CYBERLUX CORP
Form 10QSB
November 16, 2004

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

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2004

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

For the transition period from ____________ to ______________

For the Period Ended September 30, 2004

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) 474-9000
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 [_]

As of September 30, 2004, the Company had 19,915,905 shares of its par value $0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes [_] No [X]

CYBERLUX CORPORATION

INDEX

ITEM 1. FINANCIAL STATEMENTS

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONDENSED BALANCE SHEETS

	SEPTEMBER 30 ,2004 (UNAUDITED)	DECEMBER
ASSETS		
Current assets:		

Cash and cash equivalents	$ 284,992	$
Accounts receivable	49,297	
Total current assets	334,289	
Property, plant and equipment, net of accumulated depreciation of $82,662 and $44,649, respectively	50,830	
Other assets, net of accumulated amortization of $7,797 and $0, respectively	216,765	2
Total Assets	$ 601,884	$ 3

LIABILITIES AND (DEFICIENCY) IN STOCKHOLDERS' EQUITY

Current liabilities:		
Accrued interest	$ 55,280	$ 1
Other accrued liabilities	226,628	2
Management fees payable - related party	272,838	9
Short term notes payable - shareholders	115,245	2
Convertible note payable (note D)	500,000	
Short term notes payable	65,000	3
Total current liabilities	1,234,991	1,9
Long Term liabilities	406,525	3
(Deficiency) in Stockholders' Equity:		
Convertible preferred stock	801	
Common stock	19,916	
Additional paid-in capital	6,975,322	2,3
Subscription receivable	--	(2
Deficit accumulated during development stage	(8,035,671)	(4,0
(Deficiency) in stockholders' equity	(1,039,632)	(1,9
Total liabilities and (Deficiency) in Stockholders' Equity	$ 601,884	$ 3

See accompanying notes to the unaudited condensed financial information.

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September 30, 2004	For the Three Months Ended September 30, 2003	For the Nine Ended September 30, 2004
Revenue	$ 2,082	$ 87,375	$ 23,288
Cost of goods sold	(15,724)	(130,368)	(32,111)
Gross profit (loss)	(13,642)	(42,993)	(8,823)
Operating Expenses			
Depreciation and amortization	14,159	5,675	45,811
General and administrative expenses	589,083	319,289	2,505,898
Total Operating Expenses	603,242	324,964	2,551,709
(Loss) from Operations	(616,884)	(367,957)	(2,560,532)
Other Income (expense)	--	--	--
Interest Income	1	--	63
Interest Expense	(598,741)	(15,189)	(653,367)
Income tax (benefit)	--	--	--
Net Loss Before Preferred Dividend	(1,215,624)	(383,146)	(3,213,836)
Preferred dividend	(24,000)	--	(48,000)
Preferred dividend-Beneficia conversion discount on convertible preferred	--	--	(800,000)
Net loss attributable to common shareholders	$ (1,239,624)	$ (383,146)	$ (4,061,836)
Weighted average number of common shares outstanding - basic and fully diluted	19,388,317	7,626,979	17,080,605
Net (loss) per share - basic & fully diluted	$ (0.06)	$ (0.05)	$ (0.24)

See accompanying notes to the unaudited condensed financial information.

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY FOR THE
PERIOD MAY 17,2000 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2004

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PREFERRED STOCK SHARES	PREFERRED STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL	SU R R
Common shares issued in May, 2000 to founders in exchange for cash at $0.01 per share	1,640,000	$ 1,640	--	--	$ 560	
Common shares issued in May, 2000 in exchange for research and development services valued at $.09 per share	750,000	750	--	--	68,003	
Common shares issued in May, 2000 in exchange for services valued @$.05 per share	875,000	875	--	--	35,710	
Common shares issued in July, 2000 in exchange for convertible debt at $.15 per share	288,000	288	--	--	39,712	
Capital contributed by principal shareholders	--	--	--	--	16,000	
Common shares issued in November, 2000 for cash in connection with private placement $.15 per share	640,171	640	--	--	95,386	
Common shares issued in November, 2000 in exchange for services valued @$.15 per share issued for consulting services	122,795	123	--	--	18,296	
Net loss	--	--	--	--	--	
BALANCE, DECEMBER 31, 2000	4,315,966	4,316	--	--	273,667	
Common shares issued in January, 2000 in exchange for convertible debt at $.15 per share	698,782	699	--	--	104,118	
Stock options issued in May, 2001 valued @ $.15 per option in exchange for services	--	--	--	--	52,500	
Warrant issued in May 2001, valued at $0.15 per warrant in exchange for placement of debt	--	--	--	--	75,000	
Common shares issued in September in exercise for warrant at $.15 per share	3,000	3	--	--	447	
Common shares issued in September 2001 for cash in connection with exercise of warrant at $.10 per share	133,000	133	--	--	13,167	

Common shares issued in November 2001 for cash in connection with exercise of warrant at $.0001 per share	500,000	500	--	--	--
Common shares issued in Nov, 01 on exercise of options at $.0001 per share	350,000	350	--	--	--

See accompanying notes to the unaudited condensed financial information.

