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CYBERLUX CORP
Form 10QSB/A
May 19, 2005

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

FORM 10QSB/A
(Amendment No. 1)

(Mark One)

- Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2005
- 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 March 31, 2005
Commission file number 000-33415

CYBERLUX CORPORATION

(Name of Small Business Issuer in Its Charter)

Nevada

(State of Incorporation)

91-2048178

(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 No

As of May 2, 2005, the Company had 33,991,780 shares of its par value \$0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No

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CYBERLUX CORPORATION

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending March 31, 2005

Table of Contents

PART I. FINANCIAL INFORMATION

| | |
|---|-----|
| Item 1. Financial Statements | |
| Condensed Consolidated Balance Sheets: March 31, 2005 (Unaudited) and December 31, 2004 (Audited) | 3 |
| Condensed Consolidated Statements of Operations: Three Months Ended March 31, 2005 and 2004 (Unaudited) | 4 |
| Condensed Consolidated Statements of Cash Flows: Three Months Ended March 31, 2005 and 2004 (Unaudited) | 5 |
| Notes to Unaudited Condensed Consolidated Financial Information: March 31, 2005 | 6-7 |
| Item 2. Management Discussion and Analysis | 8 |
| Item 3. Controls and Procedures | 16 |

PART II. OTHER INFORMATION

| | |
|---|----|
| Item 1. Legal Proceedings | 17 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 18 |
| Item 3. Defaults Upon Senior Securities | 19 |
| Item 4. Submission of Matters to a Vote of Security Holders | 19 |
| Item 5. Other Information | 19 |
| Item 6. Exhibits | 19 |
| Signatures | 20 |

CYBERLUX CORPORATION
BALANCE SHEETS
(UNAUDITED)

March 31, 2005
Unaudited

Assets

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Current assets:

| | | |
|-------------------------|----|-----|
| Cash & cash equivalents | \$ | 10, |
| Accounts Receivable | | 13, |
| Prepaid expenses | | 36, |

| | | |
|----------------------|--|-----|
| Total current assets | | 60, |
|----------------------|--|-----|

| | | |
|---|--|-----|
| Property, plant and equipment, net of accumulated depreciation of \$ 100,629 and \$92,335, respectively | | 35, |
|---|--|-----|

Other Assets:

| | | |
|---------|--|-----|
| Patents | | 61, |
|---------|--|-----|

| | | |
|--------------------|--|-----|
| Total other assets | | 61, |
|--------------------|--|-----|

| | | |
|--------------|----|------|
| Total Assets | \$ | 157, |
|--------------|----|------|

Liabilities and Deficiency in Stockholders' Equity

Current liabilities:

| | | |
|---|----|------|
| Accounts payable | \$ | 166, |
| Accrued liabilities | | 347, |
| Short-term notes payable - shareholders | | 394, |
| Short-term notes payable | | 27, |

| | | |
|---------------------------|--|------|
| Total current liabilities | | 935, |
|---------------------------|--|------|

Long-term liabilities:

| | | |
|---------------|--|--------|
| Notes payable | | 1,282, |
|---------------|--|--------|

| | | |
|-----------------------------|--|--------|
| Total long-term liabilities | | 1,282, |
|-----------------------------|--|--------|

Deficiency Stockholders' equity:

Preferred stock, \$0.001 par value, 5,000,000 shares authorized, Class A, 113.3606 and 151.8606 shares issued and outstanding as of March 31, 2005 and December 31, 2004 respectively

Preferred stock, \$0.001 par value, 8,000,000 shares authorized, Class B, 800,000 and 0 shares issued and outstanding as of March 31, 2005 and December 31, 2004 respectively

| | | |
|---|--|-----|
| Common stock, \$0.001 par value, 300,000,000 shares authorized, 30,871,338 and 23,770,233 shares issued and outstanding as of March 31, 2005 and December 31, 2004 respectively | | 30, |
|---|--|-----|

| | | |
|----------------------------|--|----------|
| Additional paid-in capital | | 9,179, |
| Accumulated deficit | | (11,271, |

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| | |
|--|---------|
| Deficiency in stockholders' equity | (2,060, |
| Total liabilities and (deficiency) in stockholders' equity | \$ 157, |

