

CYBERLUX CORP
Form 10QSB
August 14, 2007

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

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2007.

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

For the transition period from _____ to _____

For the Period Ended June 30, 2007

Commission file number 000-33415

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

Nevada
(State of Incorporation)

91-2048978
(IRS Employer Identification No.)

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

(Address of Principal Executive Offices)

(919) 474-9700

Issuer's Telephone Number

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

Yes No

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

Yes No

As of August 13, 2007, the Company had 507,470,274 shares of its par value \$0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No

CYBERLUX CORPORATION

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending June 30, 2007

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CYBERLUX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (unaudited) June 30, 2007 | December 31, 2006 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash & cash equivalents | \$ 66,964 | \$ 395,812 |
| Accounts receivable, net of allowance for doubtful accounts of \$40,609 and \$23,502, respectively | 52,268 | 177,085 |
| Inventories, net of allowance of \$102,660 | 150,636 | 197,771 |
| Other current assets | 7,219 | 22,232 |
| Total current assets | 277,087 | 792,900 |
| Property, plant and equipment, net of accumulated depreciation of \$153,114 and \$141,465, respectively | | |
| | 61,792 | 58,313 |
| Other assets | | |
| Deposits | 23,350 | 23,350 |
| Patents and development costs, net of accumulated amortization of \$556,695 and \$293,750, respectively | 3,418,279 | 2,294,224 |
| Total other assets | 3,441,629 | 2,317,574 |
| Total Assets | \$ 3,780,508 | \$ 3,168,787 |
| LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 737,948 | \$ 564,875 |
| Accrued liabilities | 1,850,022 | 1,694,220 |
| Short-term notes payable - related parties | 362,095 | 454,162 |
| Short-term notes payable | - | 47,399 |
| Short-term convertible notes payable | 576,251 | 604,187 |
| Total current liabilities | 3,526,316 | 3,364,843 |
| Long-term liabilities: | | |
| Notes payable | 1,638,092 | 1,580,621 |
| Derivative liability relating to convertible debentures | 19,788,241 | 8,201,086 |
| Warrant liability relating to convertible debentures | 747,779 | 2,954,080 |
| Total long-term liabilities | 22,174,112 | 12,735,787 |
| Total liabilities | 25,700,428 | 16,100,630 |
| Commitments and Contingencies | | |
| | 144,900 | 194,900 |

Series A convertible preferred stock, \$0.001 par value; 200 shares designated, 28.9806 and 38.9806 issued and outstanding as of June 30, 2007 and 2006, respectively

DEFICIENCY IN STOCKHOLDERS' EQUITY

| | | |
|--|------------------|------------------|
| Class B convertible preferred stock, \$0.001 par value, 3,650,000 shares designated; 3,650,000 and 800,000 shares issued and outstanding for June 30, 2007 and December 31, 2006, respectively | 3,650 | 800 |
| Class C convertible preferred stock, \$0.001 par value, 700,000 shares designated; 150,000 and 100,000 shares issued and outstanding for March 31, 2007 and December 31, 2006, respectively | 150 | 100 |
| Common stock, \$0.001 par value, 700,000,000 shares authorized; 405,572,899 and 128,279,157 shares issued and outstanding as of June 30, 2007 and December 31, 2006, respectively | 405,573 | 128,279 |
| Subscription received | - | 25,000 |
| Additional paid-in capital | 15,193,605 | 12,186,420 |
| Accumulated deficit | (37,667,798) | (25,467,342) |
| Deficiency in stockholders' equity | (22,064,820) | (13,126,743) |
| Total liabilities and (deficiency) in stockholders' equity | \$ 3,780,508 | \$ 3,168,787 |

