CYBERLUX CORP
Form 10QSB
November 14, 2007

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

(Mark One)

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

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

For the transition period from ____________ to ______________

For the Period Ended September 30, 2007

Commission file number 000-33415

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

Nevada	91-2048978
(State of Incorporation)	(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 x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of November 13, 2007, the Company had 552,142,881shares of its par value $0.001 common stock issued and outstanding.

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

CYBERLUX CORPORATION

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

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CYBERLUX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash & cash equivalents	$ 1,630	$ 395,812
Accounts receivable, net of allowance for doubtful accounts of $13,139 and $23,502, respectively	91,813	177,085
Inventories, net of allowance of $102,660	109,378	197,771
Other current assets	9,689	22,232
Total current assets	212,510	792,900
Property, plant and equipment, net of accumulated depreciation of $158,447 and $141,465, respectively	52,646	58,313
Other assets		
Deposits	23,350	23,350
Patents and development costs, net of accumulated amortization of $688,167 and $293,750, respectively	3,286,807	2,294,224
Total other assets	3,310,157	2,317,574
Total Assets	$ 3,575,313	$ 3,168,787
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	$ 68,348	$ -
Accounts payable	657,804	564,875
Accrued liabilities	2,033,956	1,694,220
Short-term notes payable - related parties	435,064	454,162
Short-term notes payable	67,689	47,399
Short-term convertible notes payable	840,684	604,187
Total current liabilities	4,103,545	3,364,843
Long-term liabilities:		
Notes payable	1,744,585	1,580,621
Derivative liability relating to convertible debentures	72,522,384	8,201,086
Warrant liability relating to convertible debentures	4,328,629	2,954,080
Total long-term liabilities	78,595,598	12,735,787
Total liabilities	82,699,143	16,100,630

Commitments and Contingencies				
Series A convertible preferred stock, $0.001 par value; 200 shares designated, 28.9806 and 38.9806 issued and outstanding as of September 30, 2007 and 2006, respectively		144,900		194,900
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 September 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 September 30, 2007 and December 31, 2006, respectively		150		100
Common stock, $0.001 par value, 700,000,000 shares authorized; 552,142,881and 128,279,157 shares issued and outstanding as of September 30, 2007 and December 31, 2006, respectively		552,143		128,279
Subscription received		-		25,000
Additional paid-in capital		15,281,108		12,186,420
Accumulated deficit		(95,105,781)		(25,467,342)
Deficiency in stockholders' equity		(79,268,731)		(13,126,743)
Total liabilities and (deficiency) in stockholders' equity	$	3,575,313	$	3,168,787

The accompanying notes are an integral part of these financial statements

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CYBERLUX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
REVENUE:	$ 298,459	$ 222,855	$ 521,814	$ 353,081
Cost of goods sold	(227,932)	(178,483)	(402,608)	(253,150)
Gross margin (loss)	70,528	44,372	119,207	99,931
OPERATING EXPENSES:				
Depreciation	5,332	5,024	16,981	18,131
Research and development	42,466	45,760	121,951	160,123
General and administrative expenses	629,606	1,250,174	2,865,387	3,616,899
Total operating expenses	677,404	1,300,958	3,004,319	3,795,153
NET LOSS FROM OPERATIONS	(606,877)	(1,256,586)	(2,885,113)	(3,695,222)
Other income/(expense)	-	-	381,652	-
Debt forgiveness	-	-	-	36,799
Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities	(56,164,992)	(2,723,742)	(65,227,499)	435,515
Interest expense, net	(631,731)	(569,035)	(1,829,729)	(2,047,621)
Debt acquisition costs	(34,381)	(17,072)	(77,751)	(26,551)
Net loss before provision for income taxes	(57,437,981)	(4,566,435)	(69,638,440)	(5,297,080)
Income taxes (benefit)	-	-	-	-
LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (57,437,981)	$ (4,566,435)	$ (69,638,440)	$ (5,297,080)
Weighted average number of common shares outstanding-basic and assuming fully diluted	494,297,678	97,176,885	327,087,037	88,702,751
Loss per share-basic and assuming fully diluted	$ (0.12)	$ (0.05)	$ (0.21)	$ (0.06)
Preferred dividend	$ 24,000	$ 24,000	$ 96,000	$ 96,000

