CYBERLUX CORP
Form 10QSB
August 14, 2006

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

FORM 10-QSB

(Mark One)

|X| Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2006

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

For the transition period from ____________ to ______________

For the Period Ended June 30, 2006
Commission file number 000-33415

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

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

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

(Address of Principal Executive Offices)

(919) 474-9700

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 |_|

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

Yes |_| No |X|

As of August 9, 2006, the Company had 96,866,844 shares of its par value $0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes |_| No |X|

CYBERLUX CORPORATION

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending June 30, 2006

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Item 1. Financial Statements

CYBERLUX CORPORATION
CONDENSED BALANCE SHEETS

(Unaudi
June
200

ASSETS	
Current assets:	
Cash & cash equivalents	$ 17
Accounts receivable, net of allowance for doubtful accounts of $ -0-	1
Inventories, net of allowance of $111,052 and $110,821, respectively	18
Other current assets	3
Total current assets	40
Property, plant and equipment, net of accumulated depreciation of $131,212 and $118,105, respectively	5
Total Assets	$ 46
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 48
Accrued liabilities	1,46
Short-term notes payable - related parties	40
Short-term notes payable	76
Total current liabilities	3,11
Long-term liabilities:	
Notes payable	1,31
Derivative liability relating to convertible debentures	4,32
Warrant liability relating to convertible debentures	3,17
Total long-term liabilities	8,81
Total liabilities	11,93
Commitments and Contingencies	
Series A convertible preferred stock, $0.001 par value; 200 shares designated, 51.4806 and 59.8606 issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	25
DEFICIENCY IN STOCKHOLDERS' EQUITY	
Class B convertible preferred stock, $0.001 par value, 800,000 shares designated; 800,000 shares issued and outstanding for June 30, 2006 and December 31, 2005	
Common stock, $0.001 par value, 300,000,000 shares authorized; 96,775,237 and 75,608,334 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	9
Subscription receivable	(33
Additional paid-in capital	7,93
Accumulated deficit	(19,42
Deficiency in stockholders' equity	(11,72
Total liabilities and (deficiency) in stockholders' equity	$ 46

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

CYBERLUX CORPORATION

CONDENSED STATEMENTS OF OPERATIONS

	Unaudited Three months ended June 30,		Six month
	2006	2005	2006
		As restated-Note K	
REVENUE:	$ 83,026	$ 200	$ 130,226
Cost of goods sold	(20,980)	(23,117)	(74,667)
Gross margin (loss)	62,046	(22,917)	55,559
OPERATING EXPENSES:			
Marketing and advertising	69,387	116,349	117,215
Impairment Loss	--	--	--
Depreciation and amortization	5,842	4,886	13,107
Research and development	75,537	100,884	114,363
General and administrative expenses	949,609	468,356	2,249,510
Total operating expenses	1,100,375	690,475	2,494,195
NET LOSS FROM OPERATIONS	(1,038,329)	(713,392)	(2,438,636)
Other income/(expense):			
Unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities	836,071	(15,919,769)	3,159,257
Interest income	38	--	38
Debt forgiveness	36,799	--	36,799
Interest expense	(740,494)	(479,780)	(1,478,624)
Debt acquisition costs	(2,992)	--	(9,479)
Net loss before provision for income taxes	(908,906)	(17,112,941)	(730,644)
Income taxes (benefit)	--	--	--
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (908,906)	$(17,112,941)	$ (730,644)
Weighted average number of common shares outstanding	88,460,138	41,216,067	84,395,457
Net income/(loss) per share - basic and fully diluted	$ (0.01)	$ (0.42)	$ (0.01)
Preferred dividend	$ 24,000	$ 24,000	$ 24,000

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

CYBERLUX, INC
CONDENSED STATEMENTS OF CASH FLOW
Unaudited

	Six months ende	
	2006	
		Restat
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) available to common stockholders	$ (730,644)	$(1
Adjustments to reconcile net income (loss) to cash used in operating activities		
Depreciation	13,107	
Warrants issued in connection with services rendered	--	
Common stock issued in connection with services rendered	1,169,289	
Common stock issued in settlement of debt-related expense	31,655	
Accretion of convertible notes payable	770,605	
Unrealized (gain) loss on adjustment of derivative and warrant liability to fair value of underlying securities	(3,159,257)	1
Impairment loss on patent	--	
(Increase) decrease in:		
Accounts receivable	(7,542)	
Inventories	157,497	
Prepaid expenses and other assets	43,962	
Increase (decrease) in:		
Accounts payable	(176,516)	
Accrued liabilities	680,744	
Net cash (used in) operating activities	(1,207,099)	(
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(9,078)	
Net cash used in investing activities:	(9,078)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of convertible debenture	460,000	
Net proceeds from borrowing on long term basis	414,402	
Net proceeds (payments) to notes payable, related parties	38,000	
Net cash provided by (used in) financing activities:	912,402	
Net increase (decrease) in cash and cash equivalents	(303,775)	
Cash and cash equivalents at beginning of period	475,656	
Cash and cash equivalents at end of period	$ 171,881	$
Supplemental disclosures:		
Interest Paid	$ 29,280	$
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	$(3,159,257)	$ 1
Common stock issued for services rendered	$ 1,169,289	$
Common stock issued in settlement of debt	$ 31,655	$

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

CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three and six month periods ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. The unaudited condensed financial statements should be read in conjunction with the December 31, 2005 financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2005.