The accompanying notes are an integral part of these financial statements

CYBERLUX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|---------------------|---------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 |
| REVENUE: | \$ 173,893 | \$ 83,026 | \$ 223,355 | \$ 130,226 |
| Cost of goods sold | (134,356) | (20,980) | (174,676) | (74,667) |
| Gross margin (loss) | 39,537 | 62,046 | 48,679 | 55,559 |
| OPERATING EXPENSES: | | | | |
| Depreciation | 5,715 | 5,842 | 11,649 | 13,107 |
| Research and development | 9,772 | 75,537 | 79,485 | 114,363 |
| General and administrative expenses | 1,348,501 | 1,018,995 | 2,235,781 | 2,366,724 |
| Total operating expenses | 1,363,987 | 1,100,374 | 2,326,914 | 2,494,194 |
| NET LOSS FROM OPERATIONS | (1,324,450) | (1,038,328) | (2,278,235) | (2,438,635) |
| Other income/(expense) | 381,652 | - | 381,652 | - |
| Debt forgiveness | - | 36,799 | - | 36,799 |
| Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities | (12,586,339) | 836,071 | (9,062,507) | 3,159,257 |
| Interest expense, net | (670,198) | (740,456) | (1,197,998) | (1,478,586) |
| Debt acquisition costs | (54,790) | (2,992) | (43,370) | (9,479) |
| Net loss before provision for income taxes | (14,254,123) | (908,906) | (12,200,456) | (730,644) |
| Income taxes (benefit) | - | - | - | - |
| LOSS AVAILABLE TO COMMON STOCKHOLDERS | \$ (14,254,123) | \$ (908,906) | \$ (12,200,456) | \$ (730,644) |
| Weighted average number of common shares outstanding-basic and assuming fully diluted | 294,593,637 | 88,460,138 | 242,095,994 | 84,395,457 |
| Loss per share-basic and assuming fully diluted | \$ (0.05) | \$ (0.01) | \$ (0.05) | \$ (0.01) |
| Preferred dividend | \$ 24,000 | \$ 24,000 | \$ 48,000 | \$ 48,000 |

The accompanying notes are an integral part of these financial statements

CYBERLUX, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)

| | Six months ended June 30, | |
|---|---------------------------|--------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) available to common stockholders | \$ (12,200,456) | \$ (730,644) |
| Adjustments to reconcile net income (loss) to cash used in operating activities | | |
| Depreciation | 11,649 | 13,107 |
| Amortization | 262,945 | - |
| Common stock issued in connection with services rendered | 27,500 | 1,169,289 |
| Common stock issued in settlement of debt | - | 31,655 |
| Preferred stock issued as compensation | 370,500 | - |
| Accretion of convertible notes payable | 924,892 | 770,605 |
| Gain on repurchase and cancellation of warrants | (381,652) | - |
| Unrealized (gain) loss on adjustment of derivative and warrant liability to fair value of underlying securities | 9,062,507 | (3,159,257) |
| Impairment loss on patent | - | - |
| (Increase) decrease in: | | |
| Accounts receivable | 124,817 | (7,542) |
| Inventories | 47,135 | 157,497 |
| Prepaid expenses and other assets | 15,013 | 43,962 |
| Deposits | - | - |
| Increase (decrease) in: | | |
| Accounts payable | 173,073 | (176,516) |
| Accrued liabilities | 159,758 | 680,745 |
| Net cash (used in) operating activities | (1,402,320) | (1,207,099) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net cash acquired in connection with acquisition of Hybrid Lighting Technologies, Inc | 150,000 | - |
| Payments towards patent rights | - | - |
| Acquisition of fixed assets | (15,128) | (9,078) |
| Net cash provided by (used in) investing activities: | 134,872 | (9,078) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of convertible debentures | 850,000 | 460,000 |
| Proceeds from exercise of warrants | 127,499 | - |
| Net proceeds (payments) from borrowing on long term basis | (47,399) | 414,402 |
| Net proceeds (payments) to notes payable, related parties | 8,500 | 38,000 |
| Net cash provided by (used in) financing activities: | 938,600 | 912,402 |
| Net increase (decrease) in cash and cash equivalents | (328,848) | (303,775) |
| Cash and cash equivalents at beginning of period | 395,812 | 475,656 |
| Cash and cash equivalents at end of period | \$ 66,964 | \$ 171,881 |
| Supplemental disclosures: | | |
| Interest Paid | \$ - | \$ 2,770 |

| | | |
|---|-----------|-------------|
| Income Taxes Paid | - | - |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Unrealized (gain) loss in adjustment of derivative and warrant liability to fair value of underlying securities | 9,062,507 | (3,159,257) |
| Common stock issued for services rendered | 27,500 | 1,169,289 |
| Common stock issued in settlement of debt | - | 31,655 |
| Preferred stock issued as compensation | 370,500 | - |

The accompanying notes are an integral part of these financial statements

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three and six month periods ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. The unaudited condensed financial statements should be read in conjunction with the December 31, 2006 financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2006.

Business and Basis of Presentation

Cyberlux Corporation (the "Company") is incorporated on May 17, 2000 under the laws of the State of Nevada. Until December 31, 2004, the Company was a development state enterprise as defined under Statement on Financial Accounting Standards No.7, Development Stage Enterprises ("SFAS No.7"). The Company develops, manufactures and markets long-term portable lighting products for commercial and industrial users. While the Company has generated revenues from its sale of products, the Company has incurred expenses, and sustained losses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. As of June 30, 2007, the Company has accumulated losses of \$37,667,798.

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

Acquisitions

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

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

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

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

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

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

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenues are recognized in the period that products are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) 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. At September 30, 2006 and December 31, 2005, the Company did not have any deferred revenue.

