

CYIOS CORP  
Form 10-Q  
July 27, 2011

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

**June 30, 2011**

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

03-7392107

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

1300 PENNSYLVANIA AVE, SUITE 700 WASHINGTON DC

20004

(Address of principal executive offices)

Edgar Filing: CYIOS CORP - Form 10-Q

(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. x 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 x NO

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

x 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 x 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 36,311,640 common stock shares and 29,713 preferred shared convertible to common at a 1:1 ratio, par value \$0.001, as of July 27, 2011.

#### 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

Balance Sheet

Statement of Operations 3 months

Statement of Operations 6 months

Statement of Stockholders' Equity

Statement of Cash Flows

### RESULTS OF OPERATIONS

### Part II – OTHER INFORMATION

## Part I - FINANCIAL INFORMATION

### Item 1. Financial Statements and Supplementary Information

In the opinion of management, the accompanying unaudited consolidated 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.

#### *Balance Sheet*

[back to Table of Contents](#)

#### CYIOS Corporation and Subsidiaries

#### Consolidated Balance Sheet

As of

As of

June 30,

December 31,

2011 (unaudited)

2010 (audited)

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents

\$ 44,568

\$ 27,603

Accounts Receivable

191,674

172,937

Interest Receivable--Related Party

34,663

25,903

Prepaid and Other Current Assets

550

76,717

TOTAL CURRENT ASSETS

271,455

303,160

FIXED ASSETS, NET

=

1,436

OTHER ASSETS

Related Party Loan

219,284

219,284

TOTAL OTHER ASSETS

219,284

219,284

**TOTAL ASSETS**

**\$ 490,739**

**\$ 523,880**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**LIABILITIES**

Current Liabilities:

Line of Credit

\$ 41,271

\$ 51,468

Convertible Note Payable

-

36,000

Accounts Payable

-

9,452

Accruals and Other Payables

59,190

60,888

**TOTAL LIABILITIES**

100,461

157,808

**STOCKHOLDERS' EQUITY**

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:

36,311,650 and 37,711,640 shares issued and outstanding)

36,311

37,711

Additional Paid-in-Capital

24,496,376

24,592,976

Accumulated Deficit

(24,142,439)

(24,264,645)

TOTAL STOCKHOLDERS' EQUITY

390,278

366,072

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY**

**\$ 490,739**

**\$ 523,880**

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

---

*Statement of Operations 3 months*

[back to Table of Contents](#)

**CYIOS Corporation and Subsidiaries**

**Consolidated Statement of Operations--(unaudited)**

**For the three months ended June 30,**

**2011**

**2010**

**SALES AND COST OF SALES**

**Sales**

\$ 495,049

\$ 459,679

**Cost of Sales**

215,606

264,142

**Gross Profit**

279,443

195,537

**EXPENSES**

**Selling, general and administrative**

28,994

25,048

**Payroll Expense--Indirect Labor**

141,732

148,179

**Consulting and Professional Fees Expense**

34,100

18,876

**Payroll Expense--Stock Compensation**

-

-

**Consulting Expense--Stock Compensation**

2,250

21,667

**Depreciation**

-

196

**TOTAL EXPENSES**

207,076

213,966

**Net Income/(Loss) from Operations**

72,367

(18,429)

**OTHER INCOME/(EXPENSE)**

**Interest Income--Related Party**

4,386

4,674

**Interest Expense**

(2,514)

(2,635)

**Loss on Disposal of Equipment**

-

-

**NET OTHER INCOME/(EXPENSE)**

1,872

2,039

**PROVISION FOR INCOME TAXES**

-

-

**NET INCOME/(LOSS) FROM CONTINUING OPERATIONS**



74,238

(16,390)

**Net Income/(Loss)**

\$ 74,238

\$ (16,390)

**Net income/(loss) per share--basic and fully diluted**

\$ 0.00

\$ (0.00)

**Weighted average shares outstanding--basic and fully diluted**

36,341,353

35,728,690

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

---

***Statement of Operations 6 months***

[back to Table of Contents](#)