The accompanying notes are an integral part of these financial statements

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

	Nine months ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) available to common stockholders	$ (69,638,440)	$ (5,297,080)
Adjustments to reconcile net income (loss) to cash used in operating activities		
Depreciation	16,981	18,131
Amortization	394,417	-
Fair value of options issued to officers and employees	-	721,500
Common stock issued in connection with services rendered	118,110	1,201,889
Common stock issued in settlement of debt	-	31,655
Preferred stock issued as compensation	370,500	-
Accretion of convertible notes payable	1,408,058	1,208,694
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	65,227,499	(435,515)
Impairment loss on patent	-	-
(Increase) decrease in:		
Accounts receivable	85,272	(165,579)
Inventories	88,393	103,003
Prepaid expenses and other assets	12,543	55,079
Deposits	-	-
Increase (decrease) in:		
Cash overdraft	68,348	-
Accounts payable	92,929	(266,740)
Accrued liabilities	343,689	810,456
Net cash (used in) operating activities	(1,793,351)	(2,014,507)
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	(11,314)	(13,446)
Net cash provided by (used in) investing activities:	138,686	(13,446)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of convertible debentures	1,000,000	1,240,000
Proceeds from exercise of warrants	158,723	-

Net proceeds (payments) from borrowing on long term basis		20,290		399,403
Net proceeds (payments) to notes payable, related parties		81,470		(12,000)
Net cash provided by (used in) financing activities:		1,260,483		1,627,403
Net increase (decrease) in cash and cash equivalents		(394,182)		(400,550)
Cash and cash equivalents at beginning of period		395,812		475,656
Cash and cash equivalents at end of period	$	1,630	$	75,106
Supplemental disclosures:				
Interest Paid	$	-	$	39,349
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		65,227,499		(435,515)
Fair value of options issued to officers and employees		-		721,500
Common stock issued for services rendered		118,110		1,201,889
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
SEPTEMBER 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 nine month periods ended September 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 September 30, 2007, the Company has accumulated losses of $95,105,781.

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

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

Revenue Recognition

Revenues are recognized in the period that products are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At September 30, 2007 and December 31, 2006, 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 September 30, 2007 and December 31, 2006, allowance for doubtful receivable was $13,139 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 September 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
SEPTEMBER 30, 2007
(Unaudited)

Net Income (loss) Per Common Share

The Company computes earnings per share under Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (“SFAS 128”). Net earnings (losses) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the period. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible preferred shares and the exercise of the Company's stock options and warrants (calculated using the treasury stock method). During the three and nine months ended September 30, 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 $394,417 and $-0 for the nine months ended September 30, 2007 and 2006, respectively and $131,472 and $-0- for the three months ended September 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	245,810	2,048,414
Patents	1,387,000	148,607	1,238,393
Total	$ 3,974,974	$ 688,167	$ 3,286,807

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.

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

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES

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

	September 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)	838,184	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)	515,799	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 of the three lowest intraday trading prices for the common stock	409,772	235,251

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)

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

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

	September 30, 2007	December 31, 2006
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)	$ 252,055	$ 127,397
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)	195,891	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)	94,356	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)	155,616	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,	60,274	-0-

conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)		
8% convertible debenture, due May 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) $0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)	20,822	-0-

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

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

	September 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)	$ 16,575	$ -0-
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)	12,603	-0-
8% convertible debenture, due July 2010 with interest payable quarterly during the life of the note. The note is convertible into the Company's common stock at the lower of a) $0.10 or b) 25% of the average of the three lowest intraday trading prices for the common stock on a principal market for twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (See below)	10,822	-0-
	2,585,269	2,184,808
Less: current maturities	(840,684)	(604,187)
Notes payable and convertible debentures-long term portion	$ 1,744,585	$ 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 September 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 September 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.

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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 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 September 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 September 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.

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 September 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 September 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 September 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.

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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 December 20, 2006 for the issuance of $600,0000 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 September 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 September 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.

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 September 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 September 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 September 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 July 30, 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 September 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.

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NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

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 September 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 another comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company’s balance sheet.

- Accreted principal of $2,582,769 and $2,182,308 as of September 30, 2007 and December 31, 2006, respectively.

