

CYIOS CORP  
Form 10-Q  
November 12, 2009

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended

September 30, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 000-27243

CYIOS CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or  
organization)

03-7392107

(I.R.S. Employer Identification Number)

1300 PENNSYLVANIA AVE, SUITE 700  
WASHINGTON DC

(Address of principal executive offices)

20004

(Zip/Postal Code)

(202) 204-3006

(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or

Edgar Filing: CYIOS CORP - Form 10-Q

a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

- Large accelerated filer
- Accelerated filer
- Non-accelerated filer (Do not check if a smaller reporting company)
- Smaller reporting company

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

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date. There were 28,032,210 common stock shares and 29,713 preferred shared convertible to common at a 1:1 ratio, par value \$0.001, as of September 30, 2009.

---

---

---

Note Regarding FORWARD-LOOKING STATEMENTS

In addition to historical information, this Report contains forward-looking statements. Such forward-looking statements are generally accompanied by words such as "intends," "projects," "strategies," "believes," "anticipates," "plans," and similar terms that convey the uncertainty of future events or outcomes. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to; those discussed in Part Item 2 of this Report, the section entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION and Part II Item 1a Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof and are in all cases subject to the Company's ability to cure its current liquidity problems. There is no assurance that the Company will be able to generate sufficient revenues from its current business activities to meet day-to-day operation liabilities or to pursue the business objectives discussed herein.

The forward-looking statements contained in this Report also may be impacted by future economic conditions. Any adverse effect on general economic conditions and consumer confidence may adversely affect the business of the Company. CYIOS Corporation undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. In addition, readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

---

Table of Contents

Part I - FINANCIAL INFORMATION	1
<u>Item 1. Financial Statements and Supplementary Information</u>	1
<u>Item 2. Management’s Discussion and Analysis</u>	14
<u>INTRODUCTION</u>	14
<u>CORPORATE OVERVIEW</u>	15
<u>RECENT DEVELOPMENTS</u>	16
<u>FINANCIAL CONDITION</u>	16
<u>RESULTS OF OPERATIONS</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	18
<u>Item 4. Controls and Procedures</u>	18
<u>Item 4T. Controls and Procedures</u>	19
Part II – OTHER INFORMATION	21
<u>Item 1. Legal Proceedings</u>	21
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	29
<u>Item 3. Defaults Upon Senior Securities.</u>	29
<u>Item 4. Submission of Matters to a Vote of Security Holders.</u>	29
<u>Item 5. Other Information.</u>	29
<u>Item 6. Exhibits</u>	30

---

Table of Contents

## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements and Supplementary Information

In the opinion of management, the accompanying unaudited financial statements included in this Form 10-Q reflect all adjustments necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

CYIOS Corporation and Subsidiaries  
Consolidated Balance Sheet (Unaudited)

	As of September 30, 2009	As of December 31, 2008 Audited
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 12,360	\$ 27,070
Accounts Receivable	217,358	23,181
Prepaid and Other Current Assets	18,357	16,117
<b>TOTAL CURRENT ASSETS</b>	<b>248,075</b>	<b>66,368</b>
<b>FIXED ASSETS, NET</b>	<b>2,416</b>	<b>3,004</b>
<b>OTHER ASSETS</b>		
Related Party Loan	234,784	262,512
<b>TOTAL OTHER ASSETS</b>	<b>234,784</b>	<b>262,512</b>
<b>TOTAL ASSETS</b>	<b>\$ 485,275</b>	<b>\$ 331,884</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Line of Credit	\$ 78,892	\$ 88,392
Accounts Payable	40,933	46,113
Accruals and Other Payables	98,134	22,447
<b>TOTAL LIABILITIES</b>	<b>217,959</b>	<b>156,952</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Convertible Preferred Stock (\$.001 par value, 5,000,000 authorized: 29,713 and 29,713 issued and outstanding)	30	30
Common Stock (\$.001 par value, 100,000,000 shares authorized: 28,032,210 and 26,857,210 shares issued and outstanding)	28,032	26,857
Additional Paid-in-Capital	24,080,988	24,014,663
Accumulated Deficit	(23,841,734 )	(23,866,618 )
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>267,316</b>	<b>174,932</b>
	<b>\$ 485,275</b>	<b>\$ 331,884</b>

TOTAL LIABILITIES AND STOCKHOLDERS'  
DEFICIT

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

1

---

Table of Contents

CYIOS Corporation and Subsidiaries  
Consolidated Statement of Operations (Unaudited)

	Three Months Ended September		Nine Months Ended September 30,	
	2009	30, 2008	2009	2008
<b>SALES AND COST OF SALES</b>				
Sales	\$ 569,717	\$ 340,781	\$ 1,433,360	\$ 1,122,346
Cost of Sales	333,505	184,949	827,899	593,472
Gross Profit	236,212	155,832	605,461	528,874
<b>EXPENSES</b>				
Selling, general and administrative	16,592	25,431	56,513	81,469
Payroll Expense--Indirect Labor	188,023	140,567	435,418	422,278
Consulting and Professional Fees Expense	24,638	41,118	90,360	139,057
Depreciation	196	196	588	588
<b>TOTAL EXPENSES</b>	<b>229,449</b>	<b>207,312</b>	<b>582,879</b>	<b>643,392</b>
Net Income/(Loss) from Operations	6,762	(51,480 )	22,582	(114,518 )
<b>OTHER INCOME/(EXPENSE)</b>				
Interest Income	1,212	1,022	3,813	1,955
Interest Expense	(91 )	(1,386 )	(1,511 )	(6,344 )
<b>NET OTHER INCOME/(EXPENSE)</b>	<b>1,121</b>	<b>(364 )</b>	<b>2,302</b>	<b>(4,389 )</b>
<b>PROVISION FOR INCOME TAXES</b>				
	-	-	-	-
<b>NET INCOME/(LOSS)</b>	<b>7,884</b>	<b>(51,844 )</b>	<b>24,884</b>	<b>(118,907 )</b>
<b>Net income/(loss) per share--basic and fully diluted</b>				
	\$ 0.00	\$ (0.00 )	\$ 0.00	\$ (0.00 )
<b>Weighted average shares outstanding--basic and fully diluted</b>				
	27,839,945	25,987,466	27,750,018	25,774,609

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

Table of Contents

CYIOS Corporation and Subsidiaries  
Consolidated Statement of Stockholders' Deficit (Unaudited)

	Preferred Shares (000's)	Preferred Stock \$	Common Shares (000's)	Common Stock \$	Stock Subscription Receivable	Additional Paid-in Capital	Accumulated Deficit
Balances, December 31, 2007	29,713	\$30	25,354,210	\$25,354	\$ 136,000	\$23,886,536	\$(23,920,386)
Shares returned	-	-	(500,000 )	(500 )	(82,500 )	(74,500 )	-
Payments received for Stock Subscriptions	-	-	-	-	(48,500 )	-	-
Reduction for Uncollectible Stock Receivable	-	-	-	-	(5,000 )	(5,000 )	-
Shares issued for consulting services	-	-	2,003,000	2,003	-	207,627	-
Net Income (loss)	-	-	-	-	-	-	53,768
Balances, December 31, 2008	29,713	\$30	26,857,210	\$26,857	\$ -	\$24,014,663	\$(23,866,618)
Shares issued for consulting services	-	-	775,000	775	-	46,725	-
Shares sold	-	-	400,000	400	-	19,600	-
Net Income (loss)	-	-	-	-	-	-	24,884
Balances, September 30, 2009	29,713	\$30	28,032,210	\$28,032	\$ -	\$24,080,988	\$(23,841,734)