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY FOR THE
PERIOD MAY 17,2000 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2004
(CONTINUED)

	COMMON STOCK		PREFERRED STOCK		ADDITIONAL	STOCK SUBSCRIP RECEIVAB RECEIVED
	SHARES	AMOUNT	SHARES	AMOUNT	PAID IN CAPITAL	ADVANC
Common shares issued in December, 2001 in exchange for convertible debt at $.50 per share	133,961	134	--	--	66,847	
Common shares issued in December, 2001 in exchange for debt at $.50 per share	17,687	17	--	--	--	
Net loss	--	--	--	--	--	
BALANCE AT DECEMBER 31, 2001	6,152,396	6,152	--	--	594,571	
Common shares issued in May, 2002 in exchange for services valued at $.70 per share	70,000	70	--	--	49,928	
Common shares issued in November, 2002 in exchange for services valued at $.25 per share	150,000	150	--	--	37,350	
Common shares issued in December, 2002 as rights offerings at $0.25 per share	256,000	256	--	--	63,744	
Subscription receivable for 10,000 shares issued	--	--	--	--	--	(2,
Net loss	--	--	--	--	--	

BALANCE AT DECEMBER 31, 2002	6,628,396	6,628	--	--	745,593	(2,
Common shares issued in March, 2003 in connection with exercise of options at $.0001 per share	250,000	250	--	--	--	
Funds received for stock subscription	--	--	--	--	--	2,
Common shares issued to Cornell Capital Partners in March 2003 in connection with Loan Commitment valued at $0.75 per share	300,000	300	--	--	224,700	
Common shares issued in March, 2003 in exchange for services valued at $0.75 per share	13,333	14	--	--	9,987	

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CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY FOR THE
PERIOD MAY 17,2000 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2004
(CONTINUED)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PREFERRED STOCK SHARES	PREFERRED STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL	S SUBS RECE RECE AD
Robrady Design Note was converted into 196,120 shares @.25 per share	196,120	196	--	--	48,833	
Common Shares issued to Mark Schmidt for services in June 2003. The 200,000 shares were issued at $0.25 per share	200,000	200	--	--	49,800	
Common shares issued to Capital Funding Solutions September 2003, 450,000 shares were issued at $0.20 per share Shares secure a sales factoring agreement	450,000	450	--	--	89,550	
Common shares issued in November 2003 for consulting services valued at $0.50 per share	11,292	11	--	--	5,634	

Convertible Preferred Shares issued in December 2003 valued at $5,000 per share, Class A	--	--	155	1	774,999	(
Warrants on convertible preferred shares	--	--	--	--	(347,610)	
Beneficial conversion discount on convertible preferred shares	--	--	--	--	736,250	
Net (Loss)	--	--	--	--	--	
	----------	----------	----------	----------	----------	---
Balance at December 31, 2003	8,049,141	8,049	155	1	2,337,736	(
Issuance of convertible preferred shares Class B in January 2004 for accrued management fees at $1 per share	--	--	800,000	800	799,200	
Proceeds from subscriptions Receivable	--	--	--	--	--	
Common Shares issued in January, 2004 in exchange for services at $0.37 per share	260,000	260	--	--	95,940	
Common Shares issued in January 2004 in exchange for services at $0.37 per share	225,000	225	--	--	83,025	
Common Shares issued in January 2004 in exchange for services valued at $0.37 per share	2,100,000	2,100	--	--	774,900	

See accompanying notes to the unaudited condensed financial information.

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY FOR THE
PERIOD MAY 17,2000 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2004
(CONTINUED)

	COMMON STOCK		PREFERRED STOCK		ADDITIONAL	STO SUBSCR RECEIV
	SHARES	AMOUNT	SHARES	AMOUNT	PAID IN CAPITAL	RECEIV ADVA
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Shares issued for note payable at $0.25 in January 2004	110,764	111	--	--	27,580	
Shares issued for						

