CYIOS CORP
Form 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended
September 30, 2008
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)	(Zip/Postal Code)

(703) 294-9933
(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 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 26,107,210 common stock shares and 29,713 preferred shared convertible to common at a 1:1 ratio, par value $0.001, as of September 30, 2008.

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
Item 1. Financial Statements and Supplementary Information	1
NOTE N—CONTINGENCIES	16
Item 2. Management's Discussion and Analysis	17
INTRODUCTION	17
Corporate Overview	18
Recent Developments	18
FINANCIAL CONDITION	19
RESULTS OF OPERATIONS	20
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
Item 4. Controls and Procedures	22
Part II – OTHER INFORMATION	23
Item 1. Legal Proceedings	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	31
Item 3. Defaults Upon Senior Securities.	31
Item 4. Submission of Matters to a Vote of Security Holders.	31
Item 5. Other Information.	31
Item 6. Exhibits	31

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, 2008	As of December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 21,481	$ 45,498
Accounts Receivable	41,997	46,398
Prepaid and Other Current Assets	25,529	4,900
TOTAL CURRENT ASSETS	89,007	96,796
OTHER ASSETS		
Loan to Shareholder	249,019	172,406
TOTAL OTHER ASSETS	249,019	172,406
FIXED ASSETS, NET	3,200	3,788
TOTAL ASSETS	$ 341,226	$ 272,990
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES		
Current Liabilities:		
Line of Credit	$ 91,233	$ 98,817
Accruals and Other Payables	78,850	37,520
Accounts Payable	32,219	24,622
Liabilities of Discontinued Operations	256,497	256,497
TOTAL LIABILITIES	458,799	417,456
STOCKHOLDERS' DEFICIT		
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: 26,107,210 and 25,354,210 shares issued and outstanding)	26,107	25,354
Additional Paid-in-Capital	23,900,583	23,886,536
Stock Subscription Receivable	(5,000)	(136,000)
Accumulated Deficit	(24,039,293)	(23,920,386)
TOTAL STOCKHOLDERS' DEFICIT	(117,573)	(144,466)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 341,226	$ 272,990

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

Table of Contents

CYIOS Corporation and Subsidiaries
Consolidated Statement of Operations (Unaudited)

	Three Months ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
SALES AND COST OF SALES				
Sales	$ 340,781	$ 518,943	$ 1,122,346	$ 1,661,365
Cost of Sales	184,949	375,921	593,472	1,079,260
Gross Profit	155,832	143,022	528,873	582,105
EXPENSES				
Selling, general and administrative	25,431	17,545	81,469	89,770
Payroll Expense--Indirect Labor	140,567	115,912	422,278	362,841
Consulting Expense	28,173	131	81,404	11,335
Professional Fees	12,945	9,538	57,652	54,100
Interest	1,386	12,924	6,344	19,335
Depreciation and amortization	196	-	588	-
TOTAL EXPENSES	208,698	156,050	649,735	537,381
Net Income/(Loss) from Operations	(52,866)	(13,028)	(120,862)	44,724
OTHER INCOME/(EXPENSE)				
Interest/Other Income	1,022	22,000	1,955	22,000
NET OTHER INCOME/(EXPENSE)	1,022	22,000	1,955	22,000
NET INCOME/(LOSS) FROM CONTINUED OPERATIONS	(51,844)	8,972	(118,907)	66,724
Net income/(loss) per share--basic and fully diluted				
Net income/(loss) per share from continued operations	$ (0.00)	$ 0.00	$ (0.00)	$ 0.00
Weighted average shares outstanding--basic and fully diluted	25,987,466	24,113,510	25,774,609	23,760,487

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)

	Common Shares (000's)	Common Stock $	Preferred Shares (000's)	Preferred Stock $	Additional Paid-in Capital	Accumulated Deficit
Balances, December 31, 2006	23,380,210	$ 23,380	29,713	$ 30	$ 23,740,310	$ (24,180,186)
Issuance of shares	2,074,000	2,074	-	-	146,326	-
Shares cancelled	(100,000)	(100)	-	-	(100)	-
Net Income (loss) for the year	-	-	-	-	-	259,800
Balances, December 31, 2007	25,354,210	$ 25,354	29,713	$ 30	$ 23,886,536	$ (23,920,386)
Shares returned	(500,000)	(500)	-	-	(74,500)	-
Shares issued	53,000	53	-	-	5,247	-
Shares issued for consulting services	1,200,000	1,200	-	-	83,300	-
Net Income (loss)	-	-		-	-	(118,907)
Balances, September 30, 2008	26,107,210	$ 26,107	29,713	$ 30	$ 23,900,583	$ (24,039,293)