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



Table of Contents

CYIOS Corporation and Subsidiaries  
Consolidated Statements of Cash Flows (Unaudited)

	For the nine months ended September 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income/(loss)	\$24,884	\$(118,907 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	588	588
Value of Shares Issued for consulting/employee services	47,500	64,625
Reduction in Stock Receivable	-	7,500
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(194,177 )	4,400
(Increase)/Decrease in Prepaid and Other Current Assets	(2,240 )	(753 )
Increase/(Decrease) in Accounts Payable	(5,181 )	41,330
Increase/(Decrease) in Accruals and Other Payables	75,687	7,597
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(52,939 )</b>	<b>6,380</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase)/Decrease in Related Party Loan	27,728	(76,613 )
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>27,728</b>	<b>(76,613 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Issuance of Common Stock	20,000	5,300
Proceeds Received from Payments made on Stock Subscription Receivable	-	48,500
Payments on Line of Credit	(9,499 )	(7,584 )
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>10,501</b>	<b>46,216</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,710 )</b>	<b>(24,017 )</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of Period	27,070	45,498
End of Period	\$12,360	\$21,481
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Interest	\$1,511	\$6,344
Taxes	\$-	\$-
<b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Stock Issued for Prepaid Consulting Services	\$-	\$83,000
Stock Issued for Consulting Services	\$47,500	\$-
Return of 500,000 shares and reduction in related Stock Receivable	\$-	\$75,000

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



Table of Contents

CYIOS CORPORATION. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2009

(Unaudited)

NOTE A - ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The interim financial statements and summarized notes included herein were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to rules and regulations of the Securities and Exchange Commission. Because certain information and notes normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America were condensed or omitted pursuant to such rules and regulations, it is suggested that these financial statements be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included in CYIOS Corporations 10-K filed April 15, 2009. These interim financial statements and notes hereto reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. Such financial results should not be construed as necessarily indicative of future results

USE OF 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.

CASH EQUIVALENTS

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments, including cash, receivables and other current assets, are carried at amounts that approximate fair value. Accounts payable, loans and notes payable and other liabilities are carried at amounts that approximate fair value.

PROPERTY AND EQUIPMENT

The Company provides for depreciation of equipment using accelerated and straight-line methods based on estimated useful lives of five to seven years. Depreciation expense was \$196 and \$196 respectively for the three months ended September 30, 2009 and 2008; and \$588 and \$588 respectively for the nine months ended September 30, 2009 and 2008.

Table of Contents

REVENUE RECOGNITION/CONTRACTS

The Company derives revenue primarily from the sale and service of information technology services to the government. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is reasonably assured, contractual obligations have been satisfied and title and risk of loss have been transferred to the customer.

Revenue from the contracts is recognized using the specific performance method. Revenue on fixed-price contracts pursuant to which a client pays the Company a specified amount to provide only a particular service for a stated time period, or so-called fee-for-service arrangement, is recognized as amounts become billable, assuming all other criteria for revenue recognition are met. The Company bids on governmental contracts which are generally long-term for a fixed-price per contract. Once the company wins a contract and begins the project, the company bills on a monthly basis for the labor hours worked at the agreed upon price per hour—based on the contract. The company then recognizes the revenue on those actual hours that have been billed to the customer.

NET INCOME/ (LOSS) PER COMMON SHARE

The Company's current earnings per share (EPS) are shown in dual presentation of basic and diluted earnings per share (EPS) with a reconciliation of the numerator and denominator of the EPS computations. Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. If applicable, diluted earnings per share would assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. Accordingly, this presentation has been adopted for the period presented. There were no adjustments required to net loss for the period presented in the computation of diluted earnings per share.

ADVERTISING COSTS

Advertising costs are expensed as incurred. For the three months ended September 30, 2009 and 2008, the company incurred advertising expense of \$1,875 and \$2,728 respectively. For the nine months ended September 30, 2009 and 2008, the company incurred advertising expense of \$6,703 and \$8,499.

INCOME TAXES

We account for income taxes using the asset and liability method, which results in recognizing income tax expense based on the amount of income taxes payable or refundable for the current year. Additionally, we evaluate regularly the tax positions taken or expected to be taken resulting from financial statement recognition of certain items. Based on our evaluation, we have concluded that there are no significant uncertain tax positions.

Table of Contents

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued its final Statement of Financial Accounting Standards (SFAS) No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162”. SFAS No. 168 made the FASB Accounting Standards Codification (the Codification) the single source of U.S. GAAP used by nongovernmental entities in the preparation of financial statements, except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, which are sources of authoritative accounting guidance for SEC registrants. The Codification is meant to simplify user access to all authoritative accounting guidance by reorganizing U.S. GAAP pronouncements into roughly 90 accounting topics within a consistent structure; its purpose is not to create new accounting and reporting guidance. The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for the Company beginning July 1, 2009. Following SFAS No. 168, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates (ASU). The FASB will not consider ASUs as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification.

In August 2009, the FASB issued ASU 2009-05 which includes amendments to Subtopic 820-10, “Fair Value Measurements and Disclosures—Overall”. The update provides clarification that in circumstances, in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update. The amendments in this ASU clarify that a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability and also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance provided in this ASU is effective for the first reporting period, including interim periods, beginning after issuance. The adoption of this standard did not have a material impact on the Company’s consolidated financial position and results of operations.

Table of Contents

In September 2009, the FASB issued ASU 2009-06, Income Taxes (Topic 740), "Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities", which provides implementation guidance on accounting for uncertainty in income taxes, as well as eliminates certain disclosure requirements for nonpublic entities. For entities that are currently applying the standards for accounting for uncertainty in income taxes, this update shall be effective for interim and annual periods ending after September 15, 2009. For those entities that have deferred the application of accounting for uncertainty in income taxes in accordance with paragraph 740-10-65-1(e), this update shall be effective upon adoption of those standards. The adoption of this standard is not expected to have an impact on the Company's consolidated financial position and results of operations since this accounting standard update provides only implementation and disclosure amendments.

In September 2009, the FASB has published ASU No. 2009-12, "Fair Value Measurements and Disclosures (Topic 820) - Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)". This ASU amends Subtopic 820-10, "Fair Value Measurements and Disclosures – Overall", to permit a reporting entity to measure the fair value of certain investments on the basis of the net asset value per share of the investment (or its equivalent). This ASU also requires new disclosures, by major category of investments including the attributes of investments within the scope of this amendment to the Codification. The guidance in this Update is effective for interim and annual periods ending after December 15, 2009. Early application is permitted. The adoption of this standard did not have an impact on the Company's consolidated financial position and results of operations.

In October 2009, the FASB has published ASU 2009-13, "Revenue Recognition (Topic 605)-Multiple Deliverable Revenue Arrangements", which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, "Revenue Recognition-Multiple-Element Arrangements", for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and also requires expanded disclosures. The guidance in this update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

## ACCOUNTS RECEIVABLE

Accounts deemed uncollectible are written off in the year they become uncollectible. As of September 30, 2009, the Accounts Receivable balance was \$217,358 and the amount deemed uncollectible was \$0.