consulting services at $0.21 per share	1,200,000	1,200	--	--	250,800	
Beneficial conversion discount-preferred stock dividend with respect to convertible preferred shares Class B	--	--	--	--	800,000	
Net loss	--	--	--	--	--	
BALANCE AT MARCH 31, 2004	11,944,905	$ 11,945	800,155	$ 801	$ 5,169,181	$
Warrants issued in exchange for Services, April 2004	--	--	--	--	243,000	
Common shares canceled for return of collateral deposit with factor	(450,000)	(450)	--	--	(89,550)	
Common shares issued for cash in private placement at $0.10 per share, May 2004	5,310,000	5,310	--	--	525,690	
Class A Preferred shares issued for cash at $5,000 per share, May 2004	--	--	15.861	--	79,308	
Warrants on convertible preferred shares Class A shares	--	--	--	--	(58,915)	
Common shares issued in exchange for note payable at $0.10 per share, June, 2004	50,000	50	--	--	4,950	
Common Shares issued in exchange for services valued at $0.10 per share, June 2004	1,560,000	1,560	--	--	154,440	
Common Shares issued 2004 in exchange for services valued at $0.10 per share, June 2004	200,000	200	--	--	19,800	
Subscriptions received in advance for shares to be issued	--	--	--	--	--	
Common Shares issued in exchange for services adjusted for issue prices	--	--	--	--	(44,640)	
Net (Loss)	--	--	--	--	--	
BALANCE AT JUNE 30, 2004	18,614,905	$ 18,615	800,171	$ 801	$ 6,003,264	$

See accompanying notes to the unaudited condensed financial information.

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY FOR THE
PERIOD MAY 17,2000 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2004
(CONTINUED)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PREFERRED STOCK SHARES	PREFERRED STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL	SUB REC REC A
Common shares issued in exchange for services valued at $0.40 per share, July, 2004	100,000	100	--	--	39,900	
Common shares issued for cash in private placement at $0.10 per share, July 2004	100,000	100	--	--	9,900	
Common shares issued for conversion of convertible preferred A shares, August 2004	200,000	200	(4)	--	(200)	
Common shares issued for exercise of warrants at $0.25 per share, August 2004	701,000	701	--	--	174,549	
Warrants issued to consultants for services	--	--	--	--	106,173	
Beneficial conversion feature of convertible notes (Note D)	--	--	--	--	500,000	
Value of warrants attached to convertible notes (Note D)	--	--	--	--	91,937	
Common shares issued for exercise of warrants at $0.25 per share, September 2004	200,000	200	--	--	49,800	
Net (Loss)	--	--	--	--	--	
BALANCE AT SEPTEMBER 30, 2004	19,915,905	$ 19,916	800,167	$ 801	$ 6,975,322	$

See accompanying notes to the unaudited condensed financial information.

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2004	For the Nine Months Ended September 30, 2003	For the Peri May 17, 200 (date of inception) Through September 30 2004
CASH FLOW FROM OPERATING ACTIVITIES:			
Net (loss) available to common stockholders	$(4,013,836)	$(1,218,195)	$(8,035,671
Depreciation and amortization	45,811	240,924	371,708
Beneficial conversion discount - preferred stock dividend	800,000	--	1,536,250
Amortization of debt discount - beneficial conversion feature of convertible note (Note D)	500,000	--	500,000
Amortization of debt discount - value of warrants attached to convertible note (Note D)	91,937	--	91,937
Stock options issued for consulting services	--	60,000	107,504
Shares issued for previously incurred debt	32,691	9,030	81,721
Warrants issued to consultants for services	349,173	--	349,173
Shares issued/(canceled) for factoring deposit	(90,000)	90,000	--
Loan extension write off	--	--	25,000
Preferred shares issued for conversion of accrued management fees	723,670	--	723,670
Preferred shares issued for previously incurred debt	76,330	--	76,330
Accrued expenses relating to escrow deposits	--	20,000	23,814
Shares issued for consulting services	1,367,810	--	1,540,960
Share issued for research and development	--	--	68,753
(Increase)/ decrease in accounts receivable	(11,862)	--	(11,862
(Increase)/ decrease in Due From Factor, net	--	(18,710)	--
(Increase) / decrease in inventory	--	(8,208)	--
Decrease (increase) in deposit	--	8,614	--
(Increase) decrease in prepaid expenses	(89,101)	--	(89,101

(Increase) / decrease in other assets	63,105	--	(172,895
Increase (decrease) in accrued interest	(49,696)	21,041	55,280
(Decrease) increase in management fee payable - related party	(723,670)	424,418	272,838
Increase in accounts payable	(69,760)	314,878	226,628
NET CASH USED IN OPERATING ACTIVITIES	(997,398)	(56,208)	(2,257,963
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(19,998)	(33,000)	(133,492
NET CASH USED IN INVESTING ACTIVITIES	(19,998)	(33,000)	(133,492
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Payments for) / proceeds from short-term notes payable, net	(255,000)	--	212,455
Proceeds from short-term notes payable-shareholders (net)	(92,600)	72,000	115,245
Issuance of preferred stock	79,308	--	554,307
Capital contributed by shareholders	276,186	--	292,186
Increase in convertible notes payable	500,000	--	500,000
Receipts from subscriptions receivable	--	2,500	--
Issuance of common stock	778,247	250	1,002,254
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,286,141	74,750	2,676,447

See accompanying notes to the unaudited condensed financial information.