The accompanying notes are an integral part of these financial statements

3

CYBERLUX CORPORATION
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | For March 31, 2 |
|---|--------------------|
| Revenue | \$ 13, |
| Cost of goods sold | (6, |
| Gross margin (loss) | 7, |
| Operating Expenses: | |
| Marketing and advertising | 21, |
| Depreciation and amortization | 8, |
| Research and development | 18, |
| General and administrative expenses | 339, |
| Total operating expenses | 388, |
| (Loss) from operations | (380, |
| Other income/(expense) | |
| Other Income | 15, |
| Interest income | |
| Interest expense | (43, |
| Net Loss before provision for income taxes and preferred dividend | (423, |
| Income taxes (benefit) | |
| Net loss | (423, |
| Preferred dividend - Beneficial conversion discount on convertible preferred | |

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| | |
|--|-------------------|
| Net loss available to common stockholders | \$ (423, ===== |
| Weighted average number of common shares outstanding, basic and fully diluted | 27,919, |
| Net loss per share - Basic and fully diluted | \$ (0 |
| Preferred dividend | \$ 24, |

The accompanying notes are an integral part of these financial statements

4

Cyberlux Corporation
Condensed Statement of Cash Flows
(Unaudited)

Fo
March 31, 2

| | |
|--|----------|
| Cash flows provided by (from-used in) operating activities | |
| Net (loss) available to common stockholders | \$ (423, |
| Depreciation and amortization | 8, |
| Beneficial conversion discount - preferred stock dividend | |
| Shares issued for previously incurred debt | 73, |
| Warrants issued to consultants for services | 14, |
| Preferred shares issued for conversion of accrued management fees | |
| Preferred shares issued for previously incurred debt | 76, |
| Shares issued for consulting services | 47, |
| Shares issued for research and development | |
| Decrease (increase) in accounts receivable | (13, |
| Decrease (increase) in deposits | 236, |
| (Increase) decrease in prepaid expenses | 32, |
| (Increase)/decrease in other assets | (31, |
| Increase (decrease) in accrued liabilities | 23, |
| (Decrease) increase in management fee payable- | |

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| | |
|---|--------------|
| related party | |
| (Decrease) increase in other accounts payable | (9, -----) |
| Net cash (used in) operating activities | (326,) |
| Cash flows provided by (used in) investing activities | |
| Payments for property, plant and equipment | (-----) |
| Cash (used in) investing activities | (-----) |
| Cash flows provide by (used in) financing activities | |
| (Payments for)/proceeds from short-term notes payable, net | |
| (Payments for)/proceeds from short-term notes payable-shareholders (net) | (4,) |
| Proceeds from advance deposits | |
| (Payments for)/Proceeds from convertible long-term notes | (73,) |
| Proceeds from issuance of common stock | |
| Net cash provided by (used in) financing activities | (77, -----) |
| Net increase (decrease) in cash | (404, =====) |
| Cash - beginning | 415, |
| Cash - ending | \$ 10, |
| Supplemental disclosures: | |
| Interest Paid | \$ |
| Income Taxes Paid | |
| Non-Cash investing and financing activities: | |
| Shares issued for research and development and consulting | |
| Shares issued for conversion of debt | 73, |
| Warrants issued in connection with financing | |
| Warrants issued to consultants for services | 14, |
| Shares issued in connection with loan | |
| Beneficial conversion discount on convertible preferred stock | |
| Convertible preferred shares issued for note payable and accrued interest - | |
| Convertible preferred shares issued for accrued management fees | |

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The accompanying notes are an integral part of these financial statements

5

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(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 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 March 31, 2005, are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated December 31, 2004 financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2004.

Business and Basis of Presentation

Cyberlux Corporation (the "Company") is incorporated under the laws of the State of Nevada. The Company, which has transitioned from a development state enterprise, 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 March 31, 2005, the Company has accumulated losses of \$11,271,344.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Reclassification

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

Stock-Based Compensation:

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based

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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 charge 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.