Business and Basis of Presentation

Cyberlux Corporation (the "Company") is incorporated on May 17, 2000 under the laws of the State of Nevada. Until December 31, 2004, the Company was a development state enterprise as defined under Statement on Financial Accounting Standards No.7, Development Stage Enterprises ("SFAS No.7"). The Company develops, manufactures and markets long-term portable lighting products for commercial and industrial users. While the Company has generated revenues from its sale of products, the Company has incurred expenses, and sustained losses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. As of June 30, 2006, the Company has accumulated losses of $19,422,585.

Revenue Recognition

Revenues are recognized in the period that services are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At June 30, 2006 and December 31, 2005, the Company did not have any deferred revenue.

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

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CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Reclassification

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

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At June 30, 2006 and December 31, 2005, allowance for doubtful receivable was $0.

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, 2005, the Company granted stock options over the years to employees of the Company under a non-qualified employee stock option plan. As of December 31, 2005, 33,580,000 stock options were outstanding and exercisable. The Company did not grant any stock options to employees during the six months ended June 30, 2006. The Company did not recognize compensation expense related to employees' stock options in the six months ended June 30, 2006. The impact on earnings for the remainder of Fiscal 2006 for stock based compensation will depend on future stock option issuances.

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 FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Stock-Based Compensation (continued)

Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and loss per share would be as follows:

	For the six months ended June 30, 2005-As restated-Note K
Net loss attributable to common stockholders -as reported	$(19,887,067)
Add. Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	--
Deduct Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	(478,800)
Net loss -Pro Forma	$(20,365,867)
Net loss attributable to common stockholders - Pro forma	$(20,365,867)
Basic (and assuming dilution) loss per share -as reported	$ (0.57)
Basic (and assuming dilution) loss per share - Pro forma	$ (0.59)

In determining the compensation cost of stock options granted to employees during the six months ended June 30, 2005, as specified by SFAS No. 123, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model and the weighted average assumptions used in these calculations are summarized as follows:

	Six Months Ended June 30, 2005
Risk-free interest rate	2%

Expected life of options Granted	6 yrs
Expected Volatility	250%
Expected dividend yield	0%

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

Patents

During the year ended December 31, 2005, the Company management preformed an evaluation of its intangble assets (Patents) for purposes of determining the implied fair value of the assets at December 31, 2005. The test indicated that the recorded remaining book value of its patens exceeded its fair value, as determined by discounted cash flows. As a result, upon completion of the assessment, management recorded a non-cash impairment charge of $30,544, net of tax, or $0.00 per share during the six month period ended June 30, 2005 to reduce the carrying value of the patents to $0. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

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CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (continued)

Recent pronouncements

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company adopted this interpretation from January 1, 2006. The adoption of this Interpretation did not have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company adopted of this SFAS with its restatements included within.

On February 16, 2006 the Financial Accounting Standards Board (FASB) issued SFAS 155, "Accounting for Certain Hybrid Instruments," which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its 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 Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

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CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES

Notes payable at June 30, 2006 and December 31, 2005 are as follows:

	June 30, 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
10% convertible notes payable, unsecured and due March, 2003; accrued and unpaid interest due at maturity; Note holder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $0.50 per share.	--
10% note payable, unsecured and due on demand, accrued and unpaid interest due when paid	15,000
4.99% note payable, unsecured and due March 2009, accrued and unpaid interest due at maturity. Shareholders secured debt with shares of Company's common stock	152,400
4.99% note payable, unsecured and due June 2009, accrued and unpaid interest due at maturity. Shareholders secured debt with shares of Company's common stock	103,403

4.99% note payable, unsecured and due June 2009, accrued and unpaid interest due at maturity. Shareholders secured debt with shares of Company's common stock	168,600
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) 50% 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)	746,618

CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

	June 30, 2006
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) 50% 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)	547,763
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) 50% 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)	181,918
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) 35% 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)	117,625
8% convertible debenture, due March 2009e 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) 55% 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)	43,379
	2,079,206
Less: current maturities	(764,118)
Notes payable and convertible debentures-long term portion	$1,315,088

CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE B - NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

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.

As of June 30, 2006, 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.

This 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 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 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.

As of June 30, 2006, 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.

This 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 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 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% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before, but not including, conversion date.

As of June 30, 2006, 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.

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CYBERLUX CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

NOTE B-NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

This 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 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 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.

As of June 30, 2006, 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.

This 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 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 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.

As of June 30, 2006, 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.

NOTE B-NOTES PAYABLE AND CONVERTIBLE DEBENTURES (continued)

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 in the intrinsic value of the embedded derivative in the conversion feature of the convertible debentures are accrued as adjustments to the liabilities at June 30, 2006 and December 31, 2005, respectively.

- The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives (noted above) is included as an other comprehensive income item of an unrealized gain or loss arising from convertible financing on the Company's balance sheet.

- Accreted principal of $1,637,303 and $866,701 as of June 30, 2006 and December 31, 2005, respectively.