10

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENT OF CASH FLOWS
(CONTINUED)
(UNAUDITED)

Net increase in cash	268,,745	(14,458)	284,992
Cash - beginning	16,247	26,086	--
Cash - ending	$ 284,992	$ 11,628	$ 284,992

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SUPPLEMENTAL DISCLOSURES:			
Interest paid	111,126	18,202	162,026
Income taxes paid	--	--	--
Non Cash investing and financing activities:			
Shares issued for research and development and consulting	$ --	$ --	$ 106,253
Shares issued for conversion of debt	32,691	9,030	346,384
Warrants issued in connection with financing	--	--	75,000
Warrants issued to consultants for services	349,173	--	349,173
Options issued in connection with services	--	--	52,500
Shares issued in connection with services	1,367,810	60,000	1,540,960
Shares issued in connection with loan	--	225,000	225,000
Shares issued in connection with factoring	(90,000)	90,000	--
Warrants issued (detachable) with convertible preferred share	58,915	--	406,525
Amortization of debt discount - beneficial conversion feature of convertible note (Note D)	500,000	--	500,000
Amortization of debt discount - value of warrants attached to convertible note (Note D)	91,937	--	91,937
Beneficial conversion discount on convertible preferred shares	800,000	--	1,536,250
Convertible preferred shares issued for previously incurred debt	76,330	--	76,330
Convertible preferred shares issued for accrued management fees	723,670	--	723,670

See accompanying notes to the unaudited condensed financial information

CYBERLUX CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

GENERAL

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with 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-month period ended September 30, 2004, are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated December 31, 2003 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB.

BUSINESS AND BASIS OF PRESENTATION

Cyberlux Corporation (the "Company") is in the development stage and its effort have been principally devoted to seeking profitable business opportunities. To date the Company has incurred expenses and has sustained losses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. For the period from inception through September 30 2004, the Company has accumulated losses of $8,035,671.

STOCK BASED COMPENSATION

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended December 31, 2002 and subsequent years.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (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 losses per share would have been as follows (transactions involving stock options issued to employees and Black-Scholes model assumptions are presented in Note E):

	For the three months ended September 30, 2004	2003	For the Sep 2004
Net loss attributable to common stockholders - as reported	$(1,239,624)	$ (383,146)	$(4,061,8
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)	--	--	

Net loss - Pro Forma	$(1,239,624)	$ (383,146)	$(4,061,8
Net loss attributable to common stockholders -	$(1,239,624)	$ (383,146)	$(4,061,8
Pro forma			
Basic (and assuming dilution) loss per share - as reported	$ (0.06)	$ (0.05)	$ (0.
Basic (and assuming dilution) loss per share - Pro forma	$ (0.06)	$ (0.05)	(0.

NEW ACCOUNTING PRONOUNCEMENTS

On June 30, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, Share-Based Payment, an amendment of FASB Statements No. 123 and 95, that would require companies to account for stock-based compensation to employees using a fair value method as of the grant date. The proposed statement addresses the accounting for transactions in which a Company receives employee services in exchange for equity instruments such as stock options, or liabilities that are based on the fair value of the Company's equity instruments or that may be settled through the issuance of such equity instruments, which includes the accounting for employee stock purchase plans. This proposed statement would eliminate a Company's ability to account for share-based awards to employees using APB Opinion 25, Accounting for Stock Issued to Employees but would not change the accounting for transactions in which a company issues equity instruments for services to non-employees or the accounting for employee stock ownership plans. The proposed statement, if adopted, would be effective for awards that are granted, modified, or settled in fiscal years beginning after December 15, 2004. The Company is in the process of assessing the potential impact of this proposed statement to the financial statements.

NOTE B - COMMON STOCK

In January, 2004, the Company collected the balance of its previously recognized subscriptions receivable of $276,186.

In January, 2004, the Company issued 260,000 shares of its common stock in exchange for services totaling $96,200. The stock issued was valued at approximately $0.37 per share, which represents the fair value of the stock issued, which did not differ materially from the value of the services rendered.

In January, 2004, the Company issued 225,000 shares of its common stock in exchange for services totaling $83,250. The stock issued was valued at approximately $.0.37 per share, which represents the fair value of the stock issued, which did not differ materially from the value of the services rendered.

In January, 2004, the Company issued 2,100,000 shares of its common stock in exchange for services totaling $777,000. The stock issued was valued at approximately $0.37 per share, which represents the fair value and which did not differ materially from the value of the services rendered.

In January, 2004, the holder of a $27,691 note payable exchanged the unpaid principal together with accrued interest for 110,764 shares at $0.25 per share of the Company's common stock.

In January, 2004, the Company issued 1,200,000 shares of its common stock for cash at $0.21 per share for $252,000.