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, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(loss)	$ (118,907)	$ 66,724
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	588	-
Value of Shares Issued for consulting services	64,625	28,746
Reduction in Stock Receivable	7,500	-
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	4,400	22,503
(Increase)/Decrease in Prepaid and Other Current Assets	(753)	15,013
Increase/(Decrease) in Accruals and Other Payables	41,330	5,648
Increase/(Decrease) in Accounts Payable	7,597	(20,478)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	6,380	118,156
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase)/Decrease in Shareholders' Loan Receivable	(76,613)	(83,303)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(76,613)	(83,303)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of Common Stock	5,300	-
Proceeds Received from Payments made on Stock Subscription Receivable	48,500	-
Payments made on Line of Credit	(7,584)	(1,171)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	46,216	(1,171)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(24,017)	33,682
CASH AND CASH EQUIVALENTS:		
Beginning of Period	45,498	25,305
End of Period	$ 21,481	$ 58,987
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE PERIOD FOR:		
Interest	$ 6,344	$ 19,335
Taxes	$ -	$ -
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Stock Issued for Prepaid Consulting Services	$ 83,000	$ 28,746
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, 2008

(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-KSB filed March 31, 2008. 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 $0 respectively for the three months ended September 30, 2008 and 2007 and $588 and $0 respectively for the nine months ended September 30, 2008 and 2007

Table of Contents

REVENUE RECOGNITION/CONTRACTS

The Company derives revenue primarily from the sale and service of information technology services to the government. In accordance with SEC Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB 104”), 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.

Our revenues are primarily recognized using the percentage-of-completion method as discussed in Statement of Position 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts.” Under the percentage-of-completion method, revenues are recognized based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimating total costs at completion. Estimating costs at completion on our long-term contracts, particularly due to the technical nature of the services being performed, is complex and involves significant judgment. Factors that must be considered in making estimates include labor productivity and availability, the nature and technical complexity of the work to be performed, potential performance delays, the availability and timing of funding from the customer, the progress toward completion and the recoverability of claims. Adjustments to original estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimates is made when facts develop, events become known or an adjustment is otherwise warranted, such as in the case of a contract modification. When estimates indicate that we will experience a loss on the contract, we recognize the estimated loss at the time it is determined. Additional information may subsequently indicate that the loss is more or less than initially recognized, which would require further adjustment in our financial statements. We have procedures and processes in place to monitor the actual progress of a project against estimates and our estimates are updated quarterly or more frequently if circumstances warrant.

Although our primary revenue recognition policy is the percentage-of-completion method, we do have contracts for which we use other acceptable methods to record revenue. Selecting the appropriate revenue recognition method involves judgment based on the contract and can be complex depending upon the structure and terms and conditions of the contract.

Costs incurred on projects accounted for under the percentage-of-completion method may be recognized as pre-contract costs and deferred as assets when we have been requested by the customer to begin work under a new arrangement. We record pre-contract costs when formal contracts have not yet been executed, and it is probable that we will recover the costs through the issuance of a contract. When the formal contract has been executed, the costs are recorded to the contract and revenue is recognized based on the percentage-of-completion method of accounting.

Contract claims are unanticipated additional costs incurred but not provided for in the executed contract price that we seek to recover from the customer. Such costs are expensed as incurred. Additional revenue related to contract claims is recognized when the amounts are awarded by the customer.

Table of Contents

NET LOSS PER COMMON SHARE

Statement of Financial Accounting Standard (SFAS) No. 128 requires 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, 2008 and 2007, the company incurred $2,728 and $4,344 respectively. For the nine months ended September 30, 2008 and 2007, the company incurred $8,499 and $8,848 respectively.

INCOME TAXES

Income taxes are provided in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, “Accounting for Income Taxes.” A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and net operating loss-carryforwards.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that, and some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

IMPAIRMENT OF LONG-LIVED ASSETS

Using the guidance of Statement of Financial Accounting Standards (SFAS) No. 144, “Accounting for the Impairment or Disposal 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.

