevity - Our lighting systems have been shown to last up to 20 years versus hundreds of hours for incandescent bulbs. Properly conditioned units can tolerate endless On/off cycles.
- 4) Semiconductor Based - Lighting element efficiencies have been increasing consistently and industry experts believe the efficiency gains will continue (i.e. follow Moore's Law). Additionally, they can be incorporated into control systems.

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- 5) Nearly Impervious to Vibration - Solid-state technology means not as many moving pieces, vacuums or glass.
- 6) Small Footprint - Does not require the ballast like fluorescent bulbs or large receptacles like incandescent bulbs.

These efficiencies result in our lighting systems being less expensive than conventional bulbs or tubes in total cost of ownership.

Our target markets include retail; homeland security; long-term building and industrial, commercial and institutional emergency lighting; military; intensive outdoor maintenance; kitchen/bath task and accent lighting and landscape market.

We are a solid-state lighting technology and product development company that focuses on delivering unique lighting solutions to market with the most advanced semiconductor, power and LED technology. Recently, through our strategic partnership with UTEK, a specialty finance company focused on technology transfer, we acquired the world-wide exclusive rights to two technologies that when combined with our products, create a breakthrough in solid-state lighting capability. Through the combination of the hybrid organic / inorganic white and multi-color lighting technology acquired from the University of California-Santa Barbara and the Scattered Photon Extraction™ (SPE) technology acquired from Rensselaer Polytechnic Institute, we will commercialize the resulting proprietary lighting technology as “Hybrid White Light” (HWL) and “Hybrid Multi-color Light” (HML). The resulting lighting technology will yield a lower cost, more energy-efficient lighting source than currently available in solid-state light-emitting diode (LED) solutions.

With today's best white LEDs operating at 75 lumens per watt range, the HWL technology will produce up to 225 lumens per watt. While the best LED performance today represents 5 times better energy efficiency than current light bulbs, our HWL technology will improve efficiency by an additional 300 percent.

The Market

History of LEDs

“Solid-state Lighting” uses LEDs as the source of illumination. LEDs emit light directly from an electrically charged semiconductor material. Photons are released at various frequencies that create different colors of light. The first commercial LEDs were only able to produce invisible, infra red light, but still quickly found their way into sensing and photo-electric applications. The use of Gallium Aluminum Arsenide Phosphide LEDs in the early to mid 1980s brought the first generation of super bright LEDs, first in red, then yellow and finally green. By the early 1990's, ultra bright LEDs using Indium Gallium Aluminum Phosphide to produce orange-red, orange, yellow and green light had become available.

Eventually, ultra-bright blue chips became the basis of white LEDs, in which the light emitting chip is coated with fluorescent phosphors. These phosphors absorb the blue light from the chip and then re-emit it as white light. This same technique has been used to produce virtually any color of visible light and today there are LEDs on the market which can produce previously "exotic" colors, such as aqua and pink.

LEDs not only have color characteristics, but also have intensity, or “brightness”. Like semiconductors, LEDs are becoming roughly twice as powerful (bright) around every eighteen months.

LEDs are currently in mass production by companies such as Cree, Nichia and LumiLeds, all of which supply to us. Although 50 lumens/watt (“lm/w”) is the current standard, all three companies are increasing efficiency in their current production lines up to 75 lm/w at 1w. With the HWL technology, we expect to produce up to 225 lumens per watt with the combined hybrid organic/inorganic polymer solid-state lighting capability. We will license the HWL technology as both lighting element packages and fixture reference designs in order to scale penetration into the

existing lighting market.

Industry Overview

According to industry research firms NanoMarkets and CIR, the market for high-brightness LEDs (HB-LEDs) will enter a new phase of its evolution by 2010. They estimate the combined market for standard HB-LEDs and the new ultra-high brightness LEDs (UHB-LEDs) will grow from \$5.0 billion in 2006 to \$10.8 billion in 2010 and reach \$ 17.4 billion in 2013.

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HB-LEDs and UHB-LEDs are mainly used in signage, traffic signals, home and commercial interior lighting, displays and automotive lighting. The major market players are Nichia (Japan), Hewlett-Packard, Cree, Agilent/LumiLEDs, Samsung (Korea), Toyoda-Gyosei (Japan), Siemens/Osram (Europe).

By 2010, industry experts believe that LEDs with an output greater than 250 lumens will be commercialized, making HB-LEDs a practical solution for many lighting, photographic and medical applications. In 2010, the market for UHB-LEDs alone is expected to total \$3.6 billion. General illumination is expected to become the fastest growing application for HB-LEDs between now and 2010. By 2010 much of the \$3.6 billion in UHB-LEDs sold will be for general illumination applications in addition to \$860 million in regular HB-LEDs. Based on market research we participated in, we believe the current general illumination market is estimated at over \$12 billion.

In addition to rapid increases in sales, new developments in materials and production technologies will help drive cost points lower and quality higher. These processes include silicon photonics, thin-film polymer technology as used in our HWL technology, nanotechnology and pure Gallium Nitride substrates, as well as the evolution of better packaging and fabrication technologies.

Our Products

Retail/OEM Products

EverOn™

Our original product Offering, the patented EverOn™ product line has gone through many changes since the product launch in 2001. The EverOn™ is a multi-purpose emergency light with over 500 hours of light from 4 standard AA batteries. The lighting unit has three settings: 1) Low, with amber Night Light (500 hours); 2) Medium, for normal lighting situations (60 hours); and 3) High Intensity, for emergency situations (30 hours). The unit uses 6 white LEDs and 2 amber LEDs. The LEDs last 20 years without replacement and the sturdy outer case allows for outdoor use.

The EverOn™ is typically sold in retail outlets through partnerships with large retailers and distributor of household goods and home keys. We have recently entered into an agreement with Wal-Mart and The Home Depot to offer the EverOn™.

KeOn

The patent-pending KeOn™ is a sturdy elastic surround that fits standard key heads and features an electronics package that focuses a bright LED 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. The Keon light source is an LED lighting element that never requires a light bulb change. The result is a product that is maintenance-free and offers long-lasting energy-efficiency that uses 90 percent less energy than traditional incandescent flashlight bulbs.

The Keon™ is typically sold in retail outlets through partnerships with large retailers and manufacturer/distributor of household goods and home keys. We have licensed our Keon to Kaba Ilco and are in negotiations with several companies to license official merchandise on the Keon™ (e.g. NASCAR, NFL teams, etc.).

FocusOn™ Sign Lighting

FocusOn™ is a patent-pending solid-state lighting product designed to illuminate “For Sale” signs at night so that home sales continue after dark. The FocusOn™ operates on 4 D-Cell batteries, lighting both sides of the sign for four hours per night for more than 30 days on one set of batteries. The FocusOn™ features two light heads that fold out to an optimum lighting distance to illuminate the sign and contain two super-bright energy-efficient solid-state LEDs that

illuminate the sign. The unit is encased in a water proof cylinder that is secured to the horizontal sign support with a clamp channel and plastic tie straps.