NOTE B - COMMON STOCK (CONTINUED)

In April, 2004 the Company received back and cancelled 450,000 shares of common stock for return of collateral deposit with a creditor previously valued at $90,000.

During the period ended June 30, 2004, the Company issued warrants to consultants for services for $243,000 which represents the fair value of the warrants issued, which did not differ materially from the value of the services rendered.

In May, 2004 the Company issued 5,310,000 shares of common stock at $0.10 per share for private placement for cash. In connection with the offering , the investors received a warrant to purchase the Company's common stock for each share of common stock purchased ("Class A Warrants ") The warrants have an exercise price of $0.25 per share and expire June 30, 2004.

In May, 2004 the Company issued 50,000 shares of common stock at $0.10 per share on conversion of notes payable.

In June, 2004 the Company issued 1,760,000 shares of common stock in exchange for services rendered to the Company valued at $176,000. The shares were issued at $0.10 per share which represents the fair value of the stock issued which did not materially differ from the value of the services rendered.

In June 2004, the Company received cash $22,500 in connection with a subscription to acquire shares of the Company's common stock. In July 2004, the Company issued 100,000 shares of common stock at $0.10 per share.

In July, 2004 the Company issued 100,000 shares of common stock in exchange for services rendered to the Company valued at $40,000. The shares were issued at $0.40 per share which represents the fair value of the stock issued which did not materially differ from the value of the services rendered.

In August 2004, the Company issued 701,000 shares of common stock against exercise of warrants at $0.25 per share for $150,250 in cash and balance $12,500 was adjusted out of cash received in June 2004.

In August 2004, the Company issued 200,000 shares of common stock for exercise of warrants at $0.25 per share for cash.

In August 2004, holders of 4 preferred shares series A exercised their rights to convert into 200,000 shares of common stock.

In September 2004, the Company recognized and measured an aggregate of $500,000 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and expensed as interest.

In September 2004, the Company recognized the value attributable to the warrants in the amount of $91,937 to additional paid in capital and as interest expenses.

During the three months ended September 30, 2004, the Company issued warrants to consultants for services for $106,173 which represents the fair value of the warrants issued, which did not differ materially from the value of the services rendered.

NOTE C - CONVERTIBLE PREFERRED STOCK

SERIES A PREFERRED STOCK

In May 2004, the Company issued 15.861 Series A Preferred shares, par value $0.001 per share, at $5,000 per share in exchange for $79,308. The Series A Preferred shares are convertible at the option of the holder to 50,000 shares of the Company's common stock for each share of Series A Preferred stock. The Series A Preferred holders also received two (2) warrants ("Series A and Series B Warrants") to purchase 50,000 shares of Common Stock, per warrant, for each share of Series A Preferred (or fraction thereof) issued. The Series A Warrants shall have an exercise price per share equal to $0.25 and shall expire in three (3) years. The Series B Warrants shall have an exercise price per share equal to $1.05 and shall expire five (5) years, subject to the number of number of shares acquired pursuant to the Series A Warrants. In August 2004, holders of 4 preferred shares series A exercised their rights to convert into 200,000 shares of common stock.

SERIES B PREFERRED STOCK

In January, 2004, the Company issued 800,000 shares of its preferred stock B in lieu of certain accrued management services fee payable and notes payable including interest payable thereon totaling $800,000 to officers of the company The stock issued was valued at approximately $1.00 per share, which represents the fair value of the stock. The shares of preferred stock are convertible into common shares at $0.20 per share which was amended in April 2004 to $0.10 per share. In connection with the transaction, the Company recorded beneficial conversion discount of $800,000 - preferred dividend relating to the issuance of convertible preferred stock.

NOTE D - CONVERTIBLE NOTES PAYABLE

A summary of convertible notes payable at September 30, 2004 is as follows:

On September 23, 2004, interest at 10%, mature two years from the date of issuance, and are convertible into the Company's common stock, at the lower of a)$0.72; b)50% of the average of the three lowest intraday trading prices for the common stock.. The full principal amount of the secured convertible notes is due upon a default under the terms of secured convertible notes. The note is secured on substantially all of the Company's assets, including the assets of wholly owned subsidiaries, and intellectual property. During the period ended September 30, 2004, a total of $0 of convertible note was converted to common stock of the Company.	$ 500,
Less: current portion	500,

	$
	======

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the convertible note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. During the period ended September 30, 2004, the Company recognized and measured an aggregate of $500,000 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the convertible note. The debt discount attributed to the beneficial conversion feature is expensed immediately as interest expense since note can be converted in to common shares at any time.