Table of Contents

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. Effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. No entity is permitted to apply the Statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. Early adoption of this standard is not expected to have a material effect on the Company's results of operations or its financial position, but the Company is evaluating the Statement to determine what impact, if any, it will have on the Company.

In December 2007, the FASB issued SFAS 141(revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, IPR&D and restructuring costs. In addition, under SFAS 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the impact, if any, of SFAS 141R on its consolidated financial statements.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests (NCI) and classified as a component of equity. This new consolidation method will significantly change the account with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the impact, if any, of SFAS 160 on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". This statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

ACCOUNTS RECEIVABLE

Accounts deemed uncollectible are written off in the year they become uncollectible. As of September 30, 2008, the Accounts Receivable balance was $41,997 and the amount deemed uncollectible was $0.

Table of Contents

PREFERRED STOCK

As of September 30, 2008, the outstanding preferred stock is 29,713.

COMMON STOCK

The following table recaps the capital account transactions occurring during the 1st quarter of 2008:

Month/Description of transaction	Number of shares	Price per share	Total Value
January--stock issued for consulting services	400,000	$ 0.045	$ 18,000
January--stock sold	53,000	0.100	5,300
March--stock issued for consulting services	250,000	0.100	25,000
March--shares returned *	(500,000)	0.150	(75,000)
Total	203,000		$ (26,700)

*These shares were returned by the individual in lieu of payment on the amount owed for the outstanding balance of the Stock Subscription Receivable.

The following table recaps the capital account transactions occurring during the 2nd quarter of 2008:

Month/Description of transaction	Number of shares	Price per share	Total Value
May--stock issued for consulting services	250,000	$ 0.10	$ 25,000
June--stock bonus to employee	50,000	$ 0.03	$ 1,500
Total	300,000		$ 26,500

The following table recaps the capital account transactions occurring during the 3rd quarter of 2008:

Month/Description of transaction	Number of shares	Price per share	Total Value
August--stock issued for consulting services	250,000	$ 0.06	$ 15,000
Total	250,000		$ 15,000

STOCK-BASED COMPENSATION

Under the fair value recognition provisions of SFAS No. 123(R), 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.

Table of Contents

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.

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

STOCK OPTIONS AND WARRANTS (CONT'D)

Outstanding stock options and warrants as of September 30, 2008 are as follows:

	Options	Weighted average price per share	Weighted Average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at December 31, 2006	3,354,000	$ 0.18	8.00	$ 603,720
For the year ended December 31, 2007				
Granted	1,974,000	0.26	-	513,240
Exercised from 2006	(4,000)	0.18	-	(720)
Expired in 2007	(600,000)	0.18	7.00	(108,000)
Exercised in 2007	(1,974,000)	0.26	-	(513,240)
Outstanding at December 31, 2007	2,750,000			495,000
For the period ended September 30, 2008				
Granted	1,253,000	0.08	-	93,975
Expired as of September 30, 2008	(551,786)	0.18	6.25	(99,321)
Exercised in 2008	(1,253,000)	0.08	-	(93,975)
Outstanding at June 30, 2008	2,198,214			395,679

Vesting stock award activity under the Plan for the quarter ended September 30, 2008:

	Shares of stock under stock awards	Weighted average grant-date fair value
Unvested at December 31, 2006	4,000	0.18
Awards granted	1,974,000	0.26
Awards forfeited	-	
Awards vested	(1,978,000)	0.26
Unvested at December 31, 2007	-	
Awards granted	1,253,000	0.08
Awards forfeited	-	-
Awards vested	(1,253,000)	0.08
Unvested at September 30, 2008	-	

Table of Contents

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, 2007.

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, 2007 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, 2007 is as follows:

	2007	2006
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 $(88,332) and $298,484 in 2007 and 2006, respectively. No tax benefits have been recorded for the nondeductible (tax) expenses (including stock for services) totaling $17,281,983.

As of December 31, 2007, 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 2027.