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The FocusOn™ products are sold in partnership with real estate brokerage firms directly to real estate retail brokers. Recently, we signed a Supplier Agreement with Realogy Corporation, the world's largest real estate brokerage franchisor, to supply the FocusOn™ to its Century21, ERA, Caldwell Banker and Sotheby's real estate brokers, some 310,000 brokers in all.

RelyOn™

The RelyOn™ is an ultra-bright light with power plant designed to provide homeowners and professionals with a portable, long-lasting work and emergency light. The units are powerful, water-resistant and portable and are designed to provide a lighting source during the most extreme conditions, including power grid failures caused by natural or man-made disasters. The LED lighting elements use two 3-watt advanced, ultra-efficient solid-state LEDs that provide up to 200 lumens of light output and last for the life of the product (i.e. never have to be replaced). The portability of the unit allows for use as an emergency light, work light or camping light.

The product is marketed as the "Ultimate Utility Light" and has a rotating arm and light head that operates as a table lamp, indirect reflective light, spot light and flood light. Powered by 4 D-cell batteries, the RelyOn will operate for up to 60 hours.

The RelyOn™ is typically sold in retail outlets through partnerships with large retailers and manufacturers/distributors of household goods and utility products. We are in discussions with Wal-Mart and The Home Depot to supply RelyOn™ products to its stores. Additionally, we are pursuing various private label agreements to sell the units through their channels.

The technology embodied by the RelyOn™ is a subject of a pending U.S. patent application and utilizes concepts from our other patents and applications.

Task and Accent Lighting

Aeon™

We have designed a complete line of task and accent lighting targeting commercial builders, tract home builders and the do-it-yourself ("DIY") market. They are designed as architectural accent lighting to replace current in-home/commercial under cabinet lighting. The lighting systems last longer than 20 times halogen lights, 10 times as long as fluorescent lights and 6 times as long as Xenon lights and are available in a variety of warm colors. Most importantly, they provide light with virtually no heat.

The Aeon™ product line is UL approved and has been engineered to be an energy efficient solid-state lighting fixture, currently producing over 55 Lumens per watt. The energy efficiency of the units exceeds EnergyStar and California's Title 24 requirements. The Aeon™ units are highly configurable lighting strips typically used in under cabinet lighting. They can be "Daisy Chained" from a single power source reducing installation costs. Additionally, they can be installed in difficult to reach areas as they require virtually no maintenance for the life of the product.

The products come in three packages to target three market niches:

- | | |
|----|---|
| 1) | Aeon™ ProHB |
| a. | Commercial market and professional homebuilders |
| b. | Highest quality - up to 560 L/Watt |
| c. | Flexible configurations for expandability |
| d. | Adjustable light output and variable light colors |

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- e. Direct light with tilting installation bracket
- f. Nickel finish only
- g. Sold through specialty distributors and direct
- h. 10 year guaranty to match home guarantees

- 2) Aeon™ Pro
 - a. Smaller contractor and “DIY” market
 - b. Standard quality - up to 360 L/Watt
 - c. Flexible configurations for expandability
 - d. White, Black and Nickel finishes
 - e. Sold through distributors and “DIY” retail (smaller contractors)
 - f. 15 year guarantee

- 3) Aeon™ Flex
 - a. Smaller contractor and “DIY” market
 - b. Custom cut for flexibility
 - c. White LED light
 - d. White finish only
 - e. Sold through distributors and “DIY” retail (smaller contractors)
 - f. 2 year guarantee

Commercial Products

ReliaBright™ Emergency Lighting System (“ELS”) / Emergency Lighting Unit (ELU)

To address chronic underperformance of current emergency lighting systems used in institutional buildings such as airports, schools and government buildings, we have developed patented ReliaBright™ Emergency Lighting Systems (“ELS”) and Emergency Lighting Units (“ELU”). An “ELS” is composed of multiple light heads and light detection units in an array while “ELUs” are self contained units. They are both designed to provide emergency backup lighting systems used in elevators, hallways, subways and other evacuation scenarios.

Oue “ELU” is the only residential and commercial power outage and emergency lighting system that provides 60 hours or more of emergency and interim lighting. The “ELS” systems are easy to install, are virtually maintenance free and surpass UL and NFBA standards.

We were engaged by the City of Cleveland to provide a pilot program to install “ELS” fixtures in the stairwells and restrooms on the 5th Floor of the Public Utility Building. We estimate that there are at least 100 units that could be installed per floor of each of the city’s 160 city buildings managed by the City of Cleveland. Each of those buildings averages five stories and the lights could be installed in stairwells, restrooms, emergency situation rooms and as general fluorescent replacements

Portable Illumination (“PI”) Systems

We have developed PI Systems for the military and Homeland Security market, which are designed to quickly illuminate remote areas in a portable format. The products utilize a “Super Bright White” solid-state light head system that can illuminate over 600 feet in a setup that weighs less than 50 pounds and can be carried on a commercial airplane. The system currently has over 10 hours of run time using standard Li-Ion batteries and can be wirelessly controlled. A typical application would include remote lighting in disaster scenarios.

As an extension to our PI Systems, we have also integrated infrared LED technology into our latest product Offerings. These systems have the same operational characteristics of their traditional PI System, with the added advantage of the ability to use the system at night using night vision goggles. We are in discussion with the Armed Forces, Homeland Security and US Customs for border patrol and base/boundary protection. We have been selected by

Homeland Security under the recently enacted Secure Border Initiative to provide Fixed-Position Lighting Systems.

The Raven Watchdog

In response to on-the-ground threats in remote locations, the US Air Force Raven Security Forces required an advanced covert and visible lighting system to protect USAF assets. USAF Air Mobility Battlelab, with the mission to rapidly deploy solutions within the Air Mobility Command, issued a Request for Proposals to supply the covert lighting systems. Of the 26 companies that responded, we were selected to provide the Portable Covert Illumination System. The parameters of the system include:

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--	350' Perimeter Illumination Boundary
--	15-hour run-time
--	Less than 50 lbs
--	Operates on standard Li-Ion batteries
--	Covert (Night Vision) capable
--	Commercial airline compliant
--	Wireless control and operation

The system, called The Raven Watchdog, is a highly specialized illumination unit used by the Air Force Ravens to protect highly valuable equipment in the field by illuminating the perimeter of the equipment with either IR or standard illumination.