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

Reclassification

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

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At June 30, 2007 and December 31, 2006, allowance for doubtful receivable was \$40,609 and \$23,502, respectively.

Stock-Based Compensation

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. This statement does not change the accounting guidance for share

based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123(R). This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company had to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006. The Company implemented SFAS No. 123(R) on January 1, 2006 using the modified prospective method. The fair value of each option grant issued after January 1, 2006 will be determined as of grant date, utilizing the Black-Scholes option pricing model. The amortization of each option grant will be over the remainder of the vesting period of each option grant.

As more fully described in the financial statements included in Form 10-KSB for the year ended December 31, 2006, the Company granted stock options over the years to employees of the Company under a non-qualified employee stock option plan. As of June 30, 2007, 52,432,307 stock options were outstanding and exercisable.

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

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)**Net Income (loss) Per Common Share**

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

Patents

The Company acquired in December 2006, for \$2,270,000, and January 2007, for \$1,387,000, patents in conjunction with the acquisitions of SPE Technologies, Inc and Hybrid Lighting Technologies, Inc, respectively. The patents have an estimated useful life of 7 years. Accordingly, the Company recorded an amortization charge to current period earnings of \$262,945 and \$-0 for the six months ended June 30, 2007 and 2006, respectively and \$131,472 and \$-0 for the three months ended June 30, 2007 and 2006, respectively. Patents are comprised of the following:

| Description | Cost | Accumulated amortization and impairments | Net carrying value at June 30, 2007 |
|-------------------|--------------|--|--|
| Development costs | \$ 293,750 | \$ 293,750 | \$ -0- |
| Patents | 2,294,224 | 163,873 | 2,130,351 |
| Patents | 1,387,000 | 99,072 | 1,287,928 |
| Total | \$ 3,974,974 | \$ 556,695 | \$ 3,418,279 |

Recent pronouncements

In December 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position on No. EITF 00-19-2, *Accounting for Registration Payment Arrangements* ("FSP EITF 00-19-2"). FSP EITF 00-19-2 provides that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with Statement of Financial Accounting Standards ("FAS") No. 5, *Accounting for Contingencies*, which provides that loss contingencies should be recognized as liabilities if they are probable and reasonably estimable. Subsequent to the adoption of FSP EITF 00-19-2, any changes in the carrying amount of the contingent liability will result in a gain or loss that will be recognized in the consolidated statement of operations in the period the changes occur. The guidance in FSP EITF 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the date of issuance of FSP EITF 00-19-2. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of FSP EITF 00-19-2, this guidance is effective for our consolidated financial statements issued for the year beginning

January 1, 2007, and interim periods within that year.

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

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CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES

Notes payable at June 30, 2007 and December 31, 2006 are as follows:

| | June 30, 2007 | December 31, 2006 |
|---|---------------|----------------------|
| 10% convertible note payable, unsecured and due September, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert note principal together with accrued and unpaid interest to the Company's common stock at a rate of \$0.50 per share. The Company is in violation of the loan covenants | \$ 2,500 | \$ 2,500 |
| 10% convertible debenture, due two years from the date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.72 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below) | -0- | 601,687 |
| 10% convertible debenture, due three years from date of the note with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.03 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below) | 833,477 | 799,817 |
| 10% convertible debenture, due October 2008 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.6 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. The Company is in violation of the loan covenants (see below) | 448,584 | 316,347 |
| 8% convertible debenture, due December 2008 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.10 or b) 25% of the average | 350,959 | 235,251 |

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

8% convertible debenture, due March 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% (See note L)of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)

| | | | |
|----|---------|----|---------|
| \$ | 210,046 | \$ | 127,397 |
|----|---------|----|---------|

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

| | June 30, 2007 | December 31, 2006 |
|--|---------------|----------------------|
| 6% convertible debenture, due July 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below) | 153,881 | 71,233 |
| 6% convertible debenture, due September 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below) | 70,831 | 24,548 |
| 6% convertible debenture, due December 2009 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below) | 105,206 | 6,028 |
| 8% convertible debenture, due April 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below) | 26,667 | -0- |
| 8% convertible debenture, due May 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a)\$0.10 or b) 25% of the average of the three | 8,219 | -0- |

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

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

| | | | |
|----|-------|----|-----|
| \$ | 3,973 | \$ | -0- |
|----|-------|----|-----|

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

| | June 30, 2007 | December 31, 2006 |
|--|---------------|----------------------|
| 8% convertible debenture, due June 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below) | -0- | -0- |
| | 2,214,343 | 2,184,808 |
| Less: current maturities | (576,251) | (604,187) |
| Notes payable and convertible debentures-long term portion | \$ 1,638,092 | \$ 1,580,621 |

The Company entered into a Securities Purchase Agreement with four accredited investors on September 23, 2004 for the issuance of an aggregate of \$1,500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 2,250,000 shares of the Company's common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due two years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.72 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 50% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for net proceeds of \$1,186,281. The proceeds that the Company received were net of prepaid interest of \$50,000 and related fees and costs of \$263,719.