15

NOTE D - CONVERTIBLE NOTES PAYABLE (CONTINUED)

In connection with the placement of the convertible note, the Company issued non-detachable warrants granting the holders the right to acquire 750,000 shares of the Company's common stock at $0.50 per share. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of $91,937 to additional paid in capital and a discount against the convertible note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 1.01%, a dividend yield of 0%, and volatility of 127%. The debt discount attributed to the value of the warrants issued is expensed as interest expense.

NOTE E - WARRANTS TO PURCHASE COMMON STOCK

The following condensed table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to consultants and shareholders at September 30, 2004.

	WARRANTS OUTSTANDING			WARRANTS E
EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE
$ 0.10	91,500	5	$ 0.10	91,500
0.20	705,000	4	0.20	705,000
0.25	10,101,564	3	0.25	10,101,564
0.50	1,050,000	4	0.50	1,050,000
1.05	8,643,064	3	1.05	8,643,064
	20,591,128	2.86		20,591,128

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2003	15,895,000	$ 0.25
Granted	4,696,128	$ 0.36
Exercised	--	--
Canceled or expired	--	--

Outstanding at June 30, 2004	20,591,128	$ 0.60
	==========	==========

The weighted-average fair value of warrants granted to consultants during the period ended September 30, 2004 and 2003 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	2004	2003
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.01%	n/a
Expected stock price volatility	127%	n/a
Expected dividend payout	--	--
Expected option life-years (a)	3- 4 years	n/a

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

The estimated value of the warrants granted to consultants was in lieu of cash compensation for services performed. The amount of the expense charged to operations in connection with granting the warrants to consultants was $349,173 and $0 during the period ended September 30, 2004 and 2003, respectively.

NOTE F - COMMITMENTS AND CONTIGENCIES

On September 23, 2004, the Company entered into a Securities Purchase Agreement with investors for the sale of (i) $1,500,000 in secured convertible notes and (ii) warrants to purchase 2,250,000 shares of Company's common stock. The secured convertible notes bear interest at 10%, mature two years from the date of issuance, and are convertible into Company's common stock, at the investors' option, at the lower of a)$0.72; b)50% of the average of the three lowest intraday trading prices for the common stock on the Over-The-Counter Bulletin Board for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes are due upon a default under the terms of secured convertible notes. In addition, the Company granted the investors a security interest in substantially all of Company's assets, including the assets of Company's wholly owned subsidiaries, and intellectual property. The warrants are exercisable until five years from the date of issuance at a purchase price of $0.50 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, then we will not receive any proceeds. In addition, the exercise price of the warrants will be adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the secured convertible notes issued pursuant to the Securities Purchase Agreement. As of September 30 2004, the Company has received $500,000 for convertible note payable.

NOTE G - SUBSEQUENT EVENTS

Company's plan to increase the number of authorized shares of common stock from

100,000,000 shares to 300,000,000 shares.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

GENERAL OVERVIEW

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

We are developing and marketing new product applications of diodal illumination(TM) that demonstrate added value over traditional lighting systems. Using proprietary technology, we are creating a family of products for emergency and security lighting offer extended light life and greater cost effectiveness than other existing forms of illumination. We are expanding our marketing activity into channels of retail, commercial and institutional sales.

Our target markets include long-term interim 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; and certain sensitive applications for the military.

On April 27, 2004, we received an initial purchase order from the City of Cleveland for the pilot phase implementation of our Emergency Lighting Augmentation System project. The nature and purpose of our Emergency Lighting Augmentation System is its ability to provide up to 60 hours of light in bathrooms, stairwells, elevators, corridors, equipment rooms and interior offices from its custom constant charge battery pack and expandable lighting element configuration. The system retrofits into existing fluorescent fixtures where its patented sensor differentiates between power off at a wall switch and a power outage in the building's electrical system. We concluded the pilot phase in June 2004 and are working on proposals to extend our installation of our Emergency Lighting Augmentation System for the Cleveland municipality including the Cleveland Hopkins International Airport.

During the second quarter of 2004, we met with officials from the State of

New York who expressed interest in our long-term interim lighting solutions. We also met with security administrators of the Metropolitan Transit Authority and the Port Authority in the City of New York. The Metropolitan Transit Authority requested that we submit a proposal to provide long term interim lighting pilot installations in New York City's subway system to include passenger platforms, rail cars and tunnel accesses. We anticipate a similar proposal request from the Port Authority relative to Newark, LaGuardia and JFK airports and the Port Authority Holland Tunnel system.

Although, we have been focused on emergency lighting due to power grid failures and blackout concerns expressed by Homeland Security officials, we have also made advances from the retail segment of our business. For the Christmas retail season, we are developing a camping light positioning and are marketing the "CampLamp" to major national retailers. In addition, our Home Safety Light is continuing to gain sales acceptance across the broad retail channel and we anticipate launching the next generation of Home Safety Light for the Christmas season.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

- stock-based compensation; and

- revenue recognition.