The following table summarizes the various components of the convertible debentures as of June 30,, 2006 and December 31, 2005:

	June 30, 2006	De
Convertible debentures	$ 2,079,206	
Warrant liability	2,432,970	
Derivative liability	4,329,728	
	8,841,904	
Cumulative adjustment of derivative and warrant liability to fair value	(1,762,698)	
Cumulative unrealized loss relating to conversion of convertible notes to common shares charged to interest expense	(597,194)	
Cumulative accretion of principal related to convertible debentures	(1,637,303)	
	$ 4,844,709	

NOTE C-WARRANT LIABILITY

Total warrant liability as of June 30, 2006 and December 31, 2005 are comprised of the following:

	June 30, 2006	De
Fair value of warrants relating to convertible debentures	$2,432,970	
Fair value of warrants relating to preferred stock-class A	398,797	
Fair value of other outstanding warrants	340,723	
Total	$3,172,490	

NOTE D -STOCKHOLDER'S EQUITY

Series A - Convertible Preferred stock

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

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

The Series A Preferred stated conversion price of $.10 per shares is subject to certain anti-dilution provisions in the event the Company issues shares of its common stock or common stock equivalents below the stated conversion price. Changes to the conversion price are charged to operations and included in

unrealized gain (loss) relating to adjustment of derivative and warrant liability to fair value of underlying securities.

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

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

As of 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.

As of 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.

As of June 30, 2006, 3 of the Series A Preferred shareholders exercised the conversion right and exchanged 8 shares of Series A Preferred for 419,032 shares of the Company's common stock

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

The holders of record of the Series A Preferred shall be entitled to receive cumulative dividends at the rate of twelve percent per annum (12%) on the face value ($5,000 per share) when, if and as declared by the Board of Directors, if ever. All dividends, when paid, shall be payable in cash, or at the option of the Company, in shares of the Company's common stock. Dividends on shares of the Series A Preferred that have not been redeemed shall be payable quarterly in arrears, when, if and as declared by the Board of Directors, if ever, on a semi-annual basis. No dividend or distribution other than a dividend or distribution paid in Common Stock or in any other junior stock shall be declared or paid or set aside for payment on the Common Stock or on any other junior stock unless full cumulative dividends on all outstanding shares of the Series A Preferred shall have been declared and paid. These dividends are not recorded until declared by the Company. As of the period ended June 30, 2006, $0 in dividends were accumulated.

NOTE D -STOCKHOLDER'S EQUITY

Series A - Convertible Preferred stock (continued)

Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after payment of any senior liquidation preferences of any series of Preferred Stock and before any distribution or payment is made with respect to any Common Stock, holders of each share of the Series 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.

The Company is 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:

o Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula, are accrued as adjustments to the liabilities at June 30, 2006 and December 31, 2005, respectively.

o The expense relatinhg to the increase 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.

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NOTE D -STOCKHOLDER'S EQUITY

Series A - Convertible Preferred stock (continued)

The fair value of the detachable warrants as of June 30, 2006 and December 31, 2005 were as follows:

	June 30, 2006	December 31, 2005
Fair value of warrants relating to issuance of convertible preferred stock:	$398,797	$1,147,334

The Company recorded an Unrealized Gain (Loss) on the change in fair value of these detachable warrants of $748,537 and $(452,242) for the six months ended June 30, 2006 and 2005, 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.

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. 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 800,000 shares of Series B Preferred shares issued and outstanding at June 30, 2006 and December 31, 2005.

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 period ended June 30, 2006 $ 240,000 in dividends were accumulated.

NOTE D -STOCKHOLDER'S EQUITY

Series B - Convertible Preferred stock (continued)

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

Common stock

The Company has authorized 300,000,000 shares of common stock, with a par value of $.001 per share. As of June 30, 2006 and December 31, 2005, the Company has 96,775,237 and 75,608,334 shares issued and outstanding, respectively.

During the six months ended June 30, 2006, holders converted 8.3 shares of preferred stock - Class A into 419,032 shares of common stock. Each share of preferred stock is convertible into 50,000 shares of common stock.

In January, 2006, the Company issued 3,000,000 shares of its common stock at $0.084 per share in exchange for services.

In January, 2006, the Company issued 100,000 shares of its common stock at $0.113 per share in exchange for services.

In February, 2006, the Company issued 10,000 shares of its common stock at $0.095 per share in exchange for services.

In February, 2006, the Company issued 1,500,000 shares of its common stock at $0.092 per share in exchange for services.

In February, 2006, the Company issued 791,369 shares of its common stock at $0.04 per share on conversion of notes payable.

In March, 2006, the Company issued 4,000,000 shares in conjunction with the exercise of employee stock options at $0.09 per share.

In April 2006, the Company issued 492,752 shares of its common stock at $0.073 per share in exchange for services.

In May 2006, the Company issued 2,772,206 shares in conjunction with the exercise of employee stock options at $0.081 per share

In May 2006, the Company issued 600,000 shares of its common stock at $0.08 per share in exchange for services.

In June 2006, the Company issued 1,481,484 shares of its common stock at $0.08 per share in exchange for services.

In June 2006, the Company issued 6,000,000 shares in conjunction with the exercise of employee stock options at $0.056 per share.

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NOTE E-STOCK OPTIONS AND WARRANTS

Class A Warrants

The following table summarizes the changes in warrants outstanding and related prices for the shares of the Company's common stock issued to shareholders at June 30, 2006:

		Warrants Outstanding			Warrants Ex
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Weigh Avera Exercise
$0.01	100,000	2.50	$0.01	100,000	$0.
0.03	26,500,000	3.92	0.03	26,500,000	0.
0.10	20,641,500	6.42	0.10	20,641,500	0.
0.20	1,845,000	1.25	0.20	1,845,000	0.
0.25	10,301,564	0.72	0.25	10,301,564	0.
0.50	2,300,000	2.90	0.50	2,600,000	0.
1.05	10,193,064	.72	1.05	10,193,064	1.