The Company entered into a Securities Purchase Agreement with four accredited investors on April 23, 2005 for the issuance of an aggregate of \$1,500,000 of convertible notes ("Convertible Notes") and attached to the Convertible Notes were warrants to purchase 25,000,000 shares of the Company's common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.03 or b) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 50% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$1,500,000 in exchange for total proceeds of \$1,352,067. The proceeds that the Company received were net of prepaid interest of \$72,933 representing the first eight month's interest and related fees and costs of \$75,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on October 24, 2005 for the issuance of \$800,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were warrants to purchase 800,000 shares of the Company’s common stock. The Convertible Note accrues interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.06 or b) 50% (see note L) of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 50% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$800,000 in exchange for total proceeds of \$775,000. The proceeds that the Company received were net of related fees and costs of \$25,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on December 28, 2005 for the issuance of \$700,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were warrants to purchase 700,000 shares of the Company’s common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.10 or b) 35% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 35% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$700,000 in exchange for total proceeds of \$675,000. The proceeds that the Company received were net of related fees and costs of \$25,000.

CYBERLUX CORPORATION
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NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

The Company entered into a Securities Purchase Agreement with four accredited investors on March 31, 2006 for the issuance of \$500,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were warrants to purchase 19,000,000 shares of the Company’s common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.10 or b) 55% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 55% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$460,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on July 28, 2006 for the issuance of \$500,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were warrants to purchase 15,000,000 shares of the Company’s common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.10 or b) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 40% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$500,000 in exchange for total proceeds of \$490,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on September 26, 2006 for the issuance of \$280,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were warrants to purchase 10,000,000 shares of the Company’s common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.10 or b) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 40% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$280,000 in exchange for total proceeds of \$259,858. The proceeds that the Company received were net of related fees and costs of \$20,142.

The Company entered into a Securities Purchase Agreement with four accredited investors on December 20, 2006 for the issuance of \$600,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were

warrants to purchase 20,000,000 shares of the Company's common stock. The Convertible Note accrues interest at 6% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of a) \$0.10 or b) 40% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date. Effective April 18, 2007; the terms of the notes were changed for the remaining outstanding debt to a conversion rate from 40% of the average the day lowest intraday trading prices to a 25% rate.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$600,000 in exchange for total proceeds of \$590,000. The proceeds that the Company received were net of related fees and costs of \$10,000.

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

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$400,000 in exchange for total proceeds of \$360,000. The proceeds that the Company received were net of related fees and costs of \$40,000.

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NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

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

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

The Company entered into a Securities Purchase Agreement with four accredited investors on June 6, 2007 for the issuance of \$150,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were warrants to purchase 10,000,000 shares of the Company’s common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of June 30, 2007, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

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

As of June 20, 2007, the Company issued to investors of the Convertible Notes a total amount of \$150,000 in exchange for total proceeds of \$150,000.

These transactions, to the extent that it is to be satisfied with common stock of the Company would normally be included as equity obligations. However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host debt conversion feature, the Company is required to record a liability relating to both the detachable warrants and embedded convertible feature of the notes payable (included in the liabilities as a “derivative liability”).

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

- The Company allocated the proceeds received between convertible debt and detachable warrants based upon the relative fair market values on the dates the proceeds were received.
- Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula and the increase of the embedded derivative in the conversion feature of the convertible debentures are accrued as adjustments to the liabilities at June 30, 2007 and December 31, 2006, respectively.
- The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives (noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.
 - Accreted principal of \$2,211,843 and \$2,182,308 as of June 30, 2007 and December 31, 2006, respectively.