The BrightEye VaC

The BrightEye Visible and Covert (VaC) System is designed as a portable visible and infrared night-vision compatible illumination system for force protection, aircraft maintenance, expeditionary airbase force protection, general mission lighting and other high intensity lighting applications.

Using advanced optics, battery power and solar battery recharging technology, and contained in a wheeled carrying case, the objective of the new system is to replace the space-consuming bulk, noise and energy consumption problems of the current generator powered incandescent lighting systems, for appropriate missions, with an easily deployed wheeled case advanced solid-state lighting system. In addition, the versatility of the BrightEye VaC system makes the product uniquely capable for First Responder deployment across all armed services.

We have been awarded a United States government contract for energy saving lighting products through the General Services Administration (GSA) Federal Supply Schedule 56. Under the terms of the Federal Supply Schedule contract, we can sell our solid-state light-emitting diode (LED) lighting products as a primary contractor to any U.S. Government purchasing organization. The GSA estimates \$10 million in purchasing activity for us in the energy savings task and accent category, based on prior contractor sales reporting. The contract period is March 2006 through March 2011.

Advertising, Promotion and Marketing

We are focused on direct channel support with any advertising, promotion and marketing plan. We invest in advertising in industry vertical publication, specific marketing plans to support customers, and tradeshows and conferences to promote the various products directly to customers. For example, we were participants in the Air Tanker Association tradeshow where most USAF General Officers attend to review the latest technology and to define the associated purchasing plans. Similarly, we participate in the Realogy Corporation's channel marketing programs that include print media, tradeshow participation and electronic media communication.

Intellectual Property

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

We have the world-wide exclusive rights to U.S. Patent No. 5,966,393 from the University of California-Santa Barbara. In addition, we have the world-wide exclusive rights to a suite of pending patents that define Scattered Photon Extraction™ (SPE) technology, which were acquired from Rensselaer Polytechnic Institute. The combination

of these two technologies forms the patent foundation for the resulting proprietary lighting technology known as “Hybrid White Light” (HWL) and “Hybrid Multi-color Light” (HML). HWL and HML is expected to yield a lower cost, more energy-efficient lighting source than currently available in solid-state light-emitting diode (LED) solutions.

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

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

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

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

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

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

Ser. No. 11/336,562 - The patent application is directed to a portable light system having a body, an arm pivotally attached to the body, and one or more lighting elements disposed at one end of the arm. The portable light device

further includes a handle, one or more batteries, an on-off switch, and one or more power cords for transmitting or receiving electrical energy. The portable light device is adapted to operate in a spot light mode of illumination, a flood light mode of illumination, or a combination thereof. The device benefits from the use of LEDs as an illumination source. LEDs provide optimum lumen output with considerably less power consumption than conventional lighting devices. Finally, the device provides real-time battery life information to a user such that the performance of the device may be tailored to extend or shorten expected battery life as needed.

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

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

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

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

Regulation

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

Research and Development Activities

We anticipate continuing to incur research and development expenditures in connection with the development of our Wireless Lighting System 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.

Competition

With a diversified product and technology portfolio, we have numerous competitors in each of the product channels. In the retail markets, most competitors are smaller “first mover” technology startups in the LED retail market, particularly focused on the LED flashlight product space, including Lighting Science Group Corporation, LED Lighting Fixtures, Inc., and Intematix Corporation.

In the Task & Accent lighting markets, Permlight and Hera Lighting are the primary competitors for our Aeon products. While both competitors have been in the market longer than us, the Aeon product has consistently replaced both Permlight and Hera among the kitchen and bath dealers that comprise the our dealer channel. Most recently, we have successfully displaced the Hera Lighting products within the kitchen under-counter lighting business of Louis & Company, a multi-billion dollar Kitchen & Bath industry distributor with 18 locations in the mid-west and west coast. With regard to the Military and Homeland Security markets, we are relatively without immediate competition. For example, the USAF Air Mobility Battlelab conducted a Best Value Determination/Sole Source study that evaluated the WatchDog system against any other available General Services Administration (GSA) contract-approved product and confirmed that the WatchDog system is one-of-a-kind in its capabilities and the only product that meets or exceeds the Battlelab’s portable covert illumination system requirements. Based on this, we gained a Sole Source designation for the Raven WatchDog system.

Employees

We currently have 11 full time employees. Our employees are primarily at the executive level based upon our role in coordination of outsource contracts for manufacturing and other production considerations. Currently, there exist no organized labor agreements or union agreements between us and our employees. We have employment agreements with the following executive officers: Donald F. Evans, Chairman and CEO, Mark D. Schmidt, President and COO, Alan H. Ninneman, Senior Vice President and John W. Ringo, Secretary and Corporate Counsel. We believe that our relations with our employees are good.

ITEM 2. DESCRIPTION OF PROPERTY

We maintain our principal office at 4625 Creekstone Drive, Suite 130, Research Triangle Park, Durham, North Carolina 27703. Our telephone number at that office is (919) 474-9700 and our facsimile number is (919) 474-9712. We lease 2,405 square feet of office space. The lease expires on December 31, 2008. The monthly rent is \$3,457, subject to an annual cost of living increase. We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us. We maintain websites at www.cyberlux.com and www.luxSel.com. The information contained on those websites is not deemed to be a part of this annual report.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

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

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

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

	High(\$) -----	Low (\$) -----
2005		
First Quarter	0.07	0.02
Second Quarter	0.20	0.05
Third Quarter	0.15	0.05
Fourth Quarter	0.15	0.06
2006		
First Quarter	0.12	0.06
Second Quarter	0.08	0.06
Third Quarter	0.07	0.04
Fourth Quarter	0.05	0.02
2007		
First Quarter	0.04	0.01
Second Quarter (1)	0.02	0.01

(1) As of May 17, 2007

DESCRIPTION OF SECURITIES**Common Stock**

We are authorized to issue up to 700,000,000 shares of common stock, par value \$.001. As of May 18, 2007, there were 276,844,639 shares of common stock outstanding. Holders of the common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefore. Upon the liquidation, dissolution, or winding up of our company, the holders of common stock are entitled to share ratably in all of our assets which are legally available for distribution after payment of all debts and other liabilities and liquidation preference of any outstanding common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

Preferred Stock

Our Articles of Incorporation authorize the issuance of 5,000,000 shares of preferred stock, \$.001 par value per share, the designation and rights of which are to be determined by our Board of Directors. Our Board of Directors has

authority, without action by the shareholders, to issue all or any portion of the authorized but unissued preferred stock in one or more series and to determine the voting rights, preferences as to dividends and liquidation, conversion rights, and other rights of such series. We consider it desirable to have preferred stock available to provide increased flexibility in structuring possible future acquisitions and financing and in meeting corporate needs which may arise. If opportunities arise that would make desirable the issuance of preferred stock through either public offering or private placements, the provisions for preferred stock in our Articles of Incorporation would avoid the possible delay and expense of a shareholder's meeting, except as may be required by law or regulatory authorities. Issuance of the preferred stock could result, however, in a series of securities outstanding that will have certain preferences with respect to dividends and liquidation over the common stock which would result in dilution of the income per share and net book value of the common stock.