## PREFERRED STOCK

As of September 30, 2009, the outstanding preferred stock is 29,713.

## COMMON STOCK

The following table recaps the capital account transactions occurring during the 1st , 2nd , and 3rd quarters of 2009:

Month/Description of transaction	Number of shares	Price per share	Total Value
January--Stock Bonus issued to Employee	100,000	\$0.05	\$4,500

Edgar Filing: CYIOS CORP - Form 10-Q

January--Stock issued for Consulting Services	550,000	\$0.05	\$27,500
February--Stock Bonus issued to Employee	25,000	\$0.06	\$1,500
May--Stock issued for Consulting Services	100,000	\$0.14	\$14,000
May--Stock sold	400,000	\$0.05	\$20,000
Total	1,175,000		\$67,500

8

---

Table of Contents

STOCK-BASED COMPENSATION

Stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The Company has awarded stock-based compensation both as restricted stock and stock options. Any stock options granted were immediately exercised upon grant.

STOCK OPTIONS AND WARRANTS

On April 21, 2006, the Company's board of directors approved the 2006 Employee Stock Option Plan (the "2006 Plan"). The 2006 Plan provides for the issuance of a maximum of 3,000,000 shares of common stock in connection with stock options granted thereunder, plus an annual increase to be added on the first nine anniversaries of the effective date of the 2006 Plan, equal to at least (i) 1% of the total number of shares of common stock then outstanding, (ii) 350,000 shares, or (iii) a number of shares determined by the Company's board of directors prior to such anniversary date. The 2006 Plan has a term of 10 years and may be administered by the Company's board of directors or by a committee made up of not less than 2 members of appointed by the Company's board of directors.

Participation in the 2006 Plan is limited to employees, officer, directors and consultants of the Company and its subsidiaries. Incentive stock options granted pursuant to the 2006 Plan must have an exercise price per share not less than 100%, and non-qualified stock options not less than 85%, of the fair market value of our common stock on the date of grant. Awards granted pursuant to the 2006 Plan may not have a term exceeding 10 years and will vest upon conditions established by the Company's board of directors.

STOCK OPTIONS AND WARRANTS (CONT'D)

On April 21, 2006 the Company filed a registration statement on Form S-8 with the SEC registering 3,000,000 shares of common stock for issuance upon exercise of options granted pursuant to the 2006 Plan. As of December 31, 2007, options to acquire 1,812,300 shares of common stock were granted and exercised and there are 1,187,700 shares available for issuance under the 2006 Plan.

On November 12, 2007, the Company's board of directors approved the 2007 Equity Incentive Plan (the "2007 Plan"). The 2007 Plan provides for the issuance of a maximum of 3,500,000 shares of common stock in connection with awards granted thereunder, which may include stock options, restricted stock awards and stock appreciation rights. The 2007 Plan has a term of 10 years and may be administered by the Company's board of directors or by a committee appointed by the Company's board of directors (the "Committee"). Participation in the 2007 Plan is limited to employees, officer, directors and consultants of the Company and its subsidiaries.

Incentive stock options granted pursuant to the 2007 Plan must have an exercise price per share not less than 100%, and non-qualified stock options not less than 85%, of the fair market value of the Company's common stock on the date of grant. Awards granted pursuant to the 2007 Plan may not have a term exceeding 10 years and will vest upon conditions established by the Committee.

On November 29, 2006 the Company filed a registration statement on Form S-8 with the SEC registering 3,500,000 shares of common stock for issuance upon exercise of options granted and exercised pursuant to the 2007 Plan. As of December 31, 2007, options to acquire 2,054,000 shares of common stock were granted and exercised and there are 1,446,000 shares available for issuance under the 2007 Plan.



Table of Contents

Outstanding stock options and warrants as of September 30, 2009 are as follows:

	Options	Weighted average price per share	Warrants	Weighted average price per share
Outstanding at December 31, 2007	2,750,000	0.26		
For the year ended December 31, 2008				
Granted	2,003,000	0.26	-	
Options forfeited or expired	(335,716 )	0.13		
Options forfeited or expired	(400,000 )	0.29	-	
Exercised in 2008	(2,003,000)	0.26	-	-
Outstanding at December 31, 2007	2,014,284	0.13	-	-
For the period ended September 30, 2009				
Granted	1,275,000	0.06	-	
Options forfeited or expired	(251,787 )	0.13		
Exercised in the 1st quarter of 2009	(1,275,000)	0.06	-	
Outstanding at September 30, 2009	1,762,497	0.13	-	-

## NOTE B—INCOME TAXES

Due to the prior years' operating losses and the inability to recognize an income tax benefit, there is no provision for current or deferred federal or state income taxes for the year ended December 31, 2008.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for federal and state income tax purposes.

The Company's total deferred tax asset, calculated using federal and state effective tax rates, as of December 31, 2008 is as follows:

Total Deferred Tax Asset	\$2,281,257
Valuation Allowance	(2,281,257)
Net Deferred Tax Asset	\$-

The reconciliation of income taxes computed at the federal statutory income tax rate to total income taxes for the year ended December 31, 2008 is as follows:

	2008		2007	
Income tax computed at the federal statutory rate	34	%	34	%
State income tax, net of federal tax benefit	0	%	0	%
Total	34	%	34	%
Valuation allowance	-34	%	-34	%
Total deferred tax asset	0	%	0	%



Table of Contents

Because of the Company's lack of earnings history, the deferred tax asset has been fully offset by a valuation allowance. The valuation allowance increased (decreased) by \$(16,581) and \$(88,332) in 2008 and 2007, respectively. No tax benefits have been recorded for the nondeductible (tax) expenses (including stock for services) totaling \$17,210,808.

As of December 31, 2008, the Company had federal and state net operating loss carryforwards as follows of \$6,709,578 which will expire at various times through the year 2028.

## NOTE C—CONCENTRATION

The Company is either a prime or sub contractor on contracts with L-3 Communications, SERCO, TMS, Information Management Support Center (IMCEN) and GOMO/SLD. Loss of these contracts could have a material effect upon the Company's financial condition and results of operations.