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

	September 30, 2007	December 31, 2006
Convertible debentures	$ 2,582,769	$ 2,184,808
Warrant liability	2,523,981	2,759,307
Derivative liability	72,522,384	8,201,086
	77,629,134	13,145,201
Cumulative adjustment of derivative and warrant liability to fair value	(67,666,366)	(4,580,393)
Cumulative unrealized loss relating to conversion of convertible notes to common shares charged to interest expense	(1,905,908)	(898,313)
Cumulative accretion of principal related to convertible debentures	(2,582,769)	(2,182,308)
	$ 5,474,091	$ 5,484,187

NOTE C-WARRANT LIABILITY

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

	September 30, 2007	December 31, 2006
Fair value of warrants relating to convertible debentures	$ 2,523,981	$ 2,759,305

Fair value of other outstanding warrants		1,804,648		194,775
Total	$	4,328,629	$	2,954,080

NOTE D - NOTE PAYABLE

Note payable is comprised of the following:

	September 30, 2007		December 31, 2006	
Note payable, 24% interest per annum; due 90 days, secured by specific accounts receivables	$	67,689	$	47,399

As of September 30, 2007, the Company had factored $90,252 of its outstanding accounts recievables in conjunction with above note payable. Payments by customers made directly to the note holder.

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CYBERLUX CORPORATION
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NOTE E - NOTES AND CONVERTIBLE NOTES PAYABLE-RELATED PARTY

Notes payable-related party is comprised of the following:

	September 30, 2007	December 31, 2006
Notes payable, 12% per annum; due on demand; unsecured	$ 185,714	$ 102,245
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
	435,064	454,162
Less: current maturities:	(435,064)	(454,162)
Long term portion:	$ -	$ -

NOTE F -STOCKHOLDER'S EQUITY

<u>Series A - Convertible Preferred stock</u>

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.

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NOTE F -STOCKHOLDER'S EQUITY

Series A - Convertible Preferred stock (continued)

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 September 30, 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.

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 September 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.

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NOTE F -STOCKHOLDER'S EQUITY

Series B - Convertible Preferred stock (continued)

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 September 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 September 30, 2007 $384,000 in dividends were accumulated.

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

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.

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 150,000 shares of Series C Preferred shares issued and outstanding at September 30, 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 ($25.20 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 September 30, 2007 $141,713 in dividends were accumulated.

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NOTE F -STOCKHOLDER'S EQUITY

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 nine months ended September 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.

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

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

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

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

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

NOTE G -STOCK OPTIONS AND WARRANTS

Class A Warrants

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

Exercise Price	Number Outstanding	Warrants Outstanding Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Warrants Exercisable Weighted Average Exercise Price
0.02	50,000,000	4.68	0.02	50,000,000	0.02
0.03	25,000,000	2.63	0.03	25,000,000	0.03
0.10	991,500	1.68	0.10	991,500	0.10
0.25	58,500	1.25	0.25	58,500	0.25
0.50	50,000	1.03	0.50	50,000	0.50
1.05	100,000	1.25	1.05	100,000	1.05
0.0055 (a)	49,760,443	4.65	0.00335 (a)	49,760,443	0.00335 (a)

(a) See terms of warrants issued below

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

NOTE G -STOCK OPTIONS AND WARRANTS (continued)

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)
Outstanding at December 31, 2006	99,895,000	0.09
Granted	150,000,000	0.02
Exercised	(50,239,557)	(0.03)
Canceled or expired	(73,695,000)	(0.07)
Outstanding at September 30, 2007	125,960,443	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 nine months ended September 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 nine months ended September 30, 2007 totaling 50,000,000 were issued in connection with debt financing. The warrants are exercisable until five years after the date of issuance at a purchase price of $0.02 per share.

In the nine months ended September 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.

<u>Employee Stock Options</u>

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:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.2125	2,000,000	6.21	$ 0.2125	2,000,000	$ 0.2125
0.2125	2,000,000	6.62	0.2125	2,000,000	0.2125
0.022	20,500,000	9.12	0.022	20,500,000	0.022
0.0295	4,000,000	7.60	0.0295	4,000,000	0.0295
0.04	14,430,000	8.82	0.04	14,430,000	0.04
0.10	9,502,307	6.51	0.10	9,502,307	0.10

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

NOTE G -STOCK OPTIONS AND WARRANTS (continued)

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 September 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 September 30, 2007and December 31, 2006 , the balance due to the officers was $435,064 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.

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 September 30, 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 September 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 nine months ended September 30, 2007 and 2006, respectively.

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

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

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 September 30, 2007, the Company incurred accumulated losses of $95,105,781. The Company's current liabilities exceeded its current assets by $3,891,035 as of September 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.