Issuance of additional common stock pursuant to any conversion right which may be attached to the terms of any series of preferred stock may also result in dilution of the net income per share and the net book value of the common stock. The specific terms of any series of preferred stock will depend primarily on market conditions, terms of a proposed acquisition or financing, and other factors existing at the time of issuance. Our Board of Directors may issue additional preferred stock in future financing, but has no current plans to do so at this time. The issuance of Preferred Stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

As of March 31, 2007, we had 28,9806 shares of our Series A Convertible Preferred Stock issued and outstanding. Each share is convertible into 50,000 shares of common stock. The Series A Convertible Preferred have the following designations and rights:

Maturity: Perpetual Preferred

Dividend: 12% per annum. The dividend shall be payable semi-annually in cash or common stock at our option.

Fixed Conversion Price: The Series A Convertible Preferred shall be convertible into common stock at \$0.10 per share.

Stated Value: \$5,000 per share

M a n d a t o r y Conversion: Beginning 180 days from the effective date of a registration statement, if the closing bid price for our common stock exceeds \$1.50 for a period of 10 consecutive trading days, we have the right to force the holders to convert the Series A Convertible Preferred into common stock at the applicable conversion price.

L i m i t a t i o n s o n Conversion: Each holder of the Series A Convertible Preferred shares shall not convert the shares into common stock such that the number of shares of common stock issued after the conversion would exceed, when aggregated with all other shares of common stock owned by such holder at such time, in excess of 4.99% of our then issued and outstanding shares of common stock.

No Voting Rights. The holders of the Series A convertible shares have no voting rights until their shares are converted to common shares.

The Board of Directors, pursuant to our Articles of Incorporation and By-Laws, authorized Series B Convertible Preferred Stock which was issued to officers and directors in order to convert accrued management fees and other liabilities into 800,000 shares of the Series B Preferred Stock. The Series B Convertible Preferred Stock has the following designations and rights:

Term: Perpetual Preferred

Dividend: 12% per annum

Conversion: Each share of the Series B Convertible Preferred Stock may be converted to 10 shares of our common stock at the option of the bearer.

Voting Rights: Except with respect to transactions upon which the Series B Preferred stock shall be entitled to vote separately, the Series B Preferred Stock shall have superior voting rights equal to ten times the number of shares of Common Stock such holder of Series B Preferred Stock would

receive upon conversion of such holder's shares of Series B Preferred Stock. The conversion price is \$0.10 per share.

Series C - Convertible Preferred stock

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

Term: Perpetual Preferred

Dividend: 5% per annum

Conversion: The shares of the Series C Preferred are convertible, at the option of the holder into common shares one year from issuance.

No Voting Rights. The holders of the Series A convertible shares have no voting rights until their shares are converted to common shares.

Options

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

Warrants

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

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

In connection with a Securities Purchase Agreement dated October 24, 2005, we issued warrants to purchase 800,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share.

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

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

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

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

In connection with a Securities Purchase Agreement dated December 20, 2006, we issued warrants to purchase 700,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.06 per share.

In connection with a Securities Purchase Agreement dated April 18, 2007, we issued warrants to purchase 10,000,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.02 per share.

In connection with a Securities Purchase Agreement dated May 3, 2007, we issued warrants to purchase 10,000,000 shares of common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.02 per share.

In addition, we have 58,500 warrants outstanding exercisable at \$0.25 per share, which expire in 2008. We have 91,500 warrants outstanding exercisable at \$0.10 per share, which expire in 2008.

Convertible Securities

Not including approximately 83,010,628 shares of common stock issuable upon exercise of outstanding options and warrants, approximately 25,939,462 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated September 23, 2004, approximately 50,000,000 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated April 22, 2005. approximately 22,857,143 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated October 24, 2005 and approximately 22,222,222 shares of common stock are issuable, based on current market prices, upon conversion of outstanding secured convertible notes issued pursuant to the Securities Purchase Agreement dated December 28, 2005.

APRIL 2005 SECURITIES PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on April 22, 2005 for the sale of (i) \$1,500,000 in secured convertible notes, and (ii) warrants to purchase 25,000,000 shares of our common stock. As of May 18, 2007, \$163,837.72 of the second convertible notes has been converted and \$1,336,162.28 remains outstanding.

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

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

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

- \$0.03; or
- 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

On April 18, 2007, the variable conversion price of the secured convertible debentures was amended to 25%. We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.03 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.03 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

OCTOBER 2005 STOCK PURCHASE AGREEMENT

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

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

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\$0.03; or

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

On April 18, 2007, the variable conversion price of the secured convertible debentures was amended to 25%. We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.03 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

DECEMBER 2005 STOCK PURCHASE AGREEMENT

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

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

\$0.10; or

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

On April 18, 2007, the variable conversion price of the secured convertible debentures was amended to 25%. We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.09 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31

and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.15 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

MARCH 2006 STOCK PURCHASE AGREEMENT

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

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

- \$0.06; or
- 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

On April 18, 2007, the variable conversion price of the secured convertible debentures was amended to 25%. We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

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

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

convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

JULY 2006 STOCK PURCHASE AGREEMENT

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

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

\$0.06; or

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

On April 18, 2007, the variable conversion price of the secured convertible debentures was amended to 25%. We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

SEPTEMBER 2006 STOCK PURCHASE AGREEMENT

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on September 26, 2006, for the sale of (i) \$280,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock.

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

\$0.06; or

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

On April 18, 2007, the variable conversion price of the secured convertible debentures was amended to 25%. We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

DECEMBER 2006 STOCK PURCHASE AGREEMENT

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

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

- \$0.06; or
- 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

On April 18, 2007, the variable conversion price of the secured convertible debentures was amended to 25%. We have a call option under the terms of the secured convertible notes. The call option provides us with the right to prepay all of the outstanding secured convertible notes at any time, provided we are not in default and our stock is trading at or below \$.13 per share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the secured convertible notes; (ii) 135% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the secured convertible notes; and (iii) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the secured convertible notes.

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

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

convertible notes to be repaid is determined by dividing the then outstanding principal amount of the notes by the maturity of the notes in months, or 36.

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The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

APRIL 2007 STOCK PURCHASE AGREEMENT

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

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

- \$0.10; or
- 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date.

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

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

MAY 2007 STOCK PURCHASE AGREEMENT

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

The 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:

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\$0.10; or

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

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

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

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

The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

Penny Stock Regulation.