STOCK-BASED COMPENSATION

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

The Company elected to continue to account for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the provisions of APB No. 25, compensation expense is measured at the grant date for the difference between the fair value of the stock and the exercise price.

REVENUE RECOGNITION

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

RESULTS OF OPERATIONS

REVENUES

We have generated operating revenues from operations of $97,526 from our inception. We believe we will begin earning revenues from operations in our second year of actual operation as the Company transitions from a development stage company to that of an active growth and acquisition stage company

COSTS AND EXPENSES

From our inception through September 30, 2004, we have generated revenues of $97,526 from operations. We have incurred losses of $6,499,422 during this period. These expenses were associated principally with equity-based compensation to employees and consultants, product development costs and professional services.

19

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2004, we had a working capital deficit of $900,702. As a result of our operating losses from our inception through September 30, 2004, we generated a cash flow deficit of $2,257,963 from operating activities. Cash flows used in investing activities was $133,492 during the period May 17, 2000 (date of our inception) through September 30, 2004. We met our cash requirements during this period through the private placement of $1,848,747, through the issuance of our common and preferred stock, and $712,455 from the issuance of notes payable and advances of $115,245, 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, 2003 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 September 23, 2004 for the sale of (i) $1,500,000 in secured convertible notes and (ii) warrants to buy 2,250,000 shares of our common stock. We filed a registration statement pertaining to the resale of the common stock underlying these secured convertible notes and warrants was filed on October 13, 2004. The investors are obligated to provide us with an aggregate of $1,500,000 as follows:

- o $500,000 was disbursed on September 23, 2004;
- o $500,000 was disbursed on October 20; and
- o $500,000 will be disbursed within five days of the registration statement being declared effective.

Accordingly, we have received a total of $1,000,000 pursuant to the Securities Purchase Agreement. The proceeds received from the sale of the secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and purchasing inventory.

The secured convertible notes bear interest at 10%, mature two years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) $0.72 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including the conversion date. The full principal amount of the secured convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of $0.50 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. The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property and registration rights.

Since the conversion price will be less than the market price of the common stock at the time the secured convertible notes are issued, we anticipate recognizing a charge relating to the beneficial conversion feature of the secured convertible notes during the quarter in which they are issued, including the third quarter of fiscal 2004 when $500,000 of secured convertible notes were issued.

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

On June 30, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, Share-Based Payment, an amendment of FASB Statements No. 123 and 95, that would require companies to account for stock-based compensation to employees using a fair value method as of the grant date. The proposed statement addresses the accounting for transactions in which a Company receives employee services in exchange for equity instruments such as stock options, or liabilities that are based on the fair value of the Company's equity instruments or that may be settled through the issuance of such equity instruments, which includes the accounting for employee stock purchase plans. This proposed statement would eliminate a Company's ability to account for share-based awards to employees using APB Opinion 25, Accounting for Stock Issued to Employees but would not change the accounting for transactions in which a company issues equity instruments for services to non-employees or the accounting for employee stock ownership plans. The proposed statement, if adopted, would be effective for awards that are granted, modified, or settled in fiscal years beginning after December 15, 2004. The Company is in the process of assessing the potential impact of this proposed statement to the financial statements.

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.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), as revised December 2003. This interpretation of Accounting Research Bulletin No. 51, Condensed Consolidated Financial Statements, addresses consolidation by business enterprises of variable interest entities (VIEs) that either: (1) do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) the equity investors lack an essential characteristic of a controlling financial interest. This interpretation applies immediately to VIEs created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. The application of FIN 46 did not have a material effect on our consolidated financial statements.

INFLATION

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

21

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

TRENDS, RISKS AND UNCERTAINTIES

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

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business and our products. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

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 $1,494,556 for the year ended December 31, 2003 and $1,336,970 for the year ended December 31, 2002. For the three months ended September 30, 2004, we incurred a net loss of $1,239,624. 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 $900,000 to fund our continued operations for the next twelve months, depending on revenue from operations. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

OUR INDEPENDENT AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN, WHICH MAY HINDER OUR ABILITY TO OBTAIN FUTURE FINANCING.

In their report dated April 6, 2004, our independent auditors stated that our financial statements for the year ended December 31, 2003 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of losses for the years ended December 31, 2003 and 2002 in the amounts of $1,494,556 and 1,336,970, respectively. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increases 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.

OUR PRINCIPAL STOCKHOLDERS, OFFICERS AND DIRECTORS OWN A CONTROLLING INTEREST IN OUR VOTING STOCK AND INVESTORS WILL NOT HAVE ANY VOICE IN OUR MANAGEMENT.

Our officers and directors, in the aggregate, hold approximately 83.3% of the voting rights of all outstanding shares of capital stock. As a result, these stockholders, acting together, will have the ability to control substantially all matters submitted to our stockholders for approval, including:

- election of our board of directors;
- removal of any of our directors;
- amendment of our certificate of incorporation or bylaws; and
- 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.