6

CYBERLUX CORPORATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(Unaudited)

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 D):

| | For the three months ended March | |
|---|----------------------------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Net loss attributable to common stockholders -as reported | \$ (423,660) | \$ (719,709) |
| 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 | \$ (423,660) | \$ (719,709) |
| | ----- | ----- |
| Net loss attributable to common stockholders - Pro forma | \$ (423,660) | \$ (719,709) |
| | ===== | ===== |
| Basic (and assuming dilution) loss per share - as reported | \$ (0.02) | \$ (0.06) |
| Basic (and assuming dilution) loss per share - Pro forma | \$ (0.02) | \$ (0.06) |

NOTE B - RELATED PARTY TRANSACTIONS

From time to time, the Company's principal officers have advanced funds to the

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Company for working capital purposes in the form of unsecured promissory notes, accruing interest at 12% per annum. As of March 31, 2005 and December 31, 2004, the balance due to the officers was \$ 394,595 and \$399,080, respectively.

NOTE C - SUBSEQUENT EVENTS

In April, 2005, the Company issued 1,035,221 shares of its common stock at \$0.0118 per share on conversion of notes payable.

In April, 2005, the Company issued 1,035,221 shares of its common stock at \$0.011 per share on conversion of notes payable.

In May, 2005, the Company issued 1,035,221 shares of its common stock at \$0.0108 per share on conversion of notes payable.

7

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

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

Overview

We have transitioned from a development stage enterprise to a Company actively 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.

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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. In June 2004, we submitted a proposal to the MTA for a pilot program. In March 2005, we submitted an implementation proposal for subway cars and stairwells. This program is currently being reviewed by the MTA. As a result of our meeting with the Port Authority, we anticipate a similar proposal request related to Newark, LaGuardia and JFK airports and the Holland Tunnel system, although we have not received a proposal request as of the date of this filing and no assurance can be given that we will receive a proposal request.

Results of Operations

Three months ended March 31, 2005 compared to the three months ended March 31, 2004

REVENUES

Revenues for the three months ended March 31, 2005 were \$ 13,568 and compares to \$9,968 for the same period ended March 31, 2004. Included in sales for the quarter is a \$10,000 contract with Kings Park School District of Long Island, New York for the installation of our ELS products in a local middle school. This installation is being hailed as a pilot project that could become a model for emergency lighting throughout the State of New York.

8

COST OF SALES

Cost of sales for the first quarter were \$6,369 and produced a gross margin on sales of 53%. This compares to \$8,395 in cost of sales for the quarter ended March 31, 2004 which produced a gross margin of 16%.

OPERATING EXPENSES

Operating expenses for the quarter ended March 31, 2005 were \$ 388,153 and compares to \$287,089 for the same period ended March, 31, 2004. Included in the Quarter ended March 31, 2005 are \$21,323 in expenses for market development and literature. This compares to \$0 for the first quarter of 2004.

As a result of limited capital resources and minimal revenues from operations from its inception, the Company has relied on the issuance of equity securities to non-employees in exchange for services. The Company's management enters into equity compensation agreements with non-employees if it is in the best interest of the Company 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, the Company anticipates continuing to compensate non-employees for services during the next twelve months. This policy may have a material effect on the Company's results of operations during the next twelve months.

Liquidity and Capital Resources

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As of March 31, 2005, we had a working capital deficit of \$875,666. This compares to a working capital deficit of \$ 442,303 as of December 31, 2004. As a result of our operating losses for the first three months ended March 31, 2005, we generated a cash flow deficit of \$ 326,442 from operating activities. Cash flows used in investing activities was \$963 during the quarter. Cash flows used in financing activities were \$77,510 on payment of short-term notes payable for the first three months ended March 31, 2005.

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, 2004, 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 April 22, 2005 for the sale of (i) \$1,500,000 in secured convertible notes and (ii) warrants to buy 25,000,000 shares of our common stock. The investors are obligated to provide us with an aggregate of \$1,500,000 as follows:

- o \$600,000 was disbursed on April 22, 2005;
- o \$500,000 will be disbursed within five days of the filing of a registration statement; and
- o \$400,000 will be disbursed within five days of the effectiveness of a registration statement.

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 three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.03 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 \$0.03 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

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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 second quarter of fiscal 2005 when \$600,000 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.

10

Inflation

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

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.

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 \$6,025,848 for the year ended December 31, 2004 and \$1,494,556 for the year ended December 31, 2003. In addition, for the quarter ended March 31, 2005, we incurred a net loss of \$423,660. 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.

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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 17, 2005, 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

11

continue as a going concern is an issue raised as a result of losses for the years ended December 31, 2004 and 2003 in the amounts of \$6,025,848 and \$1,494,556, 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 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.