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

	Number of Shares	Weighted Average Price Per Share

Outstanding at December 31, 2004	21,931,128	$ 0.90
Granted	26,500,000	0.03
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2005	48,431,128	0.42
Granted	23,750,000	0.17
Exercised	--	--
Canceled or expired	(300,000)	(0.50)
Outstanding at June 30, 2006	71,881,128	0.34

Warrants granted during the period ended December 31, 2005 totaling 26,499,500 were issued in connection with debt financing. The warrants are exercisable until five years after the date of issuance at a purchase price of $0.03 per share on 25,000,000 warrants, $0.10 per share on 800,000 warrants and $0.15 per share on 699,500 warrants.

For the six months ended June 30, 2006, warrants totally 19,000,000 were issued in connection with debt financing. The warrants are exercisable until seven years after date of issuance at a purchase price of $0.10 per share. The warrants have a reset provision should the Company issue shares below $0.10 per share excluding conversion of related debt.

For the six months ended June 30, 2006, following warrants were issued in connection with services rendered:

Number of warrants	purchase price per share:	Term (years)
1,550,000	$0.10	2.75
1,550,000	$0.25	2.75
1,550,000	$1.05	2.75
100,000	$0.01	2.75

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NOTE E-STOCK OPTIONS AND WARRANTS (continued)

Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan at June 30, 2006:

	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	7.46	$0.2125	2,000,000	$0.2125
0.2125	2,000,000	7.87	0.2125	2,000,000	0.2125
0.10	9,502,307	8.54	0.10	9,502,307	0.10
0.0295	4,000,000	9.1	0.0295	4,000,000	0.0295

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2004:	16,000,000	$0.2125
Granted	18,000,000	0.058
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2005:	34,000,000	$ 0.076
Granted	--	--
Exercised	(16,497,693)	0.037
Canceled or expired	--	--
Outstanding at June 30, 2006:	17,502,307	$0.1367

During the six months r ended June 30, 2006, the Board of Directors voted to exercise 16,497,693 of their options cashlessly to provide 8,772,206 share of the Company's common stock to be used as collateral in support of short-term financing.

The weighted-average fair value of stock options granted to employees during the year ended December 31, 2005 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

For the year ended December 31,2005:

Significant assumptions (weighted-average):	
Risk-free interest rate at grant date	2%
Expected stock price volatility	255%
Expected dividend payout	--
Expected option life-years (a)	7

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

NOTE F -RELATED PARTY TRANSACTIONS

From time to time, the Company's principal officers have advanced funds to the Company for working capital purposes in the form of unsecured promissory notes, accruing interest at 12% per annum. As of June 30, 2006 and December 31, 2005 , the balance due to the officers was $404,595 and $366,595, respectively.

NOTE G -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 December 31, 2005, schedule of the future minimum lease payments is as follows:

2006	$43,127
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. Listed below is a brief description of pending litigation:

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

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

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NOTE G -COMMITMENTS AND CONTINGENCIES

Litigation (continued)

On January 26, 2006, the parties signed a Mutual Release and Settlement Agreement and Stipulation for Dismissal with Prejudice. Under the terms of the Mutual Release and Settlement, the Company paid Zykronix $50,000 and Zykronix returned our prototypes and design files.

On February 6, 2006 the Court entered an Order for Dismissal with Prejudice, with Reservation of Limited Jurisdiction for the purpose of enforcing the Mutual Release and Settlement Agreement. The terms of the Mutual Release and Settlement Agreement have been met to the satisfaction of both parties.

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

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

NOTE H- LOSS PER SHARE

The following table presents the computation of basic and diluted (loss) income per share:

	For the six months ended June 30,	
	2006	2005- As restated-Note K
Net (loss) available to common stockholders	$ (730,644)	$(19,887,067)
Basic and diluted (loss) per share	(0.01)	(0.57)
Weighted average common shares outstanding	84,395,457	34,604,651

As of June 30,2006 and 2005, 207,021,887 and 230,583,333 potential shares were excluded from the shares used to calculate loss per share as their inclusion would reduce net loss per share.

NOTE I - BUSINESS CONCENTRATION

Sales to 3 major customers approximated $20,746 or 25% of total sales for the three months ended June 30,, 2006.

Purchases from the Company's 2 major suppliers accounted for 100% of total purchases for the three months ended June 30, 2006.

NOTE J- GOING CONCERN MATTERS

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, as of June 30, 2006, the Company incurred accumulated losses of $19,422,585. The Company's current liabilities exceeded its current assets by $2,705,159 as of June 30, 2006. These factors among others may indicate that the

Company will be unable to continue as a going concern for a reasonable period of time.

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

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

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

NOTE K-RESTATEMENT

During 2005, it was determined the correct application of accounting principles had not been applied in the 2004 and 2003 accounting for convertible debentures and detachable warrants (See note B above).

The original accounting for the debentures and detachable warrants, the Company recognized an imbedded beneficial conversion feature present in the convertible note and allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. Accordingly, the proceeds attributed to the common stock, convertible debt and warrants have been restated to reflect the relative fair value method.