**CYIOS Corporation and Subsidiaries**

**Consolidated Statement of Operations--(unaudited)**

**For the six months ended June 30,**

**2011**

**2010**

**SALES AND COST OF SALES**

**Sales**

\$ 970,138

\$ 905,955

**Cost of Sales**

487,257

530,441

**Gross Profit**

482,881

375,514

**EXPENSES**

**Selling, general and administrative**

44,611

53,300

**Payroll Expense--Indirect Labor**

283,389

306,249

**Consulting and Professional Fees Expense**

68,426

47,256

**Payroll Expense--Stock Compensation**

-

350,000

**Consulting Expense--Stock Compensation**

(31,833)

35,833

**Depreciation**

-

393

**TOTAL EXPENSES**

364,592

793,031

**Net Income/(Loss) from Operations**

118,288

(417,517)

**OTHER INCOME/(EXPENSE)**

**Interest Income--Related Party**

8,759

5,981

**Interest Expense**

(3,405)

(5,282)

**Loss on Disposal of Equipment**

(1,437)

-

**NET OTHER INCOME/(EXPENSE)**

3,918

699

**PROVISION FOR INCOME TAXES**

-

-

**NET INCOME/(LOSS) FROM CONTINUING OPERATIONS**

122,206

(416,818)

**Net Income/(Loss)**

\$ 122,206

\$ (416,818)

**Net income/(loss) per share--basic and fully diluted**

\$ 0.00

\$ (0.01)

**Weighted average shares outstanding--basic and fully diluted**

36,341,353

35,728,590

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

---

*Statement of Stockholders' Equity*

[back to Table of Contents](#)

**CYIOS Corporation and Subsidiaries**

**Consolidated Statement of Stockholders' Equity (Unaudited)**

Preferred  
 Preferred  
 Common  
 Common  
 Additional  
 Shares  
 Stock  
 Shares  
 Stock  
 Paid-in  
 Accumulated  
 (000's)  
 \$  
 (000's)  
 \$  
 Capital  
 Deficit

Totals

**Balances, December 31, 2009**

29,713

\$ 30

30,148,877

\$ 30,149

\$ 24,199,038

\$ (23,870,594)

\$ 358,623

**Shares issued for consulting services**

-

-

1,000,000

1,000

36,500

-

37,500

**Shares issued to executive officer as a bonus**

-

-

5,000,000

5,000

345,000

-

350,000

**Portion of Note Payable converted to Shares**

-

-

1,562,763

1,562

12,438

-

14,000

**Net Income (loss)**

-

-

-

-

(394,051)

(394,051)

**Balances, December 31, 2010**

29,713

\$ 30

37,711,640

\$ 37,711

\$ 24,592,976

\$ (24,264,645)

\$ 366,072

**Return of Shares issued for consulting services**

-

-

(1,400,000)

(1,400)

(96,600)

-

(98,000)

**Net Income (loss)**

-

-

-

-

-

122,206

122,206

**Balances, June 30, 2011**

29,713

\$ 30

36,311,640

\$ 36,311

\$ 24,496,376

\$ (24,142,439)

\$ 390,278

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

---

***Statement of Cash Flows***

[back to Table of Contents](#)

**CYIOS Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows (Unaudited)**

For the six months ended

June 30,

2011

2010

**CASH FLOWS FROM OPERATING ACTIVITIES:**

**Net Income/(loss)**

\$ 122,206

\$ (416,818)

**Adjustments to reconcile net loss to net cash provided by (used in)**

**operating activities:**

**Depreciation**

-

392

**Loss on Disposal of Computer Equipment**

1,436

-

**Value of Shares returned for services not performed**

(98,000)

374,000

**Changes in Assets and Liabilities:**

**(Increase)/Decrease in Accounts Receivable**

(18,737)

9,306

**(Increase) in Interest Receivable--Related Party**

(8,760)

-

**Decrease in Prepaid and Other Current Assets**



76,167

5,854

**Increase in Accruals and Other Payables**

(1,698)

4,733

**(Decrease) in Accounts Payable**

(9,452)

(50)

**NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

63,162

(22,583)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

**Proceeds from Issuance of Convertible Note Payable**

-

50,000

**Payoff of Convertible Note Payable**

(36,000)

-

**Principal Payments Made on line of Credit**

(10,197)

(9,648)

**NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES**

(46,197)

40,352

**NET INCREASE IN CASH AND**

**CASH EQUIVALENTS**

16,965

17,769

**CASH AND CASH EQUIVALENTS:**

**Beginning of Period**

27,603

76,448

**End of Period**

\$ 44,568

\$ 94,217

***SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:***

**CASH PAID DURING THE PERIOD FOR:**

**Interest**

**\$ 2,514**

**\$ 2,635**

**Taxes**

**\$ -**

**\$ -**

**NON CASH INVESTING AND FINANCING ACTIVITIES:**

**Shares of Common Stock Returned for Consulting Services not Performed**

**\$ (98,000)**

**\$ -**

**Shares of Common Stock Issued for Prepaid Consulting Services**

**\$ -**

**\$ 18,000**

**Stock Issued for Consulting Services/Employee Bonus**

**\$ -**

**\$ 356,000**

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

---

**CYIOS CORPORATION. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2011**

**(Unaudited)**

**NOTE A - ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION**

The interim consolidated financial statements and summarized notes included herein were prepared in accordance with accounting principles generally accepted in the United States of America for interim consolidated financial information, pursuant to rules and regulations of the Securities and Exchange Commission. Because certain information and notes normally included in complete consolidated 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 consolidated financial statements be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included in CYIOS Corporations 10-K filed April 15, 2011. These interim consolidated 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 consolidated 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 consolidated 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, line of credit, 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 \$0 and \$196 respectively for the three months ended June 30, 2011 and 2010. Depreciation expense was \$0 and \$393 respectively for the six months ended June 30, 2011 and 2010. The Company disposed of its computer equipment during the 1st Quarter 2011 and booked a loss of \$1,437.

## **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 June 30, 2011 and 2010, the company incurred advertising expense of \$3,757 and \$1,875, respectively. For the six months ended June 30, 2011 and 2010, the company incurred advertising expense of \$5,437 and \$5,129, respectively.

## **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.

## **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 July 2010, the FASB issued Accounting Standard Update No. 2010-20 (ASU No. 2010-20) "Receivables" (Topic 310). ASU No. 2010-20 provides financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. This update is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The amendments in this update apply to both public and nonpublic entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The objective of the amendments in ASU No. 2010-20 is for an entity to provide disclosures that facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's portfolio of financing receivables, (2) How that risk is analyzed and assessed in arriving at the allowance for credit losses and (3) The changes and reasons for those changes in the allowance for credit losses. The entity must provide disclosures about its financing receivables on a disaggregated basis. For public entities ASU No. 2010-20 is effective for interim and annual reporting periods ending on or after December 15, 2010. For nonpublic entities ASU No. 2010-20 will become effective for annual reporting periods ending on or after December 15, 2011. The Company is evaluating the impact ASU No. 2010-20 will have on the financial statements.

In August 2010, the FASB issued Accounting Standard Updates No. 2010-21 (ASU No. 2010-21) "Accounting for Technical Amendments to Various SEC Rules and Schedules" and No. 2010-22 (ASU No. 2010-22) "Accounting for Various Topics – Technical Corrections to SEC Paragraphs". ASU No 2010-21 amends various SEC paragraphs pursuant to the issuance of Release no. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies. ASU No. 2010-22 amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics. Both ASU No. 2010-21 and ASU No. 2010-22 are effective upon issuance. The amendments in ASU No. 2010-21 and No. 2010-22 will not have a material impact on the Company's financial statements.

### **Accounts Receivable**

Accounts receivable are reported at net realizable value. The Company establishes an allowance for doubtful accounts based upon factors pertaining to the credit risk of specific customers, historical trends, and other information. Delinquent accounts are written off when it's determined that the amounts are uncollectible. The Company did not have a balance in the allowance for doubtful accounts as of June 30, 2011 and 2010.

### **PREFERRED STOCK**

As of June 30, 2011, the outstanding shares of preferred stock are 29,713.