NOTE C—CONCENTRATION

The Company is either a prime or sub contractor on contracts with the Titan Corporation, 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

The Company has four reportable segments—CYIOS, CYIOS Group, CKO, and WorldTeq

Table of Contents

NOTE D—SEGMENT REPORTING CONT'D

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

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

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

Net Sales by Segment	For the Nine Months Ended September 30, 2008				
	CYIOS	CYIOS Group	CKO	WorldTeq	Totals
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	CYIOS Group	CKO	WorldTeq	Totals
Net Operating Profit/(Loss)	$ (112,576)	$ (20)	$ (6,311)	$ -	$ (118,907)
Net (Loss)	$ (112,576)	$ (20)	$ (6,311)	$ 131,702	$ 12,795

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-half 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, 2008 and 2007 were $7,689 and $9,018 respectively. The Company's contributions for the nine months ended September 30, 2008 and 2007 were $23,017 and $25,662 respectively.

NOTE F—COMMITMENTS/LEASES

The Company entered into a lease agreement on July 8, 2005 for office space. The current lease agreement is up for renewal and the Company is paying on a month to month basis. Monthly fees are $1,040. The Company's estimated future yearly minimum lease obligations are as follows:

2008	$ 17,628

13

Table of Contents

NOTE F—COMMITMENTS/LEASES CONT'D

Total rent expense for the three months ended September 30, 2008 and 2007 was $4,550 and $4,874 respectively. The total rent expense for the nine months ended September 30, 2008 and 2007 was $13,654 and $13,462 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 interest at 6% per year. The outstanding balance on the Note Receivable as of September 30, 2008 is $249,019 and the related interest accrued was $1,955.

NOTE H—ACCOUNTS PAYABLE

The breakdown of Accounts Payable as of September 30, 2008 is as follows categorized by subsidiary:

CYIOS Group	17,068
CYIOS	15,151
	$ 32,219

NOTE I—PAYROLL TAXES PAYABLE

As of September 30, 2008, the Company's subsidiaries owed the following in payroll taxes:

CYIOS Group	9,368
	$ 9,368

NOTE J—LIABILITIES OF DISCONTINUED OPERATIONS

Liabilities associated with WorldTeq Corporation (WTC), which has discontinued operations, is $256,497. The original amount of the liabilities from discontinued operations was $370,347.

The Company absorbed WorldTeq Corporation (a Delaware corporation) as a result of the merger in 2005. Since that time the Company has carried the debts of WorldTeq Corporation. Since the merger, management has determined that many of the debts outstanding had been satisfied by other subsidiaries and many other debts exceeded the State of Delaware's rules regarding the statute of limitations for collection of outstanding debts. According to Delaware code, title 6, section 2437A, the statute of limitations for debts classified as general written contracts is 3 years. The Company has carried the debts for over 3 years. Moreover, the Company plans to dissolve Worldteq since it has had no operations since 2005 and the CEO of Worldteq passed away. Since the merger in 2005, no attempt on the part of the creditors have been made to collect these debts, so based on management's estimate we have determined it reasonable to write them off over 2007 and 2008 as we plan to close out Worldteq by the end of 2008. The amount written off in 2007 was $185,173 and management's anticipated write-off for 2008 is the remaining balance.

Table of Contents

NOTE K—STOCK SUBSCRIPTION RECEIVABLE

The Company had $5,000 in Stock Subscription Receivable which represents stock that was purchased. The Stock Subscription Receivable has been classified as a Stock Subscription Receivable (Contra Equity account) in the amount of $5,000 which represents the amount still outstanding in the 3rd quarter of 2008.

NOTE L—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, 2008 and 2007 are as follows:

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, 2008 and 2007 are as follows:

	For the 3 months ended September 30, 2008			For the 3 Months Ended September 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net Income/(Loss)	$ (51,844)			$ 8,972		
Basic EPS						
Income available to common stockholders	(51,844)	25,957,753	$ (0.00)	8,972	24,083,797	$ 0.00
Effect of Dilutive Securities						
Warrants						
Convertible preferred stock		29,713			29,713	
Diluted EPS						
Net Income/(Loss)	(51,844)	25,987,466	$ (0.00)	19,246	24,113,510	$ 0.00

	For the 9 months ended September 30, 2008			For the 9 Months Ended September 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net Income/(Loss)	$ 12,795			$ 66,724		
Basic EPS						
Income available to common stockholders	12,795	25,744,896	$ 0.00	66,724	23,730,774	$ 0.00
Effect of Dilutive Securities						
Warrants						
Convertible preferred stock		29,713			29,713	
Diluted EPS						
Net Income/(Loss)	12,795	25,774,609	$ 0.00	66,724	23,760,487	$ 0.00