## NOTE D—SEGMENT REPORTING

Net sales and Profit/ (Loss) by Segment for the three months ended September 30, 2009 and 2008 are broken down as follows:

Net Sales by Segment	For the Three Months Ended September 30, 2009			
	CYIOS			Totals
	CYIOS	Group	CKO	
Sales, net	\$ 569,717	\$ -	\$ -	\$ 569,717
Cost of Sales	333,505	-	-	333,505
Gross Profit	\$ 236,212	\$ -	\$ -	\$ 236,212

Profit/(Loss) by Segment	For the Three Months Ended September 30, 2009			
	CYIOS			Totals
	CYIOS	Group	CKO	
Net (Loss)	\$ 9,731	\$ -	\$ (1,847 )	\$ 7,884

Net Sales by Segment	For the Three Months Ended September 30, 2008			
	CYIOS			Totals
	CYIOS	Group	CKO	
Sales, net	\$ 340,781	\$ -	\$ -	\$ 340,781
Cost of Sales	184,949	-	-	184,949
Gross Profit	\$ 155,832	\$ -	\$ -	\$ 155,832

Profit/(Loss) by Segment	For the Three Months Ended September 30, 2008			
	CYIOS			Totals
	CYIOS	Group	CKO	
Net Operating Profit/(Loss)	\$ (50,419 )	\$ -	\$ (1,425 )	\$ (51,844 )



Table of Contents

Net sales and Profit/ (Loss) by Segment for the nine months ended September 30, 2009 and 2008 are broken down as follows:

## Net Sales by

## Segment

For the Nine Months Ended September 30, 2009

	CYIOS			Totals
	CYIOS	Group	CKO	
Sales, net	\$ 1,433,360	\$ -	\$ -	\$ 1,433,360
Cost of Sales	827,899	-	-	827,899
Gross Profit	\$ 605,461	\$ -	\$ -	\$ 605,461

## Profit/(Loss) by

## Segment

For the Nine Months Ended September 30, 2009

	CYIOS			Totals
	CYIOS	Group	CKO	
Net (Loss)	\$ 33,461	\$ (349 )	\$ (8,228 )	\$ 24,884

## Net Sales by

## Segment

For the Nine Months Ended September 30, 2008

	CYIOS				Totals
	CYIOS	Group	CKO	WorldTeq	
Sales, net	\$ 1,122,346	\$ -	\$ -	\$ -	\$ 1,122,346
Cost of Sales	593,472	-	-	-	593,472
Gross Profit	\$ 528,873	\$ -	\$ -	\$ -	\$ 528,873

## Profit/(Loss) by

## Segment

For the Nine Months Ended September 30, 2008

	CYIOS				Totals
	CYIOS	Group	CKO	WorldTeq	
Net Operating Profit/(Loss)	\$ (112,576 )	\$ (20 )	\$ (6,311 )	\$ -	\$ (118,907 )

## NOTE E—PENSION PLAN

The Company has a 401(k) plan which is administered by a third-party administrator. Individuals who have been employed for one month and reached the age of 21 years are eligible to participate. Employees may contribute up to the legal amount allowed by law. The Company matches one quarter of the employee's contribution up to a maximum of 4% of the employee's wages. Employees are vested in the Company's contribution 25% a year and are fully vested after four years. The Company's contributions for the three months ended September 30, 2009 and 2008 were \$6,399 and \$8,658 respectively. The Company's contributions for the nine months ended September 30, 2009 and 2008 were \$7,997 and \$23,987, respectively.

## NOTE F—COMMITMENTS/LEASES

The Company entered into a lease agreement on July 8, 2005 for office space. The current lease agreement is in effect from August 2008 to August 2009, and at that time is up for renewal. Monthly fees are \$1,040.

Total rent expense for the three months ended September 30, 2009 and 2008 was \$4,370 and \$4,549, respectively. Total rent expense for the nine months ended September 30, 2009 and 2008 was \$13,327 and \$13,654, respectively.

NOTE G—RELATED PARTIES

The Company has a Note Receivable with one of its officers and major shareholders. The note is payable on demand and bears 8% interest per annum. The outstanding balance as of September 30, 2009 is \$234,784.

Table of Contents

Annual payments including principal and interest are as follows:

Year-ended	Interest	Principal
2009	\$ 10,775	\$ 9,165
2010	\$ 17,445	16,738
2011	\$ 16,055	15,206
2012	\$ 14,551	19,632
2013	\$ 12,921	21,262
2014 and thereafter	\$ 35,299	152,781
Total principal and interest payments	\$ 107,046	\$ 234,784

The above Related Party Loan is secured by 8,000,000 shares of stock owned by the related party.

## NOTE H—NET INCOME/ (LOSS) PER COMMON SHARE

The Company's reconciliation of the numerators and denominators of the basic and fully diluted income per shares is as follows for the three months ended September 30, 2009 and 2008 are as follows:

	For the 3 months ended September 30, 2009			For the 3 Months Ended September 30, 2008		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net Income/(Loss)	\$24,884			\$(51,844 )		
Basic EPS						
Income available to common stockholders	24,884	27,810,232	\$0.00	(51,844 )	25,957,753	\$0.00
Effect of Dilutive Securities						
Warrants						
Convertible preferred stock		29,713			29,713	
Diluted EPS						
Net Income/(Loss)	24,884	27,839,945	\$0.00	(51,844 )	25,987,466	\$0.00

Table of Contents

The Company's reconciliation of the numerators and denominators of the basic and fully diluted income per shares is as follows for the nine months ended September 30, 2009 and 2008 are as follows:

	For the 9 months ended September 30, 2009			For the 9 Months Ended September 30, 2008		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net Income/(Loss)	\$24,884			\$(118,907 )		
Basic EPS						
Income available to common stockholders	24,884	27,720,305	\$0.00	(118,907 )	25,744,896	\$0.00
Effect of Dilutive Securities						
Warrants						
Convertible preferred stock		29,713			29,713	
Diluted EPS						
Net Income/(Loss)	24,884	27,750,018	\$0.00	(118,907 )	25,774,609	\$0.00

## NOTE I—LINE OF CREDIT

Two of the Company's subsidiaries have lines of credit with Bank of America. The line of credit for CKO is 10.75% interest and the line of credit for CYIOS Group is 14.75%. The outstanding balances of the line of credit by Subsidiary as of September 30, 2009 are as follows:

CKO	\$45,842
CYIOS Group	33,050
	\$78,892

## NOTE J—PREPAIDS

On January 29, 2009, the company issued 550,000 shares of common stock to a consulting firm for services to be rendered through the rest of 2009. The Company measured the value of the stock given for services at the date given, January 29, 2009 (measurement/grant date). The total value of the services has been estimated to be \$27,500 which is based on a fair market value per share of \$.05 on January 29, 2009. The company recorded this amount as prepaid and will expense the balance over the remaining 11 months of 2009. The total amount of the prepaid expensed in the first 3 quarters of 2009 was \$20,000, leaving a remaining prepaid balance of \$7,500 as of September 30, 2009.

## Item 2. Management's Discussion and Analysis

The following discussion should be read in conjunction with the Financial Statements and related notes thereto included elsewhere in this report.

## INTRODUCTION

CYIOS Corporation and its subsidiaries are collectively referred to as CYIOS. The following Management Discussion and Analysis of Financial Condition and Results of Operations was prepared by management and discusses material changes in the financial condition and results of operations and cash flows for 3rd quarter ended September 30, 2009 and 2008 for CYIOS. Such discussion and comments on the liquidity and capital resources should be read in



conjunction with the information contained in the accompanying unaudited consolidated financial statements prepared in accordance with U.S. GAAP.

Table of Contents

The discussion and comments contained hereunder include both historical information and forward-looking information. The forward-looking information, which generally is information stated to be anticipated, expected, or projected by management, involves known and unknown risks, uncertainties and other factors that may cause the actual results and performance to be materially different from any future results and performance expressed or implied by such forward-looking information. Potential risks and uncertainties include risks and uncertainties set forth under the heading “Risk Factors” and elsewhere in this Form 10-Q.