### **COMMON STOCK**

The following table recaps the capital account transactions occurring during the 1st and 2nd quarters of 2010:

#### Month/Description of transaction

#### Number of shares

#### Price per share

#### Total Value

#### **March--Stock issued to Executive Officer as bonus**

5,000,000

\$ 0.07

\$ 350,000

**March--Stock issued for Consulting Services**

100,000

\$ 0.06

\$ 6,000

**March--Stock issued for Consulting Services**

450,000

\$ 0.04

\$ 18,000

Total

**5,550,000**

**\$ 374,000**

No activity in the 2nd quarter 2010.

The following table recaps the capital account transactions occurring during the 1st and 2nd quarters 2011:

Month/Description of transaction

Number of shares

Price per share

Total Value

**January--Stock issued for Consulting Services was returned**

1,400,000

\$ 0.07

\$ 98,000

Total

**1,400,000**

**\$ 98,000**

**The above shares were returned to the Company as the Consultant contracted to perform services for the company during 2010 through 2011 and beyond did not perform the agreed upon services and was in breach of contract.**

No activity in the 2nd quarter 2011.

**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**

As of June 30, 2011, the Company does not have any outstanding stock options or warrants as shown in the following table:

*Stock/Options*

*Weighted average price per share*

*Aggregate intrinsic value*

**For the year ended December 31, 2010**

**Granted**

-  
-  
-

**Exercised**

-  
-  
-

Outstanding at December 31, 2010

-  
-  
-

**For the period ended June 30, 2011**

**Granted**

-  
-  
-

**Exercised**

-  
-  
-

Outstanding at June 30, 2011

-  
-  
-

**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 tax year ended December 31, 2010.

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, 2010 is as follows:

**Total Deferred Tax Asset**

**\$ 2,257,748**

**Valuation Allowance**

(2,257,748)

**Net Deferred Tax Asset**

-

The reconciliation of income taxes computed at the federal statutory income tax rate to total income taxes for the six months ended June 30, 2011 and 2010 is as follows:

2010



2009

**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%

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 \$(6,579) and \$1,352 in 2010 and 2009, respectively. No tax benefits have been recorded for the nondeductible (tax) expenses (including stock for services) totaling \$17,624,208.

As of December 31, 2010, the Company had federal and state net operating loss carryforwards as follows of \$6,640,437 which will expire at various times through the year 2030.

**NOTE C—CONCENTRATION**

The Company is either a prime or sub contractor on contracts with the Information Management Support Center U.S. Army 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 June 30, 2011 and 2010 are broken down as follows:**

Net Sales by Segment

*For the 3 months ended June 30, 2011*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Sales, net**

\$ 495,049

\$ -

\$ -

\$ 495,049

**Cost of Sales**

215,606

-

-

215,606

**Gross Profit**

\$ 279,443

\$ -

\$ -

\$ 279,443

Profit/(Loss) by Segment

*For the 3 months ended June 30, 2011*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Net (Loss)**

\$ 76,797

\$ (297)

\$ (2,263)

\$ 74,238

**Net Sales by Segment**

*For the 3 months ended June 30, 2010*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Sales, net**

\$ 459,679

\$ -

\$ -

\$ 459,679

**Cost of Sales**

264,142

-

-

264,142

**Gross Profit**

\$ 195,537

\$ -

\$ -

\$ 195,537

Profit/(Loss) by Segment

*For the 3 months ended June 30, 2010*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Net (Loss)**

\$ (14,682)

\$ -

\$ (1,708)

\$ (16,390)

**Net sales and Profit/ (Loss) by Segment for the six months ended June 30, 2011 and 2010 are broken down as follows:**

Net Sales by Segment

*For the 6 months ended June 30, 2011*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Sales, net**

\$ 970,138

\$ -

\$ -

\$ 970,138

**Cost of Sales**

\$ 487,257

-

-

487,257

**Gross Profit**

\$ 482,881

\$ -

\$ -

\$ 482,881

Profit/(Loss) by Segment

*For the 6 months ended June 30, 2011*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Net (Loss)**

\$ 125,783

\$ (673)

\$ (2,903)

\$ 122,206

Net Sales by Segment

*For the 6 months ended June 30, 2010*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Sales, net**

\$ 905,955

\$ -

\$ -

\$ 905,955

**Cost of Sales**

530,441

-

-

530,441

**Gross Profit**

\$ 375,514

\$ -

\$ -

\$ 375,514

Profit/(Loss) by Segment

*For the 6 months ended June 30, 2010*

**CYIOS**

**CYIOS Group**

**CKO**

**Totals**

**Net (Loss)**

\$ (413,406)

\$ -

\$ (3,412)

\$ (416,818)

**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 June 30, 2011 and 2010 were \$3,527 and \$3,855, respectively. The Company's contributions for the six months ended June 30, 2011 and 2010 were \$7,713 and \$7,090, respectively.