The accounting principles on the aforementioned transactions are currently reflected in the accompanying June 30, 2006 financial statements in accordance with SFAS 154. The necessary corrections to apply the impact to the previously issued June 30, 2005 financial statements are as follows:

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NOTE K-RESTATEMENT (continued)

For the six months ended June 30, 2005:

	June 30, 2005 financial statement balance prior to restatement	June 30, 2005 financial statement post restatement	Amount incr (decrease) i 30, 2005 fin statemen
Net (loss)	$(1,357,255)	$(19,887,067)	$(18,5

Loss per share-basic and fully diluted	$ (0.04)	$ (0.57)	$

For the three months ended June 30, 2005:

	June 30, 2005 financial statement balance prior to restatement	June 30, 2005 financial statement post restatement	Amount incr (decrease) i 30, 2005 fin statemen
Net (loss)	$(933,596)	$(17,112,941)	$(16,1
Loss per share-basic and fully diluted	$ (0.02)	$ (0.42)	$

The resulting effects on the prior period adjustments on the June 30, 2005 cash flows by area are as follows:

	June 30, 2005 cash flow statement balance prior to restatement	June 30,, 2005 cash flow statement post restatement	Amount (decrease) 2005 cash fl
Net cash from operating activities	$(1,310,382)	$(1,310,382)	
Net cash from investing activities	(30,856)	(30,856)	
Net cash from financing activities	1,067,515	1,067,515	

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

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

On June 1, 2006, we announced that we had entered into an agreement with Kitchen Distributors of America (KDA) to showcase our Aeon products in all 11 of its stores. Nine stores are in Chicago and two are in Philadelphia. We also have a distribution agreement with KDA for the Aeon ProHB.

The Aeon ProHB offers the latest in solid state lighting solutions that significantly increase performance and greatly improve lighting applications. The Aeon ProHB gives a higher quality of light - up to 560 Lux, without producing heat. The Aeon products are energy efficient, generate virtually no heat, and are maintenance-free with an industry-leading light-life guarantee of up to 15 years depending on the model purchased. The Aeon next generation LED lighting technology, based on solid-state semiconductors instead of conventional light bulbs, is an alternative to the current halogen and fluorescent lighting and provides solutions for the residential and commercial market lighting needs, including closets, cabinet interiors and under-cabinet lighting for kitchen counters. In addition, certain Aeon products meet or exceed the energy and color requirements of the EnergyStar Residential Lighting Fixture (RLF) program, although EnergyStar currently does not have a program for LED lighting. California's Title 24 energy efficiency requirements of greater than 40 lumens per watt are also satisfied by Cyberlux's Aeon Pro E product which offers a superior alternative to fluorescent task and accent lighting.

On June 12, 2006, we announced that we had entered into an agreement with Kitchen & Bath Galleriesto to showcase our Aeon Pro LED lighting products. Kitchen & Bath Galleries has seven locations in North Carolina and South Carolina.

On June 19, 2006, we announced that we had signed a strategic alliance agreement with UTEK Corporation, a specialty finance company focused on technology transfer. The goal of the strategic alliance with UTEK is to further expand unique intellectual property and technology portfolio. UTEK will utilize its relationships among universities and government laboratories to identify and review solid-state lighting technologies for us.

On June 28, 2006, we announced today that we had received the next field use system order for our WatchDog Portable Covert Illumination System from the United States Air Force (USAF). Additionally, as part of the procurement process, the USAF Air Mobility Battlelab conducted a Best Value Determination/Sole Source study that evaluated the WatchDog system against any other available General Services Administration (GSA) contract-approved product and determined that the WatchDog system is one-of-a-kind in its capabilities and the only product that meets or exceeds the Battlelab's portable covert illumination system requirements. The field order for the WatchDog system, which costs $15,112 on the GSA contract, was placed by the Air Mobility Battlelab for field deployment and use with the various USAF Commands.

The Watchdog advanced solid-state LED security lighting system was developed by us in conjunction with the Air Mobility Battlelab for the United States Air Force. The WatchDog provides security lighting for an exterior boundary of 300 x 300 feet with either visible light or covert infrared light that is compatible with night-vision goggles (NVGs). It was designed to protect military assets on the ground, such as an airplane, by creating a 'lightless' zone around the asset while illuminating the surrounding protection boundary. In covert illumination mode, the system increases the visibility of NVGs by almost 4-fold. The BrightEye Portable Visible Illumination System is a high-powered visible lighting system that provides over 600 feet of perimeter security lighting and is a portable solution for high intensity lighting applications.

We were originally selected in a competitive review process that included 25 proposals from other companies to develop a lightweight, portable lighting system for the USAF Air Mobility Battlelab for both visible lighting and infrared lighting. We were selected during the USAF competitive review process to develop the WatchDog Portable Covert Illumination System. The system weighs less than 50 pounds, including batteries, can be quickly deployed, and with highly efficient LED technology, the system can provide lighting for several days with a single battery charge.

In May 2006, we gained approval from the GSA as a primary contractor for our advanced solid-state lighting systems under Federal Supply Schedule 56 for Specialty Lighting products. Under the terms of the Federal Supply Schedule (FSS) contract, we can sell our advanced solid-state light-emitting diode (LED) lighting systems to all government organizations including the various branches of the military, the National Guard and the Department of Homeland Security organizations.