## CORPORATE OVERVIEW

CYIOS Corporation operates two subsidiaries. CYIOS Corporation and CKO Incorporated are the two vehicles where the company operates its business. The company, through its services subsidiary, CYIOS Corporation, provides innovative Business Transformation and Information Technology solutions to the United States Army, Department of Defense (DoD), and other prospective U.S. Government agencies. CYIOS Corporation supports its customers through a variety of current contract vehicles including prime contracts, subcontracts, sole source, blanket purchase agreements, and multiple award task orders extending as far out as 2010. CYIOS Corporation has received many commendations for its outstanding customer service and support in systems integration and application development, knowledge management and business transformation, and program and project management. As a certified Small Business, CYIOS Corporation provides its services within the following North American Industry Classification System (NAICS) codes:

518112	WEB SEARCH PORTALS
518210	DATA PROCESSING, HOSTING AND RELATED SERVICES
519100	OTHER INFORMATION SERVICES
519190	ALL OTHER INFORMATION SERVICES
541510	COMPUTER SYSTEMS DESIGN AND RELATED SERVICES
541511	CUSTOM COMPUTER PROGRAMMING SERVICES
541512	COMPUTER SYSTEMS DESIGN SERVICES
541513	COMPUTER FACILITIES MANAGEMENT SERVICES
541519	OTHER COMPUTER RELATED SERVICES
541611	ADMIN. MANAGEMENT AND GENERAL MGMT CONSULTING SERVICES
541618	OTHER MANAGEMENT CONSULTING SERVICES
541690	OTHER SCIENTIFIC AND TECHNICAL CONSULTING SERVICES

CKO Incorporated is CYIOS’ subsidiary, which offers the product CYIPRO; a business transformation tool that utilizes the first project based operating system (OS). This new project OS is the nucleus of why CYIPRO can transform your people, processes and information into a productive, effective and rich environment. CYIPRO securely brings the latest concepts of business transformation and technology to fruition. CYIOS built the prototype for the U.S. Army, named AKO, which now serves over 1.8 million Army users worldwide and has built CYIPRO to complement knowledge management and business transformation for agencies and commercial business. CYIPRO was developed as an agency-level business transformation solution in response to Government initiatives in teleworking led by OPM and GSA; the President’s Management Agenda and its focus on retaining human capital; FISMA, HSPD-12 and PKI for secure communications through common access cards; Lean Six Sigma to improve workflow and reduce redundancies; and the Clinger-Cohen Act to improve efficiencies in technology. CYIPRO has been positioned to work in conjunction with the AKO model to sell as a customized product to Federal, State and Local Governments. This, in turn, can lead to growth in service contracts for business transformation and modernization solutions.



Table of Contents

RECENT DEVELOPMENTS

In the 3rd Quarter 2009, our numbers show significant profit over last year this time. We are a public company without the benefits of raising capital for the company and this is a serious issue with our growth. We have engaged with a financial advisor and file an S-8 to issue shares for payment. This advisor will help find the right investor(s) to help fuel our business growth – with this help in the neighborhood initially \$300,000 up to \$1M. Our growth will be substantially higher and really has no hard line of a ceiling once we have these funds in place. Our industry is over \$100 billion dollar industry and we have proven our capabilities and shown our successes. We are currently speaking with investors and plan on closing a deal very shortly.

FINANCIAL CONDITION

We currently have financial resources to support our operational (overhead) staff and our product, CYIPRO. We have been profitable and have outstanding bids waiting to be awarded. We sustained a profit for the 1st, 2nd and now third quarter of 2009. We are looking for, and engaged with, investors to raise capital for growth and to establish our advisory board.

OVERVIEW

CYIOS does business as a leading systems integrator and Knowledge Management Solutions provider supporting the United States Army. All of CYIOS' revenue is derived from the services it provides for single and multiple year awards to different US Army and US Government agencies. CKO, Inc., one of the CYIOS subsidiaries provides a designed online office management product which is known as CYIPRO. For the three and nine months ended September 30, 2009 and 2008, CYIOS received no revenue from CYIPRO.

RESULTS OF OPERATIONS

Revenue: Total sales for the 3rd quarter 2009 were \$569,717 as compared to \$340,781 in sales for the 3rd quarter 2008, an increase of approximately 40.18%. Total sales for the nine months ended September 30, 2009 were \$1,433,360 as compared to total sales for the nine months ended September 30, 2008 of \$1,122,346, an increase of 21.70 %. The overall increase in sales was due to the Company winning new contracts in 2009.

Cost of Sales: Cost of sales for the 3rd quarter ended September 30, 2009 were \$333,505, resulting in a gross profit of \$236,212 (41.46% gross profit margin) compared to cost of sales for the 3rd quarter ended September 30, 2008 of \$184,949, resulting in a gross profit of \$155,821 (45.73% gross profit margin). Cost of sales for the for the nine months ended September 30, 2009 were \$827,899, resulting in a gross profit of \$605,461 (42.24% gross profit margin) compared to cost of sales for the same period ended in 2008 of \$593,472, resulting in a gross profit of \$528,874 (47.12% gross profit margin). Cost of sales have increased for the 3rd quarter in 2009 as compared to 2008 by approximately 34.03% overall. Cost of sales for the nine months ended September 30, 2009 increased 28.32 % over the same period for 2008. Cost of sales consists solely of direct labor expense which can best be described as contracted services being rendered. We have to pay higher than average salaries to employ the best trained staff and we must also offer the best benefits for these staff.

Table of Contents

Indirect Labor: Indirect labor expense increased by \$47,456 or approximately 25.24% to \$188,023 for the 3rd quarter ended September 30, 2009 from \$140,567 for the 3rd quarter ended September 30, 2008. Indirect labor expense also increased by \$13,144 or approximately 3.02% to \$435,422 for the nine months ended September 30, 2009 from \$422,278 for the same period ended in 2008. The increase is a direct result of the hiring of a new administrative staff person.

Consulting and Professional Fees: Consulting and professional fees for the 3rd quarter ended September 30, 2009 was \$24,638 as compared to \$41,118 for the 3rd quarter ended September 30, 2008, resulting in a decrease of \$47,456. Consulting and professional fees for the nine months ended September 30, 2009 was \$90,360 as compared to \$139,057 for the for the same period ended in 2008, resulting in a decrease of \$48,697. The overall decrease from 2009 to 2008 was a result of a decrease in our use of consultants' services.

Depreciation and Interest Expense: Interest expense for the 3rd quarter ended September 30, 2009 was \$91, as compared to \$1,386 for the 3rd quarter ended September 30, 2008. Total interest expense for the nine months ended September 30, 2009 was \$1,511 as compared to \$6,344 for the same period in 2008. The reduction is a result in the reduction of the principal balance on the Lines of Credit. Depreciation expense for the 3rd quarter ended September 30, 2009 was \$196 as compared to \$196 for the same quarter ended September 30, 2008. Depreciation expense for the nine months ended September 30, 2009 and 2008 were \$588 for both.

Selling, General, and Administrative: Selling, general and administrative expenses for the 3rd quarter ended September 30, 2009 was \$16,592 as compared to \$25,431 for the 3rd quarter ended September 30, 2008—a decrease of \$8,839 or approximately 53.27%. Selling, general and administrative expense for the nine months ended September 30, 2009 was \$56,510 as compared to \$81,469 for the same period ended in 2008—a decrease of \$24,959 or approximately 44.17%. Selling, general, and administrative expenses consist primarily of advertising, conference fees, fees, insurance, office supplies, rent, and travel and entertainment expenses. The company has made an effort to reduce these expenses to only what is necessary.