**NOTE F—COMMITMENTS/LEASES**

The Company entered into a new lease agreement on September 20, 2010 for office space. The lease agreement is a month to month agreement that will automatically renew for consecutive periods of one month, for up to twelve months. The monthly fees range between \$275 and \$450. Total future payments through December 31, 2011 are \$3,300.

Total rent expense for the three months ended June 30, 2011 and 2010 was \$1,047 and \$4,456, respectively. Total rent expense for the six months ended June 30, 2011 and 2010 was \$2,297 and \$8,852.

**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 June 30, 2011 is \$219,284.

Outstanding Interest Receivable as of June 30, 2011 is \$34,663.

**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 June 30, 2011 and 2010 are as follows:

For the 3 months ended June 30, 2011

For the 3 Months Ended June 30, 2010

Income

Shares

Per-Share

Income

Shares

Per-Share

(Numerator)

(Denominator)

Amount

(Numerator)

(Denominator)

Amount

Net Income/(Loss)

\$ 74,238

\$ (16,390)

Basic EPS

**Income available to common stockholders**

74,238

36,311,640

\$ 0.00

(16,390)

35,698,977

\$ 0.00

Effect of Dilutive Securities

**Warrants**

**Convertible preferred stock**

29,713

29,713

Diluted EPS

Net Income/(Loss)

74,238

36,341,353

\$ 0.00



(16,390)

35,728,690

\$ 0.00

The Company's reconciliation of the numerators and denominators of the basic and fully diluted income per shares is as follows for the six months ended June 30, 2011 and 2010 are as follows:

For the 6 months ended June 30, 2011

For the 6 Months Ended June 30, 2010

Income

Shares

Per-Share

Income

Shares

Per-Share

(Numerator)

(Denominator)

Amount

(Numerator)

(Denominator)

Amount

Net Income/(Loss)

\$ 122,206

\$ (416,818)

Basic EPS

**Income available to common stockholders**

122,206

36,311,640

\$ 0.00

(416,818)

35,698,877

\$ 0.00

Effect of Dilutive Securities

**Warrants**

**Convertible preferred stock**

29,713

29,713

Diluted EPS

Net Income/(Loss)

122,206

36,341,353

\$ 0.00

(416,818)

35,728,590

\$ 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 14.75% interest and the line of credit for CYIOS Group (China Print) is 9.25%. The outstanding balances of the line of credit by Subsidiary as of June 30, 2011 are as follows:

CKO \$ 34,989

CYIOS Group \$ 6,282

\$ 41,271

**NOTE J—CONVERTIBLE NOTE PAYABLE**

On January 5, 2010, the company received proceeds from a Note Payable ("Note") due to an outside party in the amount of \$50,000. A total of 4,761,905 shares have been placed in reserve if the Note Payable is converted. On August 20, 2010, \$2,000 of the principal balance was converted into 133,333 common shares of CYIOS Corporation stock. On

October 19, 2010, \$4,000 of the principal balance was converted into 540,541 common shares of CYIOS Corporation stock. On December 13, 2010, \$8,000 of the principal balance was converted into 888,889 common shares of CYIOS Corporation stock. As of December 31, 2010 the total Note Payable outstanding was \$36,000.

The Company paid off the remaining principal balance of \$36,000 on January 26, 2011 in full satisfaction of the outstanding Note Payable. The remaining shares not issued for conversion in the amount of 3,199,142 were removed from reserve.

## **Item 2. Management's Discussion and Analysis**

The following discussion should be read in conjunction with the consolidated 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 2nd quarter ended June 30, 2011 and 2010 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.

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 well into 2011 and beyond. 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.