On June 29, 2006, we announced that we had recently appeared on leading electronic retailer QVC to offer the EverOn Multi-Purpose Emergency Light. The EverOn uses the latest solid-state lighting technology that provides more than 60 hours of light using four AA batteries and is 90 percent more energy efficient than conventional incandescent flashlights. During a blackout, EverOn provides more light and is much safer than a candle.

The EverOn is packaged in our patented and field-proven hand- held elliptical parabolic reflector product design, providing a practical, portable emergency lighting solution for every consumer who has experienced the unease and inconvenience of power outages caused by natural or man-made disasters. Designed originally to provide homeowners with portable, long- lasting, emergency lighting during the hurricane season, the new EverOn is a sturdy, virtually indestructible lighting product that provides over 60 hours of comfortable room-filling light on the medium setting and over 30 hours of bright white light on the highest setting, all in a 7-inch by 3.5-inch by 2.4- inch package.

The EverOn product builds on the demonstrated success of the original Home Safety Light, which was launched successfully on QVC in October 2003. The EverOn

is over 40 percent more efficient and 30 percent brighter than our original Home Safety Light product.

The EverOn contains six bright white and four amber diodal(TM) lighting elements that never require replacement. The EverOn has three light settings, including a low, night-light level; a medium, room-filling light level; and a high, spotlight level. In recent bench tests by Independent Testing Laboratories, Inc., the EverOn Multi-Purpose Light was shown to operate for over 60 hours at the medium setting and over 30 hours at high setting using one set of four AA batteries.

The EverOn builds on our patent for lighting systems capable of generating long-term interim lighting, including the lighting device and associated methods for providing emergency or temporary lighting. Specifically, the patent addresses an electrochemical lighting system capable of providing prolonged illumination with the use of light emitting diodes (LEDs) as the illumination source. The patent embodies lighting devices capable of providing long-term interim lighting via an array of LEDs, the means for providing electrical energy to the LED array, the capability of multi-level light intensity consistent with light longevity and power source relationships including conventional A/C, solar, various electrochemical assemblies or all other means of electrical energy support.

Results of Operations

Six months ended June 30, 2006 compared to the six months ended June 30, 2005

REVENUES

Revenues for the six months ended June 30, 2006 were $130,226 as compared to $13,768 for the same period ended June 30, 2005.

OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2006 were $2,494,195 as compared to $1,126,207 for the same period ended June 30, 2005. Included in the six months ended June 30, 2006 are $117,215 in expenses for market development and literature. This compares to $137,672 for the six months ended June 30, 2005. Additionally, we incurred non cash expenses relating to the exercise of options and payments for services rendered totaling $ 1,169,289 for the six month period ended June 30, 2006 as compared with $29,000 for same period in 2005.

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 conserve its 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.

Three months ended June 30, 2006 compared to the three months ended June 30, 2005

REVENUES

Revenues for the three months ended June 30, 2006 were $83,027 as compared to $200 for the same period ended June 30, 2005.

OPERATING EXPENSES

Operating expenses for the three months ended June 30, 2006 were $1,100,375 as compared to $690,475 for the same period ended June 30, 2005. Included in the three months ended June 30, 2006 are $75,536 in expenses for market development and literature. This compares to $103,633 for the three months ended June 30, 2005. Additionally, we incurred non cash expenses relating to the exercise of options and payments for services rendered totaling $407,038 for the three month period ended June 30, 2006 as compared with $29,000 for same period in 2005.

Liquidity and Capital Resources

As of June 30, 2006, we had a working capital deficit of $2,705,159. As a result of our operating losses for the six months ended June 30, 2006, we generated a cash flow deficit of $1,207,099 from operating activities. Cash flows used in investing activities was $9,078 during the six month period through June 30, 2006. We met our cash requirements during this period through the issuance of convertible debentures of $460,000 $414,402 from the issuance of notes payable and advances of $38,000, net of repayments, to our officers and shareholders and advances.

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, 2005, Form 10-KSB, as amended, that we have incurred operating losses in the last two years, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with four accredited investors on July 27, 2006, for the sale of (i) $500,000 in secured convertible notes, and (ii) warrants to purchase 15,000,000 shares of our common stock. The investors purchased all of the secured convertible notes on July 27, 2006.

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

The secured convertible notes bear interest at 6%, mature three years from

the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) $0.10 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes 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 $0.06 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.

On May 19, 2006, we entered into a financing agreement with Smarthedge, LLC whereby our Directors pledged 2,772, 206 shares of their personal common stock as collateral for a loan in the amount of $103,403. The loan carries an interest rate of 4.99% payable quarterly and has a maturity of June, 2009.

On June 20, 2006, we entered into a financing agreement with Smarthedge, LLC whereby our Directors pledged 6,000,000 shares of their personal common stock as collateral for a loan in the amount of $168,600. The loan carries an interest rate of 4.99% payable quarterly and has a maturity of June, 2009.

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

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

Critical Accounting Policies

On February 16, 2006 the Financial Accounting Standards Board (FASB) issued SFAS 155, "Accounting for Certain Hybrid Instruments," which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein materially represents all of the financial information related to the Company's principal operating segment.

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

In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific

effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

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 portable boundary lighting system, Aeon cabinet lighting and RelyOn Power Light Plant during the next twelve months.