Net Income/(Loss) from Operations: Net income for the 3rd quarter ended September 30, 2009 was \$7,884 as compared to a net loss of \$51,844 for the 3rd quarter ended September 30, 2008—an increase of \$59,728. The increase is primarily due to the fact that we won new contracts and our sales have increased and we have trimmed our Selling, general and administrative expenses. Net income for the nine months ended September 30, 2009 totaled \$24,883 compared to a net loss of \$118,907 for the same period in 2008. We have won new contracts which have resulted in additional sales, and we should continue to be profitable for the remainder of 2009.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity: At September 30, 2009, CYIOS had cash and cash equivalents of \$12,360, compared with \$21,481 at September 30, 2008, a decrease of \$9,121.

During the nine months ending September 30, 2009, cash used in operating activities was \$52,939, consisting primarily of the net income for the nine months ended September 30, 2009 of \$24,884 offset by non-cash charges to:

- Depreciation charges of \$588;
- Stock based compensation in the amount of \$47,500;

Table of Contents

- Working capital changes of \$125,911, consisting of a net increase of \$196,417 in Accounts Receivable and Other Assets and a net increase of \$70,506 in Accrued Expenses, Payroll Taxes Payable, and Accounts Payable.

Investing activities for the nine months ended September 30, 2009 provided cash in the amount of \$27,728, consisting of a decrease in the Shareholder’s Loan Receivable.

Financing activities for the nine months ended September 30, 2009 provided cash in the amount of \$10,501, consisting of:

- Proceeds from the sale of Common Stock in the amount of \$20,000 less.
- Payments made on the Line of Credit in the amount of \$9,499.

Our long-term working capital and capital requirements will depend upon numerous factors, including our efforts to continue to improve operational efficiency and conserve cash.

Off-Balance Sheet Arrangements: The Company does not have any off-balance sheet arrangements with any party.

Critical Accounting Estimates: There have been no material changes in our critical accounting policies or critical accounting estimates since 2000 nor have we adopted an accounting policy that has or will have a material impact on our consolidated financial statements.

OUTSTANDING SHARE DATA

The outstanding share data as of September 30, 2009 and 2008 is as follows:

	Number of shares outstanding	
	2009	2008
Common Shares	28,032,210	26,107,210
Preferred Shares	29,713	29,713

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Management does not believe that there is any material risk exposure with respect to derivative or other financial instruments that would require disclosure under this item.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within the specified time periods. Our Chief Executive Officer and its Principal Financial Officer (collectively, the “Certifying Officers”) are responsible for maintaining our disclosure controls and procedures. The controls and procedures established by us are designed to provide reasonable assurance that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms.

Table of Contents

As of the end of the period covered by this report, the Certifying Officers evaluated the effectiveness of our disclosure controls and procedures. Based on the evaluation, the Certifying Officers concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

The Certifying Officers have also concluded, based on their evaluation of our controls and procedures that as of September 30, 2009, our internal controls over financial reporting are effective and provide a reasonable assurance of achieving their objective.

The Certifying Officers have also concluded that there was no change in our internal controls over financial reporting identified in connection with the evaluation that occurred during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

During the year 2008, we became aware of the fact that the Shareholder Loan outstanding to our CEO and major shareholder is considered to be a prohibited transaction according to Section 402 of the Sarbanes-Oxley Act of 2002. However, Section 402 does contain a grandfather clause exempting from the prohibition any loans maintained by the issuer on July 30, 2002; provided, however, that there are no material modifications to, or renewal of the terms of, such loans following that date. A portion of the Shareholder Loan does meet the exemption rules of the grandfather clause; however, after that date additional amounts were added to the Shareholder Loan. The Company has addressed this issue and is disclosing the matter here and has executed a new promissory note for the full amount owed to the Company of \$262,512. The terms of the promissory note state that the payoff of the note must be made within a reasonable amount of time and bears an interest rate of 8% per annum. The outstanding balance of the Shareholder Loan was \$234,784 as of September 30, 2009. The Company will no longer make payments to the CEO or any other executive officer or director that would be classified as a loan.

Item 4T. Controls and Procedures

(a) Conclusions regarding disclosure controls and procedures. Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Exchange Act as of September 30, 2009, and, based on their evaluation, as of the end of such period, the our disclosure controls and procedures were effective as of the end of the period covered by the Quarterly Report,

Table of Contents

(b) Management's Report On Internal Control Over Financial Reporting. It is management's responsibilities to establish and maintain adequate internal controls over the Company's financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers and effected by the issuer's management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management of the issuer; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

As of the end of the period covered by the Quarterly Report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of our internal control over financial reporting.

Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

Based on that evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, internal controls over financial reporting were effective as of the end of the period covered by the Report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.



Table of Contents

This Quarterly Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Quarterly Report.

(c) Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

RISK FACTORS

Our business entails a significant degree of risk and uncertainty, and an investment in our securities should be considered highly speculative. What follows is a general description of the material risks and uncertainties, which may adversely affect our business, our financial condition, including liquidity and profitability, and our results of operations, ultimately affecting the value of an investment in shares of our common stock. In addition to other information contained in this Form 10-Q, you should carefully consider the following cautionary statements and risk factors:

General Business Risks

Our limited operating history may not serve as an adequate basis upon which to judge our future prospects and results of operations.

We were incorporated in October 1997, but only began our present operation in September 2005, and, as such, we have a limited operating history, and our historical operating activities may not provide a meaningful basis upon which to evaluate our business, financial performance or future prospects.

We may not be able to achieve similar operating results in future periods, and, accordingly, you should not rely on our results of operation for prior periods as indications of our future performance.

## Table of Contents

Our historical operating losses and negative cash flows from operating activities raise an uncertainty as to our ability to continue as a going concern.

We have a history of operating losses and negative cash flows from operating activities. In the event that we are unable to sustain our current profitability or are otherwise unable to secure external financing, we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern. Any such inability to continue as a going concern may result in our security holders losing their entire investment. Our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles, contemplate that we will continue as a going concern and do not contain any adjustments that might result if we were unable to continue as a going concern. Changes in our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our expansion plans, lower than anticipated revenues, increased expenses, potential acquisitions or other events will all affect our ability to continue as a going concern.

Our liquidity and capital resources are very limited.

Our ability to fund working capital and anticipated capital expenditures will depend on our future performance, which is subject to general economic conditions, our ability to win government contracts, our private customers, actions of our competitors and other factors that are beyond our control. Our ability to fund operating activities is also dependent upon (i) the extent and availability of bank and other credit facilities, (ii) our ability to access external sources of financing, and (iii) our ability to effectively manage our expenses in relation to revenues. There can be no assurance that our operations and access to external sources of financing will continue to provide resources sufficient to satisfy liabilities arising in the ordinary course of our business.

Our accumulated deficit makes it more difficult for us to borrow funds.