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

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

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

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

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

On July 9, 2007, we announced today that we hac received authorization by the United States Army Materiel Command's Logistics Support Activity (LOGSA) for the inclusion of the BrightEye Visible and Covert Portable Illumination System in the United States Army's procurement and logistic system. LOGSA provides procurement system support for all Army, Army Aviation and National Guard supply chain logistics.

In a recent field demonstration at the Army Aviation Support Facility in Latham, New York, the BrightEye System provided covert landing zone lighting for a UH-60 Blackhawk helicopter while the flight crew was operating with Night Vision Goggles (NVGs) during a night vision training exercise. The flight crew reported that the landing zone was well illuminated by a single BrightEye Unit and that the Unit created a 90 degree field of view which greatly aided the flight crew in locating the landing zone and improved their capability during the actual helicopter landing. After this successful landing zone lighting test, Army Aviation Support requested LOGSA authorization for the BrightEye System.

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Since the BrightEye System is a commercially procured item, LOGSA authorization requires and assigns a Nonstandard Line Item Number (NSLIN) and a Management Control Number (MCN) to the BrightEye System for LOGSA system- wide procurement availability. The BrightEye is now available for purchase as:

NSLIN: FE303R
NSLIN Nomenclature: LIGHTING SYSTEM

MCN: 623001C054037
MCN Nomenclature: LIGHTING SYSTEM: 2CP0170 CYBERLUX

Receiving the US Army LOGSA authorization for the BrightEye will make the standard Army procurement process available to all Army, Army Aviation and National Guard customers who are purchasing the BrightEye Systems. This should also improve our ability to provide the BrightEye capability wherever it is needed. With the Blackhawk landing zone lighting performance, the BrightEye System again proves to be a best-in-class, flexible, field-ready covert and visible lighting systems capable of providing general mission lighting, force protection, maintenance lighting, expeditionary base protection, disaster first responders and other rapidly deployable high-intensity lighting applications.

The BrightEye VaC Portable Illumination System is the most advanced portable, battery-powered visible and covert lighting system developed by us to address the portable lighting needs within the United States Armed Forces. The BrightEye System is a light weight, rapidly deployable illumination system that provides 'stadium-type' illumination with an under 5 minute set-up time by a single service person. 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 our GSA Contract GS-07F-9409S and orderable part numbers are 2CP0170 and 2CP0179.

On July 12, 2007, we announced that the patented Keon KeyCap(tm) product has been selected by the nation's largest bank as a promotional marketing product. In support of the marketing program, we had received an order to supply 250,000 branded Keon KeyCap products for use in ongoing marketing programs that support the Bank's Home Equity customers.

The Keon KeyCap is the practical lighting solution for every consumer who carries keys. Each Keon is a flexible elastic LED (Light Emitting Diode) light that fits around a standard key head and emits a bright diodal(tm) beam of light at the touch of one's finger down the key shaft onto the intended keyhole or other targeted surfaces.

The Keon LED light source never requires a light bulb change and results in a product that is maintenance-free and offers long-lasting energy- efficiency that uses 90 percent less energy than traditional incandescent flashlight bulbs.

On July 19, 2007, we reported that we had successfully completed the rapid set-up, stadium-type, long-distance illumination qualification assets of the new BrightEye high-performance solid-state LED lighting system conducted by the National Guard staff at the Center for National Response in West Virginia.

The Center for National Response (CNR) is uniquely suited as a multipurpose exercise facility. This facility is designed to meet a wide range of Weapons of Mass Destruction Consequence Management and Counter Terrorism requirements for the Department of Defense, Federal, State, and Local organizations. The CNR is an operational component of the Joint Interoperability Test Command (JITC), a National Guard training activity operated by the National Guard Bureau and the Adjutant General of West Virginia. The CNR is a flexible Weapons of Mass

Destruction (WMD) training complex that provides multi-scenario exercises for the military or joint operations with military and first responders. The tunnel's physical configuration enhances experience at the individual, unit, and multi- organization/agency level. It serves as a valuable asset in preparing both military and civilian response teams to meet future threats and challenges. The tunnel is ideal for consequence and crisis management emergency response exercises and provides a realistic environment where emergency response teams can readily practice their techniques in mitigating the effects of a WMD incident.

All testing scenarios met or exceeded our expectations for the BrightEye System's capabilities, including operating surface illumination, system battery-power runtime, deployment set-up times and system weight.