## Recent Developments

In the 1st Quarter 2011, our numbers show a net income over last year at this time. Our sales up and our expenses are low. We are a public company without the benefits of raising capital for the company, but despite this fact, we have been able to sustain and grow.

In the 2nd Quarter 2011, we continue to show a net income over last year at this time. Sales are still steady and our expenses remain low. The Company has been marketing our product CYIPRO. The Company recently sent out a press release announcing that we are due to fully launch by mid August our "Cloud based Office that supports Microsoft 365 Cloud Services." We anticipate that this will boost sales of our product CYIPRO to the government and non-government users.

Our industry is over \$100 billion dollar industry and we have proven our capabilities and shown our successes. We issued an S-1 during 2010 and to date have not used it to raise capital.

## FINANCIAL CONDITION

We currently have sufficient financial resources to support our operational (overhead) staff and to fund marketing and development of our product, CYIPRO. We are looking for, and engaged with, investors to raise capital for growth and to establish our advisory board, but currently we have not obtained any additional capital.

### *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 months ended June 30, 2011 and 2010, CYIOS received no revenue from CYIPRO.

### RESULTS OF OPERATIONS

[back to Table of Contents](#)

**Revenue:** Total sales for the 2nd quarter 2011 were \$495,029 as compared to \$457,679 in sales for the 2nd quarter 2010, an increase of approximately 7.69%. Total sales for the 1st and 2nd quarters 2011 were \$970,138 as compared to \$905,955 for the 1st and 2nd quarters 2010, an of increase of 7.08%.

**Cost of Sales:** Cost of sales for the 2nd quarter 2011 were \$215,606, resulting in a gross profit of \$279,443 (56.45% gross profit margin) compared to cost of sales for the 2nd quarter 2010 of \$264,142, resulting in a gross profit of \$195,537 (42.54% gross profit margin). Cost of sales for the 1st and 2nd quarters 2011 were \$487,257, resulting in a gross profit of \$482,881 (49.77% gross profit margin). Cost of sales for the 1st and 2nd quarters 2010 were \$530,441, resulting in a gross profit of \$375,514 (41.45% gross profit margin). Cost of sales have decreased slightly for the first half of 2011 as compared to 2010 by approximately 8% overall. 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.

**Indirect Labor:** Indirect labor expense decreased by \$6,447 or approximately 4.35% to \$141,732 for the 2nd quarter ended 2011 from \$148,179 for the 2nd quarter ended 2010. Indirect labor expense decreased by \$22,860 or approximately 7.46% to \$283,389 for the 1st and 2nd quarters ended 2011 from \$306,249 for the 1st and 2nd quarters 2010. A stock bonus was paid to our CEO and president during the 1st quarter of 2010, the company's board authorized the issuance of 5,000,000 shares valued at \$.07 per share or \$350,000 in total.

**Consulting and Professional Fees:** Consulting and professional fees for the 2nd quarter ended 2011 was \$34,100 as compared to \$18,876 for the 2nd quarter ended 2010, resulting in an increase of \$15,224. Consulting and professional fees for the 1st and 2nd quarters ended 2011 were \$68,426 as compared to \$47,256 for the 1st and 2nd quarters ended 2010, resulting in an increase of \$21,170. The overall increase from 2011 to 2010 was a result of incurring additional expense for use of consultants' services to assist with hiring and placing new staff.

**Depreciation and Interest Expense:** Interest expense for the 2nd quarter ended 2011 was \$2,514, as compared to \$2,635 for the 2nd quarter ended 2010. Interest expense for the 1st and 2nd quarters ended 2011 was \$3,405, as compared to \$5,282 for the 1st and 2nd quarters ended 2010. Depreciation expense for the 2nd quarter ended 2011 and 2010 was \$0 and \$196, respectively. Depreciation expense for the 1st and 2nd quarters ended 2011 and 2010 was \$0 and \$393, respectively. The Company disposed of computer equipment during the 1st quarter 2011 resulting in a loss on disposal in the amount of \$1,437.