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

- A description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- A description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities' laws;
- A brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the "bid" and "ask" price;
 - A toll-free telephone number for inquiries on disciplinary actions;
 - Definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- Such other information and in such form (including language, type, size and format), as the Securities and Exchange Commission shall require by rule or regulation.

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

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

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

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

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

Recent Sales of Unregistered Securities

During the three months ended December 31, 2006, we issued 25,000 shares of common stock upon conversion of 0.5 shares of Class A preferred stock.

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

In November 2006, we issued 98,000 shares and 2,000 shares of Series C Convertible Preferred stock to UTEK Corporation and Rensselaer Polytechnic Institute for patent acquisitions.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC on December 20, 2006 for the sale of (i) \$600,000 in secured convertible notes and (ii) warrants to buy 20,000,000 shares of our common stock.

The secured convertible notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.10 or (ii) 40% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.10 per share. In addition the warrants exercise price gets adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of this warrant.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULT OF OPERATIONS.

This report contains forward-looking statements. Actual results and events could differ materially from those projected, anticipated, or implicit, in the forward-looking statements as a result of the risk factors set forth below and elsewhere in this report.

With the exception of historical matters, the matters discussed herein are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements concerning anticipated trends in revenues and net income, projections concerning operations and available cash flow. Our actual results could differ materially from the results discussed in such forward-looking statements. The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto appearing elsewhere herein.

Overview

We are a Nevada corporation that was incorporated on May 17, 2000. We were founded to design, develop, market and sell advanced lighting systems that utilize light emitting diodes as illumination elements. White diodes are a relatively new phenomenon that offer major advances in illumination technology. Our diodes consume 92% less energy than incandescent counterparts to produce comparable light output. In electrochemical (battery powered) applications, this diminution of energy consumption positions our lighting solutions as more durable and reliable than other interim lighting alternatives. In standard alternating current electrical applications, the calculated life of LEDs as lighting elements is over 20 years versus 750 hours for traditional incandescent light bulbs. These exceptional performance characteristics, diminutive energy consumption and extended life, have prompted diode implementation in traffic lights and automotive brake lights, but have not yet significantly occurred in our area of focus, diodal illumination (tm). Diodal illumination is the production of light through the use of white light emitting diodes. A light emitting diode is a chemical compound that produces a visible light when an electrical current is applied. This production of light through a diode is contrasted with light from a typical light bulb, in which light is produced as a by-product of a burning filament contained within a vacuum globe. The diode uses 92% less energy to produce comparable light to that of a traditional light bulb.

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

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

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

Growth Strategy

Our growth strategy is defined by the following five specific initiatives that we hope will lead to a greater position within the industry:

(1) Increase existing product sales to existing customers - we will attempt to increase revenue from our existing customer base, specifically The Home Depot, Wal-Mart and the USAF, by increasing the frequency of purchase and maintaining profitable customer relationships.

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(2) Expand existing product sales to new customers - we will attempt to increase revenue by expanding the existing product sales to new customers. With our existing products, the objective is to expand our distribution to new customers, including warehouse retailers, retail grocery chains, additional branches of the military, and additional commercial customers.

(3) Introduce new solid-state lighting products - within our expanding distribution channels, we will attempt to increase revenue by developing new solid-state lighting products for our new and existing customers. Specifically, we will deliver the latest portable illumination systems to the military, introduce the RelyOn to our retailers and launch new Aeon products to our commercial customers.

(4) Expand to new geographies - for us, we believe that geographical expansion will be one of the most powerful opportunities for revenue growth. Currently we are pursuing retail expansion in Puerto Rico, Mexico and Canada, with expansion in Europe and the Far East as future objectives.

(5) Pursue new competitive arenas - we have recently acquired the world-wide exclusive rights to two proprietary technologies. We intend to develop this proprietary technology into a series of product and licensing revenue streams as a source of long-term competitive advantage.

Recent Accomplishments

The following is a summary of some of our most recent accomplishments:

February 12, 2007 - Delivers on USAF Contract For Unique Covert Lighting System

January 25, 2007 - Delivers Next Generation WatchDog Advanced Security Lighting System to U.S. Air Force

January 18, 2007 - Obtains Exclusive Rights to Hybrid Lighting Technology from University of California-Santa Barbara and Scattered Photon Extraction Technology from Rensselaer Polytechnic Institute Creates Foundation for Sustainable Competitive Advantage

December 13, 2006 -Begins Shipments to Home Depot - 287 Store Rollout

November 1, 2006 - Awarded U.S. Patent Claims for Emergency Lighting Technology - The U.S. Patent Office has allowed 21 patent claims covering our Power Outage Adapter

October 17, 2006 - Enters Into Distribution Agreement With Studio Becker for our Aeon Product Line

September 29, 2006 -Begins Shipment to Wal-Mart - 504 Store Rollout

September 28, 2006 - Aeon ProHB LED Lighting Featured in two houses in the 2006 Parade of Homes

September 27, 2006 - Awarded Contract by United States Air Force to Deliver Force Protection and Aircraft Maintenance Lighting System

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future

events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

o stock-based compensation; and

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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.

Revenue Recognition

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

RESULTS OF OPERATIONS

Results of Operations for the Years Ended December 31, 2006 and 2005 Compared.

Revenues for the year ended December 31, 2006 were \$484,988. This compares to revenues of \$54,523 for the year ended December 31, 2005. The increase of \$430,465 or 790% is attributable our efforts to expand and grow our market.

Cost of goods sold were \$377,524 or 77.9 % of sales for 2006 compared with \$235,768 or 432.4% for 2005. In 2005, we recorded a charge for obsolete inventory of approximately \$144,000. Additionally, our sales in 2005 were not sufficient to achieve a positive gross profit margin.

Operating expenses for the year ended December 31, 2006 were \$5,276,890 compared with \$2,911,761 for the year ended December 31, 2005, an increase of \$2,365,129 or 81.2% Included in expenses for 2006 was \$1,432,539 in common stock issued for services rendered to employees and consultants in 2006 as a non cash transaction as compared to \$184,333 in 2005. Additionally the Company issued stock options to employees valued at \$1,131,500 in 2006 as compared to \$-0- in 2005.

We realized an unrealized gain in change in fair value of warrants and debt derivatives of \$953,719 in 2006 as compared with a loss of \$4,485,654 in 2005.

Interest expense for 2006 was \$2,585,800 compared to \$1,623,781 for 2005. The increase in interest expense represents our cost of additional borrowing in 2006.