As of the fiscal year ended December 31, 2008, and as a result of historical operating losses from prior years, our accumulated deficit was \$23,866,618. Lenders generally regard an accumulated deficit as a negative factor in assessing creditworthiness, and for this reason, the extent of our accumulated deficit coupled with our historical operating losses will negatively impact our ability to borrow funds if and when required. Any inability to borrow funds, or a reduction in favorability of terms upon which we are able to borrow funds, including the amount available to us, the applicable interest rate and the collateralization required, may affect our ability to meet our obligations as they come due, and adversely affect on our business, financial condition, and results of operations, raising substantial doubts as to our ability to continue as a going concern.

### Risks Associated with our Business and Industry

We depend on contracts with federal government agencies for all of our revenue, and if our relationships with these agencies were harmed our future revenues and growth prospects would be adversely affected.

Revenues derived from contracts with federal government agencies accounted for all of our revenues for the 1st quarter ended September 30, 2009, and we believe that federal government agencies will continue to be the source of all or substantially all of our revenues for the foreseeable future.

For this reason, any issues that compromise our relationship with agencies of the federal government in general, or with the Department of Defense in particular, would have a substantial adverse effect on our business. Key among the factors in maintaining our relationships with federal government agencies are our performance on individual contracts, the strength of our professional reputation and the relationships of our key executives with government personnel. To the extent that our performance does not meet expectations, or our reputation or relationships with one or more key personnel are impaired, our business, financial condition and results of operations will be negatively affected and we

may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

Table of Contents

The federal government may modify, curtail or terminate our contracts at any time prior to their completion, which would have a material adverse affect on our business.

Federal government contracts are highly regulated and federal laws and regulations require that our contracts contain certain provisions which allow the federal government to, among other things:

- terminate current contracts at any time for the convenience of the government, provided such termination is made in good faith;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- curtail or modify current contracts if requirements or budgetary constraints change; and
- Adjust contract costs and fees on the basis of audits done by its agencies.

Should the federal government modify, curtail or terminate our contracts for any reason, we may only recover our costs incurred and profit on work completed prior to such modification, curtailment or termination. The federal government regularly reviews our costs and performance on its contracts, as well as our accounting and general business practices. The federal government may reduce the reimbursement for our fees and contract-related costs as a result of such an audit. There can be no assurance that one or more of our federal government contracts will not be modified, curtailed or terminated under these circumstances, or that we would be able to procure new federal government contracts to offset the revenue lost as a result of any modification, curtailment or termination. As our revenue is dependent on our procurement, performance and receipt of payment under our contracts with the federal government, the loss of one or more critical contracts could have a material adverse effect on our business, financial condition and results of operations and we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

The federal government has increasingly relied upon contracts that are subject to a competitive bidding process. If we are unable to consistently win new awards under these contracts our business may be adversely affected.

We obtain many of our contracts with the federal government through a process of competitive bidding and, as the federal government has increasingly relied upon contracts that are subject to competitive bidding, we expect that much of the business we are awarded in the foreseeable future will be through such a process.

There are substantial costs and a number of risks inherent in the competitive bidding process, including the costs associated with management time necessary to prepare bids and proposals that we may not be awarded, our failure to accurately estimate the resources and costs required to service contracts that we are awarded, and the risk that we may encounter unanticipated expenses, delays or modifications to contracts previously awarded. Our failure to effectively compete and win contracts through, or manage the costs and risks inherent in the competitive bidding process could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Our revenues and growth prospects may be adversely affected if we or our employees are unable to obtain the requisite security clearances or other qualifications needed to perform services for our customers.

Many federal government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue anticipated from the contract. Employee misconduct, including security breaches, or our failure to comply with laws or regulations applicable to our business could cause us to lose customers or our ability to contract with the federal government, which would have a material adverse effect on our business, financial condition and results of operations and we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

Because we are a federal government contractor, misconduct, fraud or other improper activities by our employees or our failure to comply with applicable laws or regulations could have a material adverse effect on our business and reputation.

Because we are a federal government contractor, misconduct, fraud or other improper activities by our employees or our failure to comply with applicable laws or regulations could have a material adverse effect on our business and reputation. Such misconduct could include the failure to comply with federal government procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in federal government contracts and any other applicable laws or regulations. Many of the systems we develop involve managing and protecting information relating to national security and other sensitive government functions. A security breach in one of these systems could prevent us from having access to such critically sensitive systems. Other examples of potential employee misconduct include time card fraud and violations of the Anti-Kickback Act. The precautions we take to prevent and detect these activities may not be effective, and we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees could subject us to fines and penalties, loss of security clearance and suspension or debarment from contracting with the federal government, any of which would have a material adverse effect on our business, financial condition and results of operations and we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts, which affect how we do business with our customers. Such laws and regulations may potentially impose added costs on our business and our failure to comply with applicable laws and regulations may lead to penalties and the termination of our federal government contracts. Some significant regulations that affect us include:

Table of Contents

- the Federal Acquisition Regulations and their supplements, which regulate the formation, administration and performance of federal government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations; and
- The Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based government contracts.

Additionally, our contracts with the federal government are subject to periodic review and investigation. Should such a review or investigation identify improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including the termination of our contracts, forfeiture of profits, the triggering of price reduction clauses, suspension of payments, fines and suspension or debarment from doing business with federal government agencies. We could also suffer harm to our reputation, which would impair our ability to win awards of contracts in the future or receive renewals of existing contracts. Although we have never had any material civil or criminal penalties or administrative sanctions imposed upon us, it is not uncommon for companies in our industry to have such penalties and sanctions imposed on them. If we incur a material penalty or administrative sanction in the future, our business, financial condition and results of operations could be adversely affected.

Our business is subject to routine audits and cost adjustments by the federal government, which, if resolved unfavorably to us, could adversely affect our financial condition.

Federal government agencies routinely audit and review their contractors' performance, cost structure and compliance with applicable laws, regulations and standards. They also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Such audits may result in adjustments to our contract costs, and any costs found to be improperly allocated will not be reimbursed.

We incur significant pre-contract costs that if not reimbursed would deplete our cash balances and adversely affect our financial condition.

We often incur costs on projects outside of a formal contract when customers ask us to begin work under a new contract that has yet to be executed, or when they ask us to extend work we are currently doing beyond the scope of the initial contract.

We incur such costs at our risk, and it is possible that the customers will not reimburse us for these costs if we are ultimately unable to agree on a formal contract which could have an adverse effect on our business, financial condition and results of operations.

Table of Contents

Our intellectual property may not be adequately protected from unauthorized use by others, which could increase our litigation costs and adversely affect our business.

Our intellectual properties, including our brands, are some of the most important assets that we possess in our ability to generate revenues and profits and we rely significantly on these intellectual property assets in being able to effectively compete in our markets. However, our intellectual property rights may not provide meaningful protection from unauthorized use by others, which could result in an increase in competing products and services and a reduction in our own ability to generate revenue. Moreover, if we must pursue litigation in the future to enforce or otherwise protect our intellectual property rights, or to determine the validity and scope of the proprietary rights of others, we may not prevail and will likely have to make substantial expenditures and divert valuable resources in any case.

We face substantial competition in attracting and retaining qualified senior management and key personnel and may be unable to develop and grow our business if we cannot attract and retain as necessary, or if we were to lose our existing, senior management and key personnel.