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

The following table summarizes the various components of the convertible debentures as of June 30, 2007 and December 31, 2006:

| | June 30, 2007 | December 31, 2006 |
|---|---------------|----------------------|
| Convertible debentures | \$ 2,214,343 | \$ 2,184,808 |
| Warrant liability | 351,712 | 2,759,307 |
| Derivative liability | 19,788,241 | 8,201,086 |
| | 22,354,296 | 13,145,201 |
| Cumulative adjustment of derivative and warrant liability to fair value | (12,909,954) | (4,580,393) |
| Cumulative unrealized loss relating to conversion of convertible notes to common shares charged to interest expense | (1,793,669) | (898,313) |
| Cumulative accretion of principal related to convertible debentures | (2,211,843) | (2,182,308) |
| | \$ 5,438,830 | \$ 5,484,187 |

NOTE C-WARRANT LIABILITY

Total warrant liability as of June 30, 2007 and December 31, 2006 are comprised of the following:

| | June 30, 2007 | December 31, 2006 |
|---|------------------|----------------------|
| Fair value of warrants relating to convertible debentures | \$ 351,712 | \$ 2,759,305 |
| Fair value of other outstanding warrants | 396,067 | 194,775 |
| Total | \$ 747,779 | \$ 2,954,080 |

NOTE D - NOTE PAYABLE

Note payable is comprised of the following:

| | June 30, 2007 | December 31, 2006 |
|---|---------------|----------------------|
| Note payable, 24% interest per annum; due 90 days, secured by specific accounts receivables | \$ -0- | \$ 47,399 |

NOTE E - NOTES AND CONVERTIBLE NOTES PAYABLE-RELATED PARTY

Notes payable-related party is comprised of the following:

| | June 30, 2007 | December 31, 2006 |
|--|---------------|----------------------|
| Notes payable, 12% per annum; due on demand; unsecured | \$ 112,745 | \$ 102,245 |

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| | | |
|---|-----------|-----------|
| Notes payable, 10% per annum, due on demand; unsecured | 249,350 | 251,350 |
| Notes payable, 10% per annum, due on demand, convertible into the Company's common stock after March 2007 at a conversion rate of \$0.02 per share, unsecured | -0- | 100,567 |
| | 362,095 | 454,162 |
| Less: current maturities: | (362,095) | (454,162) |
| Long term portion: | \$ - | \$ - |

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CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE F -STOCKHOLDER'S EQUITY

Series A - Convertible Preferred stock

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

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

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

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

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

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

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

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

In the three months ended June 30, 2007, 2 of the Series A Preferred shareholders exercised the conversion right and exchanged 10 shares of Series A Preferred for 500,000 shares of the Company's common stock.

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

The holders of record of the Series A Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$5,000 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's

common stock. Dividends on shares of the Series A Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series A Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. As of the period ended March 31, 2007, \$0 in dividends were accumulated.

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

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

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NOTE F -STOCKHOLDER'S EQUITY (continued)

Series A - Convertible Preferred stock (continued)

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

Until November 2006 (expiration of the warrants), the Company was required to record a liability relating to the detachable warrants as described in FAS 133, EITF 98-5 and 00-27, and APB 14. As such:

- Subsequent to the initial recording, the increase or decrease in the fair value of the detachable warrants, determined under the Black- Scholes option pricing formula, were accrued as adjustments to the liabilities until their expiration in November 2006.
- The expense relating to the increase or decrease in the fair value of the Company's stock reflected in the change in the fair value of the warrants (noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.

The Company recorded an Unrealized Gain (Loss) on the change in fair value of these detachable warrants of \$-0- and \$748,537 for the six months June 30, 2007 and 2006, respectively.

Series B - Convertible Preferred stock

On February 19, 2004, the Company filed a Certificate of Designation creating a Series B Convertible Preferred Stock classification for 800,000 shares. On June 18, 2007 the Company filed an amended Certificate of Designation increasing the number of shares from 800,000 to 3,650,000.

In January, 2004, the Company issued 800,000 shares of its Series B Preferred in lieu of certain accrued management service fees payable and notes payable including interest payable thereon totaling \$800,000 to officers of the company.

In April 2007, the Company issued 2,850,000 shares of its Series B Preferred in lieu of certain accrued management service fees payable thereon totaling \$370,500 to officers of the company.

The shares of the Series B Preferred are non voting and convertible, at the option of the holder, into common shares at \$0.10 per share per share. The shares issued were valued at \$1.00 per share, which represented the fair value of the common stock the shares are convertible into. In connection with the transaction, the Company recorded a beneficial conversion discount of \$800,000 - preferred dividend relating to the issuance of the convertible preferred stock. None of the Series B Preferred shareholders have exercised their conversion right and there are 3,650,000 shares of Series B Preferred shares issued and outstanding at June 30, 2007.

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

The holders of record of the Series B Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value (\$1.00 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series B Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series B Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. For the year ended December 31, 2006 \$ 288,000 in dividends were accumulated.