**Selling, General, and Administrative:** Selling, general and administrative expenses for the 2nd quarter ended of 2011 was \$28,994 as compared to \$25,048 for the 2nd quarter ended 2010—an increase of \$3,946 or approximately 15.75%. Selling, general and administrative expenses for the 1st and 2nd quarters ended 2011 was \$44,611 as compared to \$53,300 for the 1st and 2nd quarters ended 2010—a decrease of 8,689 or approximately 16.30%. Selling, general, and administrative expenses consist primarily of advertising, conference fees, fees, insurance, office supplies, rent, and travel and entertainment expenses.

**Net Income/ (Loss) from Operations:** Net income for the 2nd quarter ended 2011 was \$74,238 as compared to a net loss of \$(16,390) for the 2nd quarter ended 2010—an increase of \$90,628. Net income for the 1st and 2nd quarters ended 2011 was 122,206 as compared to a net loss of \$(416,818) for the 1st and 2nd quarters ended 2010—an increase of \$539,024. Sales were up for the 1st quarter of 2011 and expenses were down during the 1st quarter 2011.

## LIQUIDITY AND CAPITAL RESOURCES

**Liquidity:** At June 30, 2011, CYIOS had cash and cash equivalents of \$44,568, compared with \$94,217 at June 30, 2010, a decrease of \$49,649.

During the six months ending June 30, 2011, cash provided by operating activities was \$63,162, consisting primarily of the net income for the six months ended June 30, 2011 of \$122,206 offset by non-cash charges to:

- Loss on Disposal of Computer Equipment in the amount of 1,436;
- Value of Shares of Common Stock returned in the amount of \$98,000;
- Working capital changes of \$37,520, consisting of a net decrease of \$48,670 in Accounts Receivable Related Party Interest Receivable and Other Assets and a decrease of \$11,150 in Accrued Expenses, Payroll Taxes Payable, and Accounts Payable.

Financing activities for the six months ended June 30, 2011 used cash in the amount of \$46,198, consisting of:

- Payments made on the Line of Credit in the amount of \$10,198.
- Payoff of the principal on Convertible Note Payable in the amount of \$36,000.

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 June 30, 2011 and 2010 is as follows:

### Number of shares

#### outstanding

2011

2010

Common Shares

36,311,640

35,699,877

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.

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 June 30, 2011, 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 2nd 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 \$219,284 as of June 30, 2011. 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-15 promulgated under the Exchange Act as of September 30, 2010. Our disclosure controls and procedures were designed to provide reasonable assurance that the information required to be disclosed in reports filed Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period



specified and that it is accumulated and communicated to our management, including certifying officers, as appropriate to allow timely decisions regarding timely disclosure. Our management including our certifying officer concludes that our disclosure controls and procedures are effective at the reasonable assurance level as of the end of the period covered by the report.

(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, 2010. 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.

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.

***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, 2010, and as a result of historical operating losses from prior years, our accumulated deficit was \$24,264,645. 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 and 2nd quarters ended June 30, 2011, 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.

***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.

***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:

.

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.

***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**

*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.

***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.

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

## **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)

/s/ Timothy Carnahan

Date: July 27, 2011 \_\_\_\_\_

Timothy Carnahan

Chairman of the Board,

Chief Executive Officer and Principal

Financial Officer

### **INDEX TO EXHIBITS**

#### **Exhibit No.**

#### **Description**

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

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

### **Exhibit 31.1**

#### **Certification Pursuant to Section 13a-14 of the Securities Exchange Act of 1934 of Timothy Carnahan (CYIOS Corporation Chairman of the Board, Chief Executive Officer, and Principal Financial Officer)**

I, Timothy Carnahan, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 30, 2011 of CYIOS Corporation (“registrant”);
1. Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
1. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
1. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

SIGNATURES

1. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2011

/s/ Timothy Carnahan

Chairman of the Board, Chief Executive Officer, and

Principal Financial Officer

**Exhibit 32**

STATEMENT REQUIRED BY 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Quarterly Report on Form 10-Q of CYIOS Corporation for the six months ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy Carnahan, our Chairman of the Board, Chief Executive Officer and Principal Financial Officer, certify that: \* the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and \* information contained in the Report fairly presents, in all material respects, our consolidated financial condition and results of operations. /s/ Timothy Carnahan Timothy Carnahan Chairman of the Board, Chief Executive Officer, and Principal Financial Officer 10:47 AM 07/27/11, 2011 This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by us for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.