Liquidity and Capital Resources

As of December 31, 2006, we had a working capital deficit of \$2,542,474. As a result of our operating losses for the year ended December 31, 2006, we generated a cash flow deficit of \$2,627,021 from operating activities. Cash flows generated through investing activities was \$225,775 during the year ended December 31, 2006. We met our cash requirements during this period through the issuance of \$1,830,000 in convertible notes payable and 479,402 borrowing on a long term basis.

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

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

Our independent certified public accountant has stated in their report, dated as of April 26 2007, that we have incurred operating losses, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

September 2006 Stock Purchase Agreement

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on September 26, 2006, for the sale of (i) \$280,000 in secured convertible notes, and (ii) warrants to purchase 10,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on September 26, 2006.

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

The secured convertible notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.06 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

December 2006 Stock Purchase Agreement

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

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

The secured convertible notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.06 or (ii) 25% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until seven years from the date of issuance at a purchase price of \$0.10 per share. In addition, the conversion price of the secured convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price, below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the secured convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position. As of the date of this filing, the conversion price for the secured convertible debentures and the exercise price of the warrants have not been adjusted. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

April 2007 Stock Purchase Agreement

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

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

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

May 2007 Stock Purchase Agreement

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

In December 2006, the FASB issued FSP EITF 00-19-2, Accounting for Registration Payment Arrangements (“FSP 00-19-2”) which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The Company has not yet determined the impact that the adoption of FSP 00-19-2 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact on the Company’s financial condition or results of operations.

Product Research and Development

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

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

Acquisition or Disposition of Plant and Equipment

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

Risk Factors

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

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

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

Risks Relating to Our Business:

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

We incurred a net loss of \$6,775,400 for the year ended December 31, 2006 compared to a net loss of \$9,410,657 for the year ended December 31, 2005. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

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

We will require additional funds to sustain and expand our sales and marketing activities. We anticipate that we will require up to approximately \$4 million to fund our continued operations for the next twelve months, depending on revenue from operations. We need additional funding for research and development, increasing inventory, marketing and general and administrative expenses. Although this amount is less than our net losses in the past, we expect to decrease our general and administrative expenses by eliminating most of our consulting fees. In the event that we cannot significantly reduce our consulting fees, we will need to raise additional funds to continue our operations. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

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

In their report dated April 26, 2007, our independent auditors stated that our financial statements for the year ended December 31, 2006 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of losses for the year ended December 31, 2006 in the amount of \$6,775,400. 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.

Risks Relating to Our Current Financing Arrangement:

There Are a Large Number of Shares Underlying Our Secured Convertible Notes and Warrants That May be Available for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock.

As of May 18, 2007, we had 276,844,639 shares of common stock issued and outstanding, secured convertible notes outstanding pursuant to our securities purchase agreements dated April 22, 2005, October 24, 2005, December 28, 2005, March 27, 2006, July 27, 2006, September 26, 2006, December 20, 2006, April 18, 2007 and May 3, 2007 that may be converted into an estimated 763,521,303, 457,142,858, 400,000,000, 285,714,286, 285,714,286, 160,000,000, 342,857,143, 228,571,429 and 85,714,286 shares of common stock at current market prices, respectively, and outstanding warrants pursuant to our securities purchase agreements dated April 22, 2005, October 24, 2005, December 28, 2005, March 27, 2006, July 27, 2006, September 26, 2006, December 20, 2006, April 18, 2007 and May 3, 2007, to purchase 2,250,000, 25,000,000, 800,000, 700,000, 19,000,000, 15,000,000, 10,000,000, 700,000, 10,000,000 and 10,000,000 shares of common stock, respectively. In addition, the number of shares of common stock issuable upon conversion of the outstanding secured convertible notes issued pursuant to the securities purchase agreements dated September 23, 2004, April 22, 2005, October 24, 2005, December 28, 2005, March 27, 2006, July

27, 2006, September 26, 2006, December 20, 2006, April 18, 2007 and May 3, 2007 may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the secured convertible notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

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The Continuously Adjustable Conversion Price Feature of Our Secured Convertible Notes Could Require Us to Issue a Substantially Greater Number of Shares, Which Will Cause Dilution to Our Existing Stockholders.

Our obligation to issue shares upon conversion of our secured convertible notes is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our secured convertible notes (excluding accrued interest), based on market prices 25%, 50% and 75% below the market price, as of May 17, 2007 of \$0.008.

<u>% Below Market</u>	<u>Price Per Share</u>	<u>With Discount at 75%</u>	<u>Number of Shares Issuable</u>	<u>% of Outstanding Stock</u>
25%	\$.006	\$.0015	3,510,774,854	92.69%
50%	\$.004	\$.001	5,266,162,280	95.01%
75%	\$.002	\$.0005	10,532,324,560	97.44%

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

The Continuously Adjustable Conversion Price Feature of our Secured Convertible Notes May Have a Depressive Effect on the Price of Our Common Stock.

The secured convertible notes issued in April 22, 2005, October 24, 2005, December 28, 2005, March 27, 2006, July 27, 2006, September 26, 2006, December 20, 2006, April 18, 2007 and May 3, 2007 are convertible into shares of our common stock at a 75% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholders convert and sell material amounts of common stock could have an adverse effect on our stock price. In addition, not only the sale of shares issued upon conversion or exercise of secured convertible notes, series B convertible preferred stock and warrants, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

The Issuance of Shares Upon Conversion of the Secured Convertible Notes and Exercise of Outstanding Warrants May Cause Immediate and Substantial Dilution to Our Existing Stockholders.

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

If We Are Required for any Reason to Repay Our Outstanding Secured Convertible Notes, We Would Be Required to Deplete Our Working Capital, If Available, Or Raise Additional Funds. Our Failure to Repay the Secured Convertible Notes, If Required, Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.

Between 2004 and 2007, we entered into Securities Purchase Agreements for the sale of an aggregate of \$6,930,000 principal amount of secured convertible notes, of which \$5,266,162.28 remains outstanding. The secured convertible notes are due and payable, with interest, between two and three years from the date of issuance (or the date from which we are in compliance with the terms of the securities purchase agreements), unless sooner converted into shares of our common stock. In addition, any event of default such as our failure to repay the principal or interest when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase Agreements or related convertible note, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against our company in excess of \$50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company and the delisting of our common stock could require the early repayment of the secured convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured with the specified grace period. We anticipate that the full amount of the secured convertible notes will be converted into shares of our common stock, in accordance with the terms of the secured convertible notes. If we are required to repay the secured convertible notes, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the notes when required, the note holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

Risks Relating to Our Common Stock:

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

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

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

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

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

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

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

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

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

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

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

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

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

Trends, Risks and Uncertainties

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

ITEM 7. FINANCIAL STATEMENTS

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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

CYBERLUX CORPORATION

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Cyberlux Corporation
Durham, North Carolina