CYBERLUX CORPORATION
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NOTE F -STOCKHOLDER'S EQUITY (continued)

Series B - Convertible Preferred stock (continued)

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

Series C - Convertible Preferred stock

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

In December 2006, the Company issued 100,000 shares of its Series C Preferred stock in conjunction with the acquisition of SPE Technologies, Inc. The shares of the Series C Preferred are non voting and convertible, at the option of the holder, into common shares one year from issuance. The number of common shares to be issued per Series C share is adjusted based on the average closing bid price of the previous ten days prior to the date of conversion based on divided into \$25.20 The shares issued were valued at \$25.20 per share, which represented the fair value of the common stock the shares are convertible into. None of the Series C Preferred shareholders have exercised their conversion right and there are 100,000 shares of Series C Preferred shares issued and outstanding at March 31, 2007.

In January 2007, the Company issued 50,000 shares of its Series C Preferred stock in conjunction with the acquisition of Hydrid Lighting Technologies, Inc. The shares of the Series C Preferred are non voting and convertible, at the option of the holder, into common shares one year from issuance. The number of common shares to be issued per Series C share is adjusted based on the average closing bid price of the previous ten days prior to the date of conversion based on divided into \$15.37 The shares issued were valued at \$15.37 per share, which represented the fair value of the common stock the shares are convertible into. None of the Series C Preferred shareholders have exercised their conversion right and there are 50,000 shares of Series C Preferred shares issued and outstanding at March 31, 2007.

The holders of record of the Series C Preferred shall be entitled to receive cumulative dividends at the rate of five percent per annum (5%), compounded quarterly, on the face value (\$25.00 and \$15.37 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series C Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, at the time of conversion. These dividends are not recorded until declared by the Company. For the year ended March 31, 2007

\$-0- in dividends were accumulated.

Common stock

The Company has authorized 700,000,000 shares of common stock, with a par value of \$.001 per share. As of June 30, 2007 and December 31, 2006 the Company has 405,572,899 and 128,279,157 shares issued and outstanding, respectively.

During the six months ended June 30, 2007, holders converted 10 shares of preferred stock - Class A into 500,000 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

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

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

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

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

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

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

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

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

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

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

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

The following table summarizes the changes in warrants outstanding and related prices for the shares of the Company's common stock issued to shareholders at June 30, 2007:

| Exercise Price | Number Outstanding | Warrants Outstanding | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise price | Number Exercisable | Warrants Exercisable |
|----------------|--------------------|----------------------|---|---------------------------------|--------------------|----------------------|
| | | Weighted Average | | | | Weighted Average |
| | | | | | | Exercise Price |
| 0.02 | 40,000,000 | 4.19 | 0.02 | 40,000,000 | 0.02 | |
| 0.03 | 25,000,000 | 2.88 | 0.03 | 25,000,000 | 0.03 | |
| 0.10 | 991,500 | 1.93 | 0.10 | 991,500 | 0.10 | |
| 0.20 | 1,845,000 | 0.25 | 0.20 | 1,845,000 | 0.20 | |
| 0.25 | 58,500 | 1.51 | 0.25 | 58,500 | 0.25 | |
| 0.50 | 50,000 | 1.28 | 0.50 | 50,000 | 0.50 | |
| 1.05 | 200,000 | 0.83 | 1.05 | 200,000 | 1.05 | |
| 0.00335 (a) | 67,783,050 | 4.90 | 0.00335 (a) | 67,783,050 | 0.00335 (a) | |

(a) See terms of warrants issued below

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

| | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|----------------------------------|
| Outstanding at December 31, 2005 | 48,431,128 | \$ 0.42 |
| Granted | 68,750,000 | 0.07 |
| Exercised | (100,000) | (0.25) |
| Canceled or expired | (17,186,128) | (0.64) |

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| | | |
|----------------------------------|--------------|--------|
| Outstanding at December 31, 2006 | 99,895,000 | 0.09 |
| Granted | 140,000,000 | - |
| Exercised | (32,216,950) | (0.04) |
| Canceled or expired | (71,750,000) | (0.07) |
| Outstanding at June 30, 2007 | 135,928,050 | 0.018 |

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

For the six months ended June 30, 2007, following warrants were issued in connection with services rendered:

| Number of warrants | purchase price per share: | Term (years) |
|--------------------|---------------------------|--------------|
| 1,000,000 | \$ 0.10 | 2.75 |

Warrants granted during the six months ended June 30, 2007 totaling 40,000,000 were issued in connection with debt financing. The warrants are exercisable until five years after the date of issuance at a purchase price of \$0.02 per share.

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE G -STOCK OPTIONS AND WARRANTS (continued)

In the six months ended June 30, 2007, the Company sold 100,000,000 five year warrants with an exercise price of 50% of the average closing price of the twenty trading days prior to warrant execution. The transaction, to the extent that it is to be satisfied with common stock of the Company would normally be included as equity obligations. However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host conversion feature, the Company is required to record a liability relating to warrants and as such has recorded the fair value of the embedded conversion feature, using the Black-Scholes option pricing method, as a liability for the current period.

Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan at June 30, 2007:

| <u>Options Outstanding</u> | | | <u>Options Exercisable</u> | | |
|----------------------------|--------------------|---|----------------------------|--------------------|---------------------------------|
| Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 0.2125 | 2,000,000 | 6.46 | \$ 0.2125 | 2,000,000 | \$ 0.2125 |
| 0.2125 | 2,000,000 | 6.87 | 0.2125 | 2,000,000 | 0.2125 |
| 0.022 | 20,500,000 | 9.37 | 0.022 | 20,500,000 | 0.022 |
| 0.0295 | 4,000,000 | 7.85 | 0.0295 | 4,000,000 | 0.0295 |
| 0.04 | 14,430,000 | 9.07 | 0.04 | 14,430,000 | 0.04 |
| 0.10 | 9,502,307 | 6.76 | 0.10 | 9,502,307 | 0.10 |

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

| | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|----------------------------------|
| Outstanding at December 31, 2005 | 34,000,000 | \$ 0.076 |
| Granted | 34,930,000 | 0.029 |
| Exercised | (16,497,693) | 0.037 |
| Canceled or expired | - | - |
| Outstanding at December 31, 2006 | 52,432,307 | 0.0562 |
| Granted | - | - |
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at June 30, 2007 | 52,432,307 | \$ 0.0562 |

NOTE H -RELATED PARTY TRANSACTIONS

From time to time, the Company's principal officers have advanced funds to the Company for working capital purposes in the form of unsecured promissory notes, accruing interest at 10% to 12% per annum. As of June 30, 2007 and December 31, 2006, the balance due to the officers was \$362,095 and \$454,162, respectively.

NOTE I -COMMITMENTS AND CONTINGENCIES

Consulting Agreements

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

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CYBERLUX CORPORATION
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NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease Commitments

The Company leases office space in Durham, NC on a five year lease expiring April, 2008 for an annualized rent payment of \$43,127. Additionally the Company leases warehouse space on a month to month basis for \$550 per month. At March 31, 2007, schedule of the future minimum lease payments is as follows:

| | |
|------|-----------|
| 2007 | \$ 43,127 |
| 2008 | 14,376 |
| 2009 | - |
| 2010 | - |

Litigation

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. There was no outstanding litigation as of June 30, 2007.

NOTE J - BUSINESS CONCENTRATION

Sales to 3 major customers approximated \$167,223 or 96% and sales to 2 major customers approximated \$20,746 or 25% of total sales for the six months ended June 30, 2007 and 2006, respectively.

Purchases from the Company's 3 major suppliers accounted for 37% and 100% of total purchases for the six months ended June 30m 2007 and 2006, respectively.

NOTE K- GOING CONCERN MATTERS

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, as of June 30, 2007, the Company incurred accumulated losses of \$37,667,798. The Company's current liabilities exceeded its current assets by \$3,249,229 as of June 30, 2007. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

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

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

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

NOTE L - SUBSEQUENT EVENTS

The Company entered into a Securities Purchase Agreement with four accredited investors on July 18, 2007 for the issuance of \$150,000 of convertible notes (“Convertible Notes”) and attached to the Convertible Notes were warrants to purchase 10,000,000 shares of the Company’s common stock. The Convertible Note accrues interest at 8% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company’s common stock at a rate of the lower of a) \$0.02 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

On July, 26, 2007 the Company entered into an agreement with the noteholders of our convertible debentures whereby all deficiencies and defaults related to the notes wre cured in exchange for Warrants to purchase 10,000,000 common shares for \$.01 per share. The Warrants are valid for a 7-year term.

CYBERLUX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

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

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

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

The National Guard will initially use the two BrightEye systems in field exercises for Night Vision operations and Night Vision Goggle (NVG) training. Beyond these field exercises, the National Guard requires rapidly deployable

portable covert and visible lighting systems for disaster response preparedness, border patrol support, homeland defense operations, and global military deployments. The National Guard provides each State with units trained and equipped to protect life and property, and provides the Nation with units trained, equipped and ready to defend the United States and its interests around the world.

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

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

Beginning on June 1, the six-month 2007 hurricane season began. The National Oceanic and Atmospheric Administration has predicted 13 to 17 named storms, of which seven to 10 will strengthen into hurricanes with winds of at least 74 miles per hour. Three to five of those are expected to become more destructive 'intense' hurricanes of Class 3 or higher.