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

Acquisition or Disposition of Plant and Equipment

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

RISK FACTORS

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

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

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

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

We incurred net losses of $9,410,657 and $3,103,049 for the years ended December 31, 2005 and 2004, respectively. For the six months ended June 30, 2006, we incurred a net loss of $730,644. As of June 30, 2006, we had an accumulated deficit of $19,422,585. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

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

We will require additional funds to sustain and expand our sales and marketing activities. We anticipate that we will require up to approximately $4 million to fund our continued operations for the next twelve months, depending on revenue from operations. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

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

In their report dated March 16, 2006, our independent auditors stated that our financial statements for the year ended December 31, 2005 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of losses for the year ended December 31, 2005 in the amount of $9,410,657. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such

methods will prove successful.

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

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

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

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

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

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

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

We have issued 800,000 shares of Series B Convertible Preferred Stock to our officers and directors which are convertible into 8 million shares of common stock and, in the aggregate, have the right to cast 80 million votes in any vote by our shareholders. Combined with the number of shares of common stock held by our officers and directors, they have the right to cast approximately 50% of all votes by our shareholders. As a result, these stockholders, acting together,

will have the ability to control substantially all matters submitted to our stockholders for approval, including:

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

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

Risks Relating to Our Current Financing Arrangement:

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

As of August 9, 2006, we had 96,866,844 shares of common stock issued and outstanding, secured convertible notes outstanding pursuant to our securities purchase agreements dated September 23, 2004, April 22, 2005, October 24, 2005, December 28, 2005, March 23, 2006 and July 24, 2006 that may be converted into an estimated 45,140,295, 75,000,000, 40,000,000, 50,000,000, 35,714,286 and 25,000,000 shares of common stock at current market prices, respectively, and outstanding warrants pursuant to our securities purchase agreements dated September 23, 2004, April 22, 2005, October 24, 2005, December 28, 2005, March 23, 2006 and July 24, 2006, to purchase 2,250,000, 25,000,000, 800,000, 700,000, 19,000,000 and 15,000,000 shares of common stock, respectively. In addition, the number of shares of common stock issuable upon conversion of the outstanding secured convertible notes issued pursuant to the securities purchase agreements dated September 23, 2004, April 22, 2005, October 24, 2005, December 28, 2005, March 23, 2006 and July 24, 2006 may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the secured convertible notes and upon exercise of our warrants, may be sold without restriction when registered. The sale of these shares may adversely affect the market price of our common stock.

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

Our obligation to issue shares upon conversion of our secured convertible notes is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our secured convertible notes (excluding accrued interest), based on market prices 25%, 50%

and 75% below the market price, as of August 11, 2006 of $0.06.

September 2004, April 2005, October 2005 and July 2006 Secured Convertible Notes, combined

% Below Market	Price Per Share	With Discount at 50%	Number of Shares Issuable	% of Outstanding Stock
25%	$.045	$.0225	164,569,152	62.95%
50%	$ .03	$ .015	246,853,727	71.82%
75%	$.015	$.0075	493,707,454	83.60%

December 2005 and March 2006 Secured Convertible Notes, combined

% Below Market	Price Per Share	With Discount at 65%	Number of Shares Issuable	% of Outstanding Stock
25%	$.045	$.01575	76,190,477	44.03%
50%	$ .03	$ .0105	114,285,715	54.12%
75%	$.015	$.00525	228,571,429	70.23%

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

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

The secured convertible notes issued in September 2004, April 2005, October 2005 and July 2006 are convertible into shares of our common stock at a 50% discount to the trading price of the common stock prior to the conversion. The secured convertible notes issued in December 2005 and March 2006 are convertible into shares of our common stock at a 65% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholders convert and sell material amounts of common stock could have an adverse effect on our stock price. In addition, not only the sale of shares issued upon conversion or exercise of secured convertible notes, series B convertible preferred stock and warrants, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

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

The issuance of shares upon conversion of the secured convertible notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC may not convert their secured convertible notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.9% of our outstanding common stock, this restriction does not prevent AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC from converting and/or exercising some of their holdings and then converting

the rest of their holdings. In this way, AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

In The Event That Our Stock Price Declines, The Shares Of Common Stock Allocated For Conversion Of The Secured Convertible Notes and Registered Pursuant To This Registration Statement May Not Be Adequate And We May Be Required to File A Subsequent Registration Statement Covering Additional Shares. If The Shares We Have Allocated And Are Registering Herewith Are Not Adequate And We Are Required To File An Additional Registration Statement, We May Incur Substantial Costs In Connection Therewith.

Based on our current market price and the potential decrease in our market price as a result of the issuance of shares upon conversion of the secured convertible notes, we have made a good faith estimate as to the amount of shares of common stock that we are required to register and allocate for conversion of the secured convertible notes. Accordingly, we have allocated and registered 300,000,000 shares to cover the conversion of the secured convertible notes. In the event that our stock price decreases, the shares of common stock we have allocated for conversion of the secured convertible notes and are registering hereunder may not be adequate. If the shares we have allocated to the registration statement are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection with the preparation and filing of such registration statement.