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

Risks Relating to Our Current Financing Arrangement:

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

As of May 2, 2005, we had 33,991,780 shares of common stock issued and outstanding, secured convertible notes outstanding that may be converted into an estimated 60,000,000 shares of common stock at current market prices and outstanding warrants to purchase 10,000,000 shares of common stock. Additionally, we have an obligation to sell secured convertible notes that may be converted into an estimated 90,000,000 shares of common stock at current market prices and issue warrants to purchase 15,000,000 shares of common stock in the near future. Additionally, pursuant to a prior financing with the selling stockholders, we still have outstanding secured convertible notes that may be converted into an estimated 141,294,800 shares of common stock at current market prices and outstanding warrants to purchase 2,250,000 shares of common stock. 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

12

conversion of the secured convertible notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

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

Our obligation to issue shares upon conversion of our secured convertible notes is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our secured convertible notes (excluding accrued interest), based on market prices 25%, 50% and 75% below the market price, as of May 10, 2005 of \$0.03.

| % Below Market ----- | Price Per Share ----- | With Discount at 50% ----- | Number of Shares Issuable ----- | % of Outstanding Stock ----- |
|----------------------------|-----------------------------|----------------------------------|--|---------------------------------------|
| 25% | \$.0225 | \$.01125 | 133,333,334 | 79.69% |
| 50% | \$.015 | \$.0075 | 200,000,000 | 85.47% |
| 75% | \$.0075 | \$.00375 | 400,000,000 | 92.17% |

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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 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 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 A 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 Prospectus 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 plan to register 150,000,000 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

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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 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. Although we currently have \$600,000 secured convertible notes outstanding, the investors are obligated to purchase additional secured convertible notes in the aggregate of \$900,000. 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.

Risks Relating to Our Common Stock:

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

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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:

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

14

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

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

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

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

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

Trends, Risks and Uncertainties

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

Cautionary Factors that May Affect Future Results

Our annual report on December 31, 2004, Form 10-KSB, as amended, includes a detailed list of cautionary factors that may affect future results. Management believes that there have been no material changes to those factors listed,

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however other factors besides those listed could adversely affect us. That annual report can be accessed on EDGAR.

15

ITEM 3. CONTROLS AND PROCEDURES

- a) Evaluation of Disclosure Controls and Procedures. As of March 31, 2005, 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.
- b) 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.

16

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.

On April 18, 2001, we filed a civil complaint against Light Technology, Inc., Ervin J. Rachwal, Safe-Light Industries, LLC a/k/a JFER Innovations Group, LLC, James Meyer and John Fleming alleging fraud, breach of contract, monies lent, misappropriation of trade secrets, conspiracy and sought injunctive relief against the defendants to prevent them from misappropriating trade secrets as well as to recover monetary damages. On May 11, 2001, the Court granted a temporary injunction against the Defendants. On June 5, 2001, the Defendants filed their Answer denying the allegations of the Complaint and filed a counterclaim alleging fraud, violation of Trade Secret Act, breach of contract and money lent.

On January 18, 2002, the Court granted the Defendants' Motion to Dissolve the Injunction. On January 28, 2002, we filed a Motion for Rehearing or Clarification of the Motion to Dissolve. A hearing on our Motion for Rehearing or Clarification of the Motion to Dissolve was scheduled for March 18, 2002, but was cancelled by the Court and has not been rescheduled. The injunction still remains in effect until the Court rules on this Motion.

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Background:

We came into contact with Light Technology, Inc. and Rachwal in early 2000. We were seeking someone with the knowledge and expertise to assist us in the development of an emergency light using white LEDs. Light Technology, Inc. and Rachwal represented that they had such knowledge and expertise and could finalize the development of our emergency light by September 30, 2000 so that we could begin manufacturing and selling the emergency light by November 2000. Rachwal and Light Technology, Inc. also advised us that we could acquire all the assets of Light Technology, Inc. and the rights to Light Technology, Inc.'s flashlight which also used white LEDs provided Rachwal was made an officer and director of our company as well as be in charge of design work.