We have audited the accompanying consolidated balance sheets of Cyberlux Corporation (the "Company"), as of December 31, 2006 and 2005 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP

Russell Bedford Stefanou Mirchandani LLP
Certified Public Accountants

New York, NY
April 26, 2007

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CYBERLUX CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Current assets:		
Cash & cash equivalents	\$ 395,812	\$ 475,656
Accounts receivable, net of allowance for doubtful accounts of \$23,502 and \$ -0-, respectively	177,085	9,424
Inventories, net of allowance of \$102,660 and \$110,821, respectively	197,771	338,097
Other current assets	22,232	42,814
Total current assets	792,900	865,991
Property, plant and equipment, net of accumulated depreciation of \$141,465 and \$118,105, respectively	58,313	63,133
Other assets		
Deposits	23,350	-
Patents and development costs, net of accumulated amortization of \$293,750	2,294,224	-
Total other assets	2,317,574	-
Total Assets	\$ 3,168,787	\$ 929,124
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 564,875	\$ 657,930
Accrued liabilities	1,694,220	782,586
Short-term notes payable - related parties	454,162	366,594
Short-term notes payable	47,399	-
Short-term convertible notes payable	604,187	542,783
Total current liabilities	3,364,843	2,349,893
Long-term liabilities:		
Notes payable	1,580,621	351,419
Derivative liability relating to convertible debentures	8,201,086	6,809,449
Warrant liability relating to convertible debentures	2,954,080	3,352,025
Total long-term liabilities	12,735,787	10,512,893
Total liabilities	16,100,630	12,862,786
Commitments and Contingencies		
Series A convertible preferred stock, \$0.001 par value; 200 shares designated, 38.9806 and 59.8606 issued and outstanding as of December 31, 2006 and	194,900	299,303

2005, respectively

DEFICIENCY IN STOCKHOLDERS' EQUITY

Class B convertible preferred stock, \$0.001 par value, 800,000 shares designated; 800,000 shares issued and outstanding for December 31, 2006 and 2005	800	800
Class C convertible preferred stock, \$0.001 par value, 700,000 shares designated; 100,000 and -0- shares issued and outstanding for December 31, 2006 and 2005, respectively	100	-
Common stock, \$0.001 par value, 700,000,000 shares authorized; 128,279,157 and 75,608,334 shares issued and outstanding as of December 31, 2006 and 2005, respectively	128,279	75,607
Subscription received	25,000	-
Additional paid-in capital	12,186,420	6,382,569
Accumulated deficit	(25,467,342)	(18,691,941)
Deficiency in stockholders' equity	(13,126,743)	(12,232,965)
Total liabilities and (deficiency) in stockholders' equity	\$ 3,168,787	\$ 929,124

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

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CYBERLUX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Net Sales	\$ 484,988	\$ 54,523
Cost of goods sold	(377,524)	(235,768)
Gross margin (loss)	107,464	(181,245)
OPERATING EXPENSES:		
Impairment Loss	-	30,544
Depreciation and amortization	23,360	25,769
Research and development	225,770	499,618
General and administrative expenses	5,027,760	2,355,830
Total operating expenses	5,276,890	2,911,761
NET LOSS FROM OPERATIONS	(5,169,426)	(3,093,006)
Other income/(expense)		
Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities	953,719	(4,485,654)
Interest income	92	349
Debt forgiveness	36,799	-
Interest expense	(2,585,800)	(1,623,781)
Debt acquisition costs	(10,784)	(208,565)
Net loss before provision for income taxes	(6,775,400)	(9,410,657)
Income taxes (benefit)	-	-
LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (6,775,400)	\$ (9,410,657)
Weighted average number of common shares outstanding-basic and assuming fully diluted	94,515,133	54,490,102
Loss per share - basic and assuming fully diluted	\$ (0.07)	\$ (0.17)
Preferred dividend	\$ 96,000	\$ 96,000

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

CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred		Class C Preferred		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount						
Balance December 31, 2004	800,000	800	-	-	23,770,233	23,770	-	5,369,466	(9,281,284)	(3,887,248)
Common stock issued in January 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	1,675,000	1,675	-	165,825	-	167,500
Common stock issued in January 2005 as payment towards convertible debentures	-	-	-	-	2,070,442	2,070	-	37,578	-	39,648
Common stock issued in February 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	250,000	250	-	24,750	-	25,000
Common stock issued in February 2005 as payment towards convertible debentures	-	-	-	-	1,035,221	1,035	-	8,106	-	9,141
Common stock issued in March 2005 as payment towards convertible debentures	-	-	-	-	2,070,442	2,071	-	22,165	-	24,236

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CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Subscription Amount	Additional Receivable	Paid in Accumulated		Total
	Shares	Amount	Shares	Amount				Capital	Deficit	
Common stock issued in April 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	250,000	250	-	24,750	-	25,000
Common stock issued in April 2005 for services rendered at \$0.3 per share	-	-	-	-	800,000	800	-	23,200	-	24,000
Common stock issued in April 2005 as payment towards convertible debentures	-	-	-	-	2,070,442	2,070	-	21,533	-	23,603
Common stock issued in May 2005 as payment towards convertible debentures	-	-	-	-	10,535,221	10,535	-	86,405	-	96,940
Common stock issued in May 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	1,075,000	1,075	-	106,425	-	107,500
Common stock issued in June 2005 in exchange for services rendered at \$0.02 per share	-	-	-	-	250,000	250	-	4,750	-	5,000

CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Subscription Amount	Receivable	Additional Paid in Capital		Total
	Shares	Amount	Shares	Amount				Capital	Deficit	
Common stock issued in June 2005 as payment towards convertible debentures	-	-	-	-	17,100,000	17,100	-	128,570	-	145,670
Common stock issued in July 2005 as payment towards convertible debentures	-	-	-	-	9,573,000	9,573	-	71,798	-	81,371
Common stock issued in July 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	775,000	775	-	76,725	-	77,500
Common stock issued in August 2005 in exchange for services rendered at \$0.097 per share	-	-	-	-	1,000,000	1,000	-	96,000	-	97,000
Common stock issued in September 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	250,000	250	-	24,750	-	25,000
Common stock issued in October 2005 in exchange for services rendered at \$0.07 per share	-	-	-	-	400,000	400	-	27,600	-	28,000

CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred		Class C Preferred		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount						
Common stock issued in October 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	125,000	125	-	12,375	-	12,500
Common stock issued in November 2005 in connection with conversion of preferred stock, Class A	-	-	-	-	200,000	200	-	19,800	-	20,000
Common stock issued in December 2005 in exchange for services rendered at \$0.091 per share					333,333	333	-	30,000		30,333
Net loss	-	-	-	-	-	-	-	-	(9,410,657)	(9,410,657)
Balance as of December 31, 2005	800,000	\$ 800	-	-	75,608,334	\$ 75,607	\$ -	\$ 6,382,570	\$ (18,691,941)	\$ (12,232,965)
Common stock issued in January 2006 in exchange for services rendered at \$0.084 per	-	-	-	-	3,000,000	3,000	-	249,000	-	252,000

share

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

-	-	-	-	190,000	190	-	18,810	-	19,000
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CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Subscription Amount	Receivable	Additional Paid in Capital		Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				Capital	Deficit		
Common stock issued in January 2006 in exchange for services rendered at \$0.113 per share	-	-	-	-	100,000	100	-	11,200	-	-	11,300
Common stock issued in February 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	229,032	230	-	22,674	-	-	22,904
Common stock issued in February 2006 in exchange for services rendered at \$0.095 per share	-	-	-	-	10,000	10	-	940	-	-	950
Common stock issued in February 2006 in exchange for services rendered at \$0.092 per share	-	-	-	-	1,500,000	1,500	-	136,500	-	-	138,000
Common stock issued in March 2006 as payment towards convertible debentures	-	-	-	-	791,369	792	-	30,863	-	-	31,655
Common stock issued in connection with options exercised at \$0.085 per share	-	-	-	-	4,000,000	4,000	-	336,000	-	-	340,000
Common stock issued in April 2006 in exchange for services rendered at \$0.073 per share	-	-	-	-	492,752	493	-	35,478	-	-	35,971

CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total
Common stock issued in connection with options exercised at \$0.081 per share	-	-	-	-	2,772,206	2,772	-	221,777	-	224,549
Common stock issued in May 2006 in exchange for services rendered at \$0.08 per share	-	-	-	-	2,081,484	2,081	-	164,437	-	166,518
Common stock issued in connection with options exercised at \$0.056 per share	-	-	-	-	6,000,000	6,000	(335,406)	329,406	-	-
Common stock issued in July 2006 in exchange for services rendered at \$0.042 per share	-	-	-	-	50,000	50	-	2,050	-	2,100
Fair value of 14,430,000 options granted to employees in July 2006	-	-	-	-	-	-	-	721,500	-	721,500
Common stock issued in August 2006 in exchange for services rendered at \$0.06 per share	-	-	-	-	41,667	42	-	2,458	-	2,500
Common stock issued in August 2006 in exchange for services rendered at \$0.051	-	-	-	-	500,000	500	-	25,000	-	25,500

per share

Common stock issued in August 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	125,000	125	-	12,375	12,500
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CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Accumulated		Total
	Shares	Amount	Shares	Amount				Capital	Deficit	
Common stock issued in September 2006 in exchange for services rendered at \$0.067 per share	-	-	-	-	37,313	37	-	2,463	-	2,500
Common stock issued in September 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	475,000	475	-	47,025	-	47,500
Common stock issued in October 2006 as payment towards convertible debentures	-	-	-	-	4,000,000	4,000	-	79,539	-	83,539
Common stock issued in October 2006 in exchange for services rendered at \$0.045 per share	-	-	-	-	500,000	500	-	22,000	-	22,500
Common stock issued in October 2006 in connection with conversion of preferred stock, Class A	-	-	-	-	25,000	25	-	2,475	-	2,500
Common stock issued in October 2006 in exchange for services rendered at \$0.037 per share	-	-	-	-	2,600,000	2,600	-	93,600	-	96,200

CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred Stock		Class C Preferred Stock		Common Shares	Stock Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total
Debt assumption in settlement of stock subscription in October 2006	-	-	-	-	-	-	335,406	-	-	335,406
Common stock issued in November 2006 as payment towards convertible debentures	-	-	-	-	12,000,000	12,000	-	126,300	-	138,300
Common stock issued in November 2006 in exchange for services rendered at \$0.036 per share	-	-	-	-	1,700,000	1,700	-	59,500	-	61,200
Fair value of 20,500,000 options granted to employees in November 2006	-	-	-	-	-	-	-	410,000	-	410,000
Common stock issued in December 2006 as payment towards convertible debentures	-	-	-	-	8,000,000	8,000	-	71,280	-	79,280
Common stock issued in December 2006 in exchange for services rendered at \$0.035 per share	-	-	-	-	1,450,000	1,450	-	49,300	-	50,750

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CYBERLUX CORPORATION
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class B Preferred		Class C Preferred		Common Shares	Stock Subscription Amount Receivable	Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount					
Warrants exercised at \$0.25 per share	-	-	-	-	-	- 25,000	-	-	25,000
Preferred Class C stock issued in connection with the acquisition of SPE Technologies, Inc.	-	-	100,000	100	-	-	- 2,519,900	-	2,520,000
Net loss	-	-	-	-	-	-	-	(6,775,400)	(6,775,400)
Balance as of December 31, 2006	800,000	\$ 800	100,000	\$ 100	128,279,157	\$ 128,279	\$ 25,000	\$ 12,186,420	\$(25,467,342)\$ (13,126,743)

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

CYBERLUX, INC
CONSOLIDATED STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) available to common stockholders	\$ (6,775,400)	\$ (9,410,657)
Adjustments to reconcile net (loss) to cash used in operating activities		
Depreciation	23,360	25,769
Fair value of options issued to officers and employees	1,131,500	-
Common stock issued in connection with services rendered	1,432,539	184,333
Common stock issued in settlement of debt	332,774	420,608
Warrants issued for services rendered	67,410	-
Accretion of convertible notes payable	1,315,610	785,879
Unrealized (gain) loss on adjustment of derivative and warrant liability to fair value of underlying securities	(953,719)	4,485,654
Impairment loss on patent	-	30,544
(Increase) decrease in:		
Accounts receivable	(167,661)	(9,424)
Inventories	140,326	(338,097)
Prepaid expenses and other assets	60,582	25,590
Deposits	(23,350)	-
Increase (decrease) in:		
Accounts payable	(93,055)	307,433
Accrued liabilities	882,063	347,115
Other accounts payable	-	481,836
Net cash (used in) operating activities	(2,627,021)	(2,663,417)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash acquired in connection with acquisition of SPE Technologies	250,000	-
Payments towards patent rights	(5,685)	-
Acquisition of fixed assets	(18,540)	(45,884)
Net cash provided by (used in) investing activities:	225,775	(45,884)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of convertible debentures	1,830,000	2,802,067
Net proceeds received from exercise of warrants	25,000	-
Net proceeds from borrowing on long term basis	479,402	-
Net proceeds (payments) to notes payable, related parties	(13,000)	(32,485)
Net cash provided by financing activities:	2,321,402	2,769,582

Net increase (decrease) in cash and cash equivalents	(79,844)	60,281
Cash and cash equivalents at beginning of period	475,656	