The BrightEye VaC Portable Illumination System is designed as a portable visible and infrared night-vision compatible illumination system for first responders, force protection, aircraft maintenance, expeditionary airbase protection, general mission lighting and other portable, high-intensity lighting applications. Contained in an easily deployed wheeled carrying case and using proprietary optics, battery power and advanced solid-state lighting technology, the BrightEye system is capable of eliminating the space-consuming bulk, noise and energy consumption issues associated with the current generator-powered incandescent lighting systems. Moreover, the BrightEye provides both standard white lighting and covert night-vision compatible lighting which is not available in the traditional FL-1D floodlight.

On August 21, 2007, we announced that we had confirmed our previously stated revenue projection for the fiscal year ended December 31. 2007, was on track with expectations. As announced in April, we had since experienced demand within its military, retail and specialty lighting channels that will meet or exceed the projections previously stated.

Our forecast that total consolidated revenue for the fiscal year 2007 will be $3.7 million. We estimate that wet will be cash flow positive when a $3.0 million dollar per year revenue run rate is achieved.

On September 18, 2007,we announced that we had been awarded a supplier agreement from The Boeing Company for lighting equipment in support of the Secure Border Initiative net (SBInet) project. We were awarded the supplier agreement based on our response to the SBInet VICD 605002 request for quote (RFQ) for mobile lighting systems. We quoted the BrightEye Portable Visible and Covert 10 Meter Tower Lighting System for intended use along the Mexican and Canadian borders as an added level of security for Customs and Border Patrol personnel and as an added level of deterrence for potential border violators. As part of The Boeing Company Basic Ordering Agreement, we provided quotes of $25,256 to $31,185 per unit in 100 unit increments from 1-500 units. Under this Agreement, the unit demand for our products is solely determined by The Boeing Company.

On September 26, 2007, the USAF Air Mobility Battlelab, or AMB, recently demonstrated the capabilities of our BrightEye Portable Solid-State LED Lighting System - an AMB initiative.

The BrightEye is an advanced, portable, battery-powered, visible and covert lighting system developed by us to address the rapid deployment lighting needs within the U.S. Armed Forces. Initially considered for expeditionary open-the-airbase lighting, the AMB unveiled the system may also be used for aircraft maintenance, expeditionary airbase force protection, general mission lighting and other high-intensity tactical lighting applications.

According to the AMB mission statement, the AMB continuously seeks and rapidly demonstrates innovative ideas to improve the ability of mobility air forces to execute their core competencies.

For its demonstration periods, the BrightEye was evaluated at both Fort Huachuca, Ariz., and Fort Dix, N.J. Air Mobility Command expeditionary support equipment subject-matter experts participated in several scenarios to showcase BrightEye capabilities.

Master Sgt. Gordon Mossman, from AMC's Expeditionary Mobility Operations Division at Scott Air Force Base, Ill., reported that the system would add very portable long-lasting light and an infrared capability that's not present at this time.

The BrightEye uses solid-state semiconductors which consume 75-percent less energy than incandescent lighting elements and are projected to last for more than 20 years as compared to 750 hours for conventional bulbs. Using rechargeable battery technology could also save an estimated 63 percent in daily portable-lighting operating costs and could also reduce the Air Force's reliance on host nation resources.

Feedback from the field demonstrations show the current portable generator-powered lighting options do not provide the absolute portability required for AMC's evolving expeditionary mission. Their bulky size, noise and energy consumption reduce AMC's ability to efficiently and expeditiously deploy support forces globally in any environment.

Research also showed the Bright Eye is 97-percent smaller and weighs 94- percent less than the current diesel-powered incandescent lighting system. Its small size, weight and added infrared capability can 'enhance AMC's ability to project air and space power' across all spectrums of expeditionary operations by minimizing the support footprint, maximizing the available aircraft cargo floor area and reducing the amount of airlift needed for rapid force projection.

Overall, the Air Mobility Battlelab demonstrated a unique system capable of providing expeditionary forces across all armed services versatile, economical and portable lighting equipment.

Results of Operations

Nine months ended September 30, 2007 compared to the nine months ended September 30, 2006

REVENUES

Revenues for the nine months ended September 30, 2007 were $521,814 as compared to $353,081 for the same period last year. The increase in revenue was attributed to sales of our Keon product to Bank of America in the amount of $181,636.

OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2007 were $3,004,319 as compared to $3,795,153 for the same period ended September 30, 2006. Included in the nine months ended September 30, 2007 were $121,951 in expenses for research & development. This compares to $160,123 for the nine months ended September 30, 2006. We also began the amortization of our recently acquired patents with a $394,417 charge to operations for the nine months ended September 30, 2007 as compared to $-0- for the prior year.

We reported an unrealized loss for the change in fair value or warrants and debt derivatives of $(65,227,499) as compared to a gain of $435,515 for the same period last year. Although the change of $(65,663,014) is unrelated to our operating activities, the decrease in included in our reported net loss.

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

REVENUES

Revenues for the three months ended September 30, 2007 were $298,459 as compared to $222,855 for the same period last year. The increase in revenue was attributed to sales of our Keon product to The Home Depot in the amount of $181,636.

OPERATING EXPENSES

Operating expenses for the three months ended September 30, 2007 were $677,404 as compared to $1,300,958 for the same period ended September 30, 2006. Included in the three months ended September 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 or warrants and debt derivatives of $(56,164,992) as compared to a loss of $(2,723,742) for the same period last year. Although the change of $(53,441,250) is unrelated to our operating activities, the decrease in included in our reported net loss.

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

Liquidity and Capital Resources

As of September 30, 2007, we had a working capital deficit of $3,891,035. This compares to a working capital deficit of $2,571,943 as of December 31, 2006. Accrued interest on notes payable was $1,572,317 compared to accrued interest of $1,274,371 as December 31, 2006. Accounts payable as of September 30, 2007 were $657,804 and compares to $564,875 as compared to December 31, 2006. As a result of our operating losses for the nine months ended September 30, 2007, we generated a cash flow deficit of $1,793,351 from operating activities. Cash flows provided by investing activities was $138,686 for the nine months ended September 30, 2007 primarily from the cash received with the acquisition of Hybrid Lighting Technologies, Inc . Cash flows from financing activities provided $1,260,483 from the borrowing on a long term basis for the nine months ended September 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, 2006, 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 technnology that is based on the recently acquired patent rights from Renssealer Polytechnic Institute and at the University of California Santa Barbara.

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

Acquisition or Disposition of Plant and Equipment

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

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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 September 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 Judical 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 judious manner.

On September 5, 2007, we announced that we had commenced an action against AJW Partners, LLC, AJW Offshore, LTD., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLC, (the "Defendants") in the United States District Court for the Southern District of New York for violations of the anti-fraud provisions of the Securities Act of 1934, fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, breach of implied covenant of good faith and fair dealing and conversion. The complaint alleges that the Defendants utilized an illegal trading scheme involving deceptive secured loan financings to convert shares of Company's common stock for the Defendants' own use and benefit. The trading scheme involved the Defendants manipulating the Company's stock price downward by short sales. In addition the complaint seeks declaratory, injunctive and monetary relief.

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

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

In July 2007, we issued 90,328,573 shares of its common stock on conversion of $101,827 of convertible notes by four accredited invvestors..

In August 2007, we issued 11,568,802 shares of its common stock on conversion of $10,412 of convertible notes by four accredited investors..

On September 12, 2007, we issued 26,650,000 shares of its common stock to our employees pursuant to an Incentive Stock Grant Plan.

Item 3. Defaults Upon Senior Securities.

On August 21, 2007, we received a Notice of Default from AJW Partners, LLC, New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC and AJW Offshore, LTD. (collectively, the "Investors"), claiming that we were purportedly in default of certain obligations under our notes issued to the Investors due to our to honor any further conversion of notes to common stock. We expected to receive the Notice of Default, and were engaged in negotiations with the Investors to resolve the matter. As such, we contemplate that either the Investors or we will initiate litigation if these negotiations do not produce a resolution.

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

None.

Item 5. Other Information.

Subsequent Event.

In anticipation of the expense of expanded production, Cyberlux Corporation (the “Company”) entered into a financial transaction with Deutsche Bank AG to purchase 50 million stock purchase warrants for Cyberlux common stock. The 50 million warrants were purchased by Deutsche Bank from Cyberlux for $600,000. Pursuant to the agreement between the parties, Deutsche Bank can exercise the warrants over a five year period at a discount from market based upon a twenty day average closing price of the stock.

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)

SIGNATURES

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

CYBERLUX CORPORATION

Date: November 13, 2007

By: /s/ DONALD F. EVANS

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

Date: November 13, 2007

By: /s/ DAVID D. DOWNING

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