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

In September 2004, we entered into a Securities Purchase Agreement for the sale of an aggregate of $1,500,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 10% interest, two years from the date of issuance, unless sooner converted into shares of our common stock. In April 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of $1,500,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 10% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In October 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of $800,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 10% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In December 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of $700,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In March 2006, we entered into a Securities Purchase Agreement for the sale of an aggregate of $500,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In July 2006, we entered into a Securities Purchase Agreement for the sale of an aggregate of $500,000 principal amount of secured convertible notes. The secured convertible notes are due and payable, with 6% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In addition, any event of default under our secured convertible notes issued pursuant to our September 2004, April 2005, October 2005, December 2005, March 2006 or July 2006 securities purchase agreements, such as our failure to repay the principal or interest when due, our

failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase Agreement or related convertible note, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against our company in excess of $50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company and the delisting of our common stock could require the early repayment of the secured convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured with the specified grace period. We anticipate that the full amount of the secured convertible notes will be converted into shares of our common stock, in accordance with the terms of the secured convertible notes. If we were required to repay the secured convertible notes, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the notes when required, the note holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

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Risks Relating to Our Common Stock:

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

Due to our limited economic resources, we try to issue stock in lieu of cash for payment of expenses and services provided for us. In 2005, we issued 2,783,333 shares of common stock in exchange for expenses and services rendered. We anticipate issuing shares of common stock whenever possible in lieu of cash to conserve our financial position. The number of shares of common stock issued is directly related to our stock price at the time of issuance. In the event that our stock price drops, we will be required to issue larger amounts of shares for expenses and services rendered, if the other party is willing to accept stock at all. The issuance of shares of common stock will have the effect of diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

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

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

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

The Securities and Exchange Commission has adopted Rule 15g-9 which

establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and

- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

- obtain financial information and investment experience objectives of the person; and

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

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

- sets forth the basis on which the broker or dealer made the suitability determination; and

- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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

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

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and

chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of June 30, 2006. 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. Except as disclosed below, we are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Index Number: 602727/05 - Supreme Court of the State of New York, County of New York

On July 27, 2005, Alliance Care Services, Inc. d/b/a Alliance Advisors, a New York corporation, filed a complaint against us in the Supreme Court of the State of New York, County of New York, claiming damages in the amount of not less than $500,000 and costs for breach of contract, breach of duty of good faith and fair dealing and unjust enrichment. We entered into an agreement with Alliance Advisors in October 2003 for services to perform, including introduction to investors for the raising of equity capital in exchange for payment of certain fees. We filed our answer on October 4, 2005 denying all claims. This case is currently in discovery. We believe that their claims are

without merit and we intend to vigorously defend these claims.

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

On October 21, 2005, Greenfield Capital Partners LLC filed a statement of claim against us in arbitration before the National Association of Securities Dealers, Inc. Greenfield claims damages and costs in the amount of $107,000 for breach of contract, fraud, fraudulent concealment and misrepresentation. We entered into an agreement with Greenfield Capital Partners LLC in June 2004 to act as financial advisor in connection with and equity offering. We believe that their claims are without merit and we intend to vigorously defend these claims.

Case No. 2006- CV529 - District Court, Boulder County, Colorado

On May 22, 2006, William Walker filed a complaint against us and our CEO, Donald F. Evans, in District Court, Boulder County, Colorado, claiming unpaid wages in the amount of $32,972 and an unpaid check not paid when presented in the amount of $3,675. On July 17, 2006, we filed a counterclaim against Walker for breach of fiduciary duty. We believe his claims are without merit and we intend to vigorously defend these claims.

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

In April 2006, we issued 320,289 shares of common stock at $0.073 per share in exchange for services rendered.

In June.2006, we issued 2,084,484 shares of common stock at $0.08 per share in exchange for services rendered.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Partners II, LLC on July 26, 2006, for the sale of (i) $500,000 in secured convertible notes and (ii) a warrants to purchase 15,000,000 shares of our common stock.

The Notes bear interest at 6%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) $0.10 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes are due upon default under the terms of secured convertible notes. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights. The warrants are exercisable until seven years from the date of issuance at a purchase price of $0.06 per share. In addition the warrants exercise price gets adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of this warrant.

* All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of Cyberlux or executive officers of Cyberlux, and transfer was restricted by Cyberlux Corporation in accordance with the requirements of the Securities Act of 1933. In addition to

representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the registration statement are unaffiliated with us.

Item 3. Defaults Upon Senior Securities.

We are currently in default pursuant to secured convertible notes issued pursuant to securities purchase agreements dated September 23, 2004, April 22, 2005 and October 24, 2005, as amended (the "SPAs"). Pursuant to the SPAs, we are obligated to have two times the number of shares that the secured convertible notes are convertible into registered pursuant to an effective registration statement. We filed a registration statement on Form SB-2, as amended, that was declared effective by the Securities and Exchange Commission on November 12, 2004. As a result of the drop in our stock price, the shares of common stock underlying the secured convertible notes that were registered on the SB-2 are not sufficient to cover the conversion of the secured convertible notes issued pursuant to the September 23, 2004 SPA.

In addition, pursuant to the April 22, 2005 and October 24, 2005 SPA, we were required to file a registration statement within 45 days of closing and have the registration statement effective within 105 days of closing. On May 20,2 005, we filed a registration statement on Form SB-2 registering shares underlying the convertible notes. This registration statement is currently being review and has not been declared effective.

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

None

Item 5. Other Information.

None

Item 6. Exhibits

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

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

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

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

SIGNATURES

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

CYBERLUX CORPORATION

Date: August 14, 2006

By: /s/ DONALD F. EVANS

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

Date: August 14, 2006

By: /s/ DAVID D. DOWNING

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