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

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

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

The BrightEye VaC Portable Illumination System is designed as a portable visible and night-vision compatible illumination system for general mission lighting, force protection, maintenance lighting, expeditionary base protection, disaster first responders, and other rapidly deployable high- intensity lighting applications. Using advanced optics, advanced solid-state lighting technology, and light-weight battery power, all contained in an easily transportable wheeled case, the BrightEye system is capable of eliminating the space-consuming bulk, noise and energy consumption of the current generator-powered incandescent lighting systems. Unique to the marketplace, the BrightEye provides both visible white lighting and night- vision compatible covert lighting, capability not available in traditional lighting systems.

The BrightEye System is available through the General Services Administration (GSA) Federal Supply Schedule 56 for Specialty Lighting products under Cyberlux GSA Contract GS-07F-9409S and orderable part number 2CP0170.

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

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

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

Results of Operations

Six months ended June 30, 2007 compared to the six months ended June 30, 2006

REVENUES

Revenues for the six months ended June 30, 2007 were \$223,355 as compared to \$130,226 for the same period last year. The increase in revenue was attributed to sales of our EverOn product to The Home Depot in the amount of \$105,300.

OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2007 were \$2,326,914 as compared to \$2,494,194 for the same period ended June 30, 2006. Included in the six months ended June 30, 2007 were \$79,485 in expenses for research & development. This compares to \$114,362 for the six months ended June 30, 2006. We also began the amortization of our recently acquired patents with a \$262,945 charge to operations for the six months ended June 30, 2007 as compared to \$-0- for the prior year.

We reported an unrealized loss for the change in fair value of warrants and debt derivatives of \$(9,062,507) as compared to a gain of \$3,159,257 for the same period last year. Although the change of \$(12,221,764) is unrelated to our operating activities, the decrease is included in our reported net loss.

Three months ended June 30, 2007 compared to the three months ended June 30, 2006

REVENUES

Revenues for the three months ended June 30, 2007 were \$173,893 as compared to \$83,026 for the same period last year. The increase in revenue was attributed to sales of our EverOn product to The Home Depot in the amount of \$105,300.

OPERATING EXPENSES

Operating expenses for the three months ended June 30, 2007 were \$1,363,987 as compared to \$1,100,374 for the same period ended June 30, 2006. Included in the three months ended June 30, 2007 were \$131,472 due to the amortization of our recently acquired patents as compared to \$-0- same period in 2006.

We reported an unrealized loss for the change in fair value of warrants and debt derivatives of \$(12,586,339) as compared to a gain of \$836,071 for the same period last year. Although the change of \$(13,422,410) is unrelated to our operating activities, the decrease is included in our reported net loss.

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

Liquidity and Capital Resources

As of June 30, 2007, we had a working capital deficit of \$3,249,229. This compares to a working capital deficit of \$2,571,943 as of December 31, 2006. Accrued interest on notes payable was \$1,494,579 compared to accrued interest of \$1,274,371 as December 31, 2006. Accounts payable as of June 30, 2007 were \$737,950 and compares to \$564,875 as compared to December 31, 2006. As a result of our operating losses for the six months ended June 30, 2007, we generated a cash flow deficit of \$1,402,320 from operating activities. Cash flows provided by investing activities was \$134,872 for the six months ended June 30, 2007 primarily from the cash received with the acquisition of Hybrid Lighting Technologies, Inc . Cash flows from financing activities provided \$938,600 from the borrowing on a long term basis of \$977,499, net of repayments of \$47,399 for the six months ended June 30, 2007.

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

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

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

April 2007 Stock Purchase Agreement

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

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

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

May 2007 Stock Purchase Agreement

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

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

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

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

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

June 6, 2007 Stock Purchase Agreement

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

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

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

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

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

June 20, 2007 Stock Purchase Agreement

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

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

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

We will still need additional investments in order to continue operations to cash flow break even. Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant

amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations again.

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

Critical Accounting Policies

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

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

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

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

Non-GAAP Financial Measures

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

Inflation

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

Off-Balance Sheet Arrangements

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

Product Research and Development

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

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

Acquisition or Disposition of Plant and Equipment

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

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ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of June 30, 2007. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

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

In April 2007, we issued 2,500,000 shares to Donald F. Evans, our CEO, in consideration for loans issued. The shares were issued pursuant to an exemption under Section 4(2) of the Securities act of 1933.

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 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.

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

The 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.

Item 3. Defaults Upon Senior Securities.

On July 26, 2007 we entered into an agreement with the noteholders of our convertible debentures whereby all deficiencies and defaults related to the notes were cured in exchange for Warrants to purchase 10,000,000 common shares for \$.01 per share. The Warrants are valid for a 7-year term.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits

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

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

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

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

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SIGNATURES

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

CYBERLUX CORPORATION

Date: August 14, 2007

By: /s/ DONALD F. EVANS

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

Date: August 14, 2007

By: /s/ DAVID D. DOWNING

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