Our success, to a large extent, depends upon our ability to attract, hire and retain highly qualified and knowledgeable senior management and key personnel who possess the skills and experience necessary to execute our business strategy. Our ability to attract and retain such senior management and key personnel will depend on numerous factors, including our ability to offer salaries, benefits and professional growth opportunities that are comparable with and competitive to those offered by more established companies operating in our industries and market segments. We may be required to invest significant time and resources in attracting and retaining, as necessary, additional senior management and key personnel, and many of the companies with which we will compete for any such individuals have greater financial and other resources, affording them the ability to undertake more extensive and aggressive hiring campaigns, than we can. Furthermore, an important component to overall compensation offered to senior management and key personnel may be equity. If our stock prices do not appreciate over time, it may be difficult for us to attract and retain senior management and key personnel. Moreover, should we lose our key personnel, we may be unable to prevent the unauthorized disclosure or use of our trade secrets, including our practices, procedures or client lists. The normal running of our operations may be interrupted, and our financial condition and results of operations negatively affected, as a result of any inability on our part to attract or retain the services of qualified and experienced senior management and key personnel, our existing key personnel leaving and a suitable replacement not being found, or should any former member of senior management or key personnel disclose our trade secrets.

The loss of our Chief Executive Officer could have a material adverse effect on our business.

Our success depends to a large degree upon the skills, network and professional business contacts of our Chief Executive Officer, Timothy Carnahan. We have no employment agreement with, Timothy Carnahan, and there can be no assurance that we will be able to retain him or, should he choose to leave us for any reason, to attract and retain a replacement or additional key executives. The loss of our Chief Executive Officer would have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations, raising substantial doubts as to our ability to continue as a going concern.

Risks Associated with an Investment in our Common Stock

Table of Contents

Unless an active trading market develops for our securities, you may not be able to sell your shares.

Although, we are a reporting company and our common shares are quoted on the OTC Bulletin Board (owned and operated by the NASDAQ Stock Market, Inc.) under the symbol “CYIO”, there is not currently an active trading market for our common stock and an active trading market may never develop or, if it does develop, may not be maintained. Failure to develop or maintain an active trading market will have a generally negative effect on the price of our common stock, and you may be unable to sell your common stock or any attempted sale of such common stock may have the effect of lowering the market price and therefore your investment could be a partial or complete loss.

Since our common stock is thinly traded it is more susceptible to extreme rises or declines in price, and you may not be able to sell your shares at or above the price paid.

Since our common stock is thinly traded its trading price is likely to be highly volatile and could be subject to extreme fluctuations in response to various factors, many of which are beyond our control, including:

- the trading volume of our shares;
- the number of securities analysts, market-makers and brokers following our common stock;
- changes in, or failure to achieve, financial estimates by securities analysts;
- new products or services introduced or announced by us or our competitors;
- actual or anticipated variations in quarterly operating results;
- conditions or trends in our business industries;
- announcements by us of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- sales of our common stock; and
- General stock market price and volume fluctuations of publicly-traded, and particularly microcap, companies.

You may have difficulty reselling shares of our common stock, either at or above the price you paid, or even at fair market value.

The stock markets often experience significant price and volume changes that are not related to the operating performance of individual companies, and because our common stock is thinly traded it is particularly susceptible to such changes. These broad market changes may cause the market price of our common stock to decline regardless of how well we perform as a company. In addition, securities class action litigation has often been initiated following periods of volatility in the market price of a company’s securities. A securities class action suit against us could result in substantial legal fees, potential liabilities and the diversion of management’s attention and resources from our business. Moreover, and as noted below, our shares are currently traded on the OTC Bulletin Board and, further, are subject to the penny stock regulations. Price fluctuations in such shares are particularly volatile and subject to manipulation by market-makers, short-sellers and option traders.





Table of Contents

Trading in our common stock on the OTC Bulletin Board may be limited thereby making it more difficult for you to resell any shares you may own.

Our common stock is quoted on the OTC Bulletin Board (owned and operated by the NASDAQ Stock Market, Inc). The OTC Bulletin Board is not an exchange and, because trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on a national exchange or on the NASDAQ National Market, you may have difficulty reselling any of the shares of our common stock that you may own.

Our common stock is subject to the “penny stock” regulations, which are likely to make it more difficult to sell.

Our common stock is considered a “penny stock,” which generally is a stock trading under \$5.00 and not registered on a national securities exchange or quoted on the NASDAQ National Market. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. These rules generally have the result of reducing trading in such stocks, restricting the pool of potential investors for such stocks, and making it more difficult for investors to sell their shares once acquired. Prior to a transaction in a penny stock, a broker-dealer is required to:

- deliver to a prospective investor a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market;
  - provide the prospective investor with current bid and ask quotations for the penny stock;
- explain to the prospective investor the compensation of the broker-dealer and its salesperson in the transaction;
- provide investors monthly account statements showing the market value of each penny stock held in the their account; and
- Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction.

Table of Contents

These requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that is subject to the penny stock rules. Since our common stock is subject to the penny stock rules, investors in our common stock may find it more difficult to sell their shares.

Future issuances by us or sales of our common stock by our officers or directors may dilute your interest or depress our stock price.

We may issue additional shares of our common stock in future financings or may grant stock options to our employees, officers, directors and consultants under our 2006 Employee Stock Option Plan and 2007 Equity Incentive Plan. Any such issuances could have the effect of depressing the market price of our common stock and, in any case, would dilute the interests of our common stockholders. Such a depression in the value of our common stock could reduce or eliminate amounts that would otherwise have been available to pay dividends on our common stock (which are unlikely in any case) or to make distributions on liquidation. Furthermore, shares owned by our officers or directors which are registered in a registration statement, or which otherwise may be transferred without registration pursuant to an applicable exemptions under the Securities Act of 1933, as amended, may be sold. Because of the perception by the investing public that a sale by such insiders may be reflective of their own lack of confidence in our prospects, the market price of our common stock could decline as a result of a sell-off following sales of substantial amounts of common stock by our officers and directors into the public market, or the mere perception that these sales could occur.

We do not intend to pay any common stock dividends in the foreseeable future.

We have never declared or paid a dividend on our common stock and, because we have very limited resources and a substantial accumulated deficit, we do not anticipate declaring or paying any dividends on our common stock in the foreseeable future. Rather, we intend to retain earnings, if any, for the continued operation and expansion of our business. It is unlikely, therefore, that the holders of our common stock will have an opportunity to profit from anything other than potential appreciation in the value of our common shares held by them. If you require dividend income, you should not rely on an investment in our common stock.

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

None to report

Item 3. Defaults Upon Senior Securities.

Not Applicable

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

Not Applicable

Item 5. Other Information.

Not Applicable

Table of Contents

Item 6. Exhibits

The exhibits to this form are listed in the attached Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYIOS Corporation  
(Registrant)

Date: October 30, 2009

/s/ Timothy Carnahan  
Timothy Carnahan  
Chairman of the Board,  
Chief Executive Officer and Principal  
Financial Officer

Table of Contents

INDEX TO EXHIBITS

Exhibit No.      Description

31.1              Certification of Timothy Carnahan, Chairman, Chief Executive Officer and Principal Financial Officer.\*

32                Statement required by 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.\*

\* filed herein