In order to evaluate this offer, we requested accounting and financial records to verify the representations of Light Technology, Inc. and Rachwal and to attempt to ascertain the value of Light Technology, Inc.. Despite repeated attempts, Light Technology, Inc. and Rachwal were unable to provide adequate, verifiable financial records. Nonetheless, in order allow Light Technology, Inc. and Rachwal to proceed with the development of the emergency light in order to meet the November shipping deadline, we entered into a Letter of Intent with Light Technology, Inc. on June 12, 2000. This Letter of Intent also contained a confidentiality clause protecting our interests. Pursuant to the Letter of Intent we paid Light Technology, Inc. \$100,000 to develop a prototype of an emergency storm light and possible acquisition of the assets of Light Technology, Inc. based upon an independent evaluation of the worth of the assets. We hired the Sarasota CPA firm, Kerkering, Barbario & Co. to independently do an evaluation of the Light Technology, Inc. assets. Kerkering, Barbario came to the conclusion that Light Technology, Inc. had no verifiable assets of any value. Furthermore, Light Technology, Inc. never developed and produced a working model of the emergency storm light. We incurred meeting and travel expenses of \$36,401 associated with Light Technology, Inc. during the period June through December 2000. \$43,699 was expended for marketing expense in anticipation of the promised delivery of the light. We also made loans to defendant Safe-Light in the amount of \$13,188 to assist in development and marketing of its products based upon representation that the assets of Safe-Light would be acquired by us.

We instituted our complaint against the defendants when we learned, through a local newspaper article that Light Technology, Inc. and Safe-Light had merged and had developed an emergency light. We had confidentiality rights with both companies. The defendants breached their contracts with us by misappropriating

17

trade secrets and we are seeking monetary damages as well injunctive relief to prevent them from capitalizing on the misappropriation of trade secrets. Despite the news article in which Rachwal announced that Light Technology, Inc. had developed an emergency light, he did not object to the injunction stating that he did not have such a light.

There is no similarity between our product, the Home Safety Light, and Light Technology, Inc.'s product, known as the Pal Light. Our product has 10 diodes and provides a blanket of light to light up a room in the event of a power outage. The Light Technology, Inc. product is a small flashlight that uses one diode.

Light Technology, Inc. claims that we breached the contract terms of the letter of intent and joint venture agreement by failing to maintain confidential disclosed to us and intentionally disclosing confidential information to third parties. Despite receiving \$100,000 from us, defendants claim we failed to fund

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the development of the light and claim that we owe them in excess of \$100,000 by breaching the letter of intent and joint venture agreement. Further, defendants claim we failed to pay fees set forth in the licensing agreement notwithstanding that the condition precedent to pay said fees (the successful completion of a private placement by us, which was subsequently withdrawn due to market conditions). Defendant Safe-Light alleges that we requested that they assist us in raising funding for the products discussed in the complaint. We actually loaned them funds for the development of their barricade light.

We intend to fully prosecute our claims and actions against the Defendants. We deny the Defendants allegations alleged against us in their counterclaim. This litigation is still in the discovery stage and the ultimate outcome cannot presently be determined.

COURT: Circuit Court of the Twelfth Judicial District In and For Sarasota County, Florida.

CASE NAME: Cyberlux Corporation, Plaintiff v. Ervin J. Rachwal, Light Technology, Inc., Safe-Light Industries, LLC a/k/a JFER Innovations Group, LLC, James Meyer and John Fleming.

CASE NUMBER: 2001 CA 005309 NC Div. C.

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

In January 2005, holders converted 33.5 shares of our Series A Preferred Stock into 1,425,000 shares of our Common Stock at \$.10 per share. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

In February 2005, holders converted 5 shares of our Series A Preferred Stock into 250,000 shares of our Common Stock at \$.10 per share. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act.

Sales subsequent to quarter ending March 31, 2005

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 April 22, 2005 for the sale of (i) \$1,500,000 in secured convertible notes and (ii) a warrants to buy 25,000,000 shares of our common stock.

The investors are obligated to provide us with an aggregate of \$1,500,000 as follows:

- o \$600,000 was disbursed on April 22, 2005;
- o \$500,000 will be disbursed within five days of the filing of this registration statement; and
- o \$400,000 will be disbursed within five days of the effectiveness of this prospectus.

The secured convertible notes bear interest at 10%, mature three years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) \$0.03 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

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

There have been no purchases of common stock of the Company by the Company or its affiliates during the three months ended March 31, 2005.

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)

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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: May 19, 2005

By: /s/ DONALD F. EVANS

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

Date: May 19, 2005

By: /s/ DAVID D. DOWNING

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