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.

THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR SECURED CONVERTIBLE NOTES, SERIES A CONVERTIBLE PREFERRED STOCK 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 September 22, 2004, we had 19,915,905 shares of common stock issued and outstanding, secured convertible notes outstanding that may be converted into an estimated 3,750,938 shares of common stock at current market prices, series A convertible preferred stock convertible into 8,543,032 shares of common stock, and outstanding warrants to purchase 21,834,064 shares of common stock. Additionally, we have an obligation to sell secured convertible notes outstanding that may be converted into an estimated 7,501,876 shares of common stock at current market prices and issue warrants to purchase 1,500,000 shares of common stock in the near future. In addition, the number of shares of common stock issuable upon conversion of the outstanding secured convertible notes may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the notes and preferred stock and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

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

IF WE ARE REQUIRED FOR ANY REASON TO REPAY OUR OUTSTANDING SECURED CONVERTIBLE NOTES, WE WOULD BE REQUIRED TO DEPLETE OUR WORKING CAPITAL, IF AVAILABLE, OR RAISE ADDITIONAL FUNDS. OUR FAILURE TO REPAY THE SECURED CONVERTIBLE NOTES, IF REQUIRED, COULD RESULT IN LEGAL ACTION AGAINST US, WHICH COULD REQUIRE THE SALE OF SUBSTANTIAL ASSETS.

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. Although we currently have $500,000 secured convertible notes outstanding, the investors are obligated to purchase additional secured convertible notes in the aggregate of $1,000,000. In addition, any event of default such as our failure to repay the principal or interest when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase 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.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, Share-Based Payment, an amendment of FASB Statements No. 123 and 95, that would require companies to account for stock-based compensation to employees using a fair value method as of the grant date. The proposed statement addresses the accounting for transactions in which a company receives employee services in exchange for equity instruments such as stock options, or liabilities that are based on the fair value of the company's equity instruments or that may be settled through the issuance of such equity instruments, which includes the accounting for employee stock purchase plans. This proposed statement would eliminate a company's ability to account for share-based awards to employees using APB Opinion 25, Accounting for Stock Issued to Employees but would not change the accounting for transactions in which a company issues equity instruments for services to non-employees or the accounting for employee stock ownership plans. The proposed statement, if adopted, would be effective for awards that are granted, modified, or settled in fiscal years after December 15, 2004. The Company is in the process of assessing the potential impact of this proposed statement to the financial statements.

PRODUCT RESEARCH AND DEVELOPMENT

We anticipate performing further research and development for our exiting products during the next twelve months. Those activities include the ReliaBright Emergency Lighting Augmentation System, ReliaBright Solo, Bright Owl Home Safety Light, Bright Owl Mini, Night Owl Power Outage Adapter and VersaBright Area Light 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

TRENDS, RISKS AND UNCERTAINTIES

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

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES: As of September 30, 2004, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the

Company under the Securities Exchange Act of 1934.

CHANGES IN INTERNAL CONTROLS: There were no changes in internal controls over financial reporting, known to the Chief Executive Officer or Chief Financial Officer that occurred during the period covered by this report that has materially affected, or is likely to materially effect, the Company's 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. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On July 14, 2004, we issued 100,000 shares of our Common Stock to John Hanemaayer at $0.10 per share. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

On July 15, 2004, we issued 100,000 stock purchase warrants exercisable at $0.20 per share to Michael G. Konicek for services rendered. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

On July 30, 2004, we issued 100,000 shares of our Common Stock to David Bomberg pursuant to a consulting agreement. This issuance was a private transaction pursuant to Section 4(2) of the Securities Act.

On August 24, 2004, we issued 701,000 shares of our Common Stock against exercise of warrants at $0.25 per share. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

On August 24, 2004, holders of 4 shares of our Series A Convertible Preferred Stock exercised their rights to convert into 200,000 shares of our Common Stock. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

On September 17, 2004, we issued 200,000 shares of our Common Stock against exercise of warrants at $0.25 per share. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

On September 17,2004, we issued 150,000 stock purchase warrants to Donald B. Hutton for services rendered at $0.25 per share. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

On September 23, 2004, pursuant to a securities purchase agreement, we issued 277,500, 120,000, 330,000 and 22,500 stock purchase warrants to AJW Offshore, LTD, AJW Partners, LLC, AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC, respectively, all of which have an exercise price of $0.50. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

CYBERLUX CORPORATION

Date: November 16, 2004 By: /S/ DONALD F. EVANS

Donald F. Evans
Chief Executive Officer

Date: November 16, 2004 By: /S/ DAVID D. DOWNING

David D. Downing
Chief Financial Officer

30