Table of Contents

NOTE M—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, 2008 are as follows:

CKO	$ 46,183
China Print	45,050
	$ 91,233

NOTE N—CONTINGENCIES

The Internal Revenue Service (IRS) has contacted us regarding a matter with WorldTeq Corporation (a Subsidiary). The IRS claims that Worldteq Corporation owes outstanding payroll taxes to the IRS for the years 2000, 2001, and 2002. Our management does not believe that we owe these outstanding debts and we are working with the IRS to resolve this matter.

Table of Contents

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, 2008 and 2007 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 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

Table of Contents

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

This section has two parts, contracts and ongoing strategy for partnerships and our product CYIPRO.

In May of 2007, after a month of discussions, CYIOS began working, in a type of sub-contracting environment, with a large Federal Government contractor - Verizon, to place CYIOS personnel on already existing Government contracts. We currently are in progress with filling some positions (two positions in November 2008), this will show immediate revenue. CYIOS has been asked to fill over a dozen different Top Secret positions, ranging from system administrators and application developers to UNIX and CISCO engineers. This is an ongoing effort to work on this contract. As of this report, we have not filled any positions. We have hired a full time manager to work with Verizon in so that we grow this contract.

In February of 2007 CYIOS once again used the services of InterPlan Systems to co-write a proposal for a U.S. Navy agency. This is a large multi-award contract with award decisions expected by the end of the second quarter of 2007. We have teamed with SERCO and are reviewing task orders to bid. We need additional funds to manage this contract and have met with private investors – however have not found the right fit – this is ongoing.

In December of 2007, CYIOS was awarded a contract to perform work for the U.S. Army's Senior Leadership Development (SLD) under operational control of the Chief of Staff, Army (CSA). The contract is for 1 year w/ four options for possible 5 years until 2012. Our base year is on track with both performance and funding; we see no problem with the U.S. Army exercising option year 1.

In January 2008, CYIOS teamed with CACI for work on the U.S. Army ITES2 contract. We are still in negotiations for the subcontract and expect to have it completed end of May 2008. We've completed the teaming agreement; we are on CACI's team see http://www.caci.com/Contracts/ITES/partner34.shtml. Again, we need additional funds to manage this contract, we have submitted bids with CACI but did not win. We are establishing our process many bids come out weekly and we are working to grow this contract.

About our product CYIPRO, during the first quarter of 2007, CKO Inc. began converting its product into a .net environment with the main goal of allowing the product to work on Microsoft Mobile 6.0, Iphone and upcoming versions. We accomplished this in January 2008. Our beta is ready and we will be demonstrating it in many upcoming conferences. Our main selling thrust will be the teleworking solution CYIPRO provides. Funding is a limiting factor in our progress with CYIPRO. We are working toward a major presentation with the U.S. Army. CYIPRO captures business processes and improve productivity – the Army is pushing to become Knowledge Centric -- CYIPO can be a catalyst for the Army to meet this goal.

18

Table of Contents

We are currently engaged with investors to raise capital for CYIOS's services and CKO's product CYIPRO. We have won contracts that need more management in order to grow to full potential. This has been ongoing since January 2008. We have the need for more programmers, marketing material and advertising in order for CYIPRO to be fully launched. We are closer with finding the right investment organization to work with CYIOS to grow to our full potential and beyond. We expect with current contracts and minimum growth to be at about six million in revenue by the end of 2009.

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 and 2nd quarters of 2008, and we had a net loss for the 3rd quarter of 2008. We had a net loss for the nine months ended September 30, 2008. We anticipate that the fourth quarter will be profitable, thus resulting in a profit for the year 2008. 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 months ended and the nine months ended September 30, 2008 and 2007, CYIOS received no revenue from CYIPRO.

RESULTS OF OPERATIONS

Revenue: Total sales for the 3rd quarter 2008 were $340,781 as compared to $518,943 in sales for the 3rd quarter 2007, a decrease of approximately 34%. The decrease in sales was due to the loss of contracting staff on subcontracts.

Cost of Sales: Cost of sales for the 3rd quarter ended September 30, 2008 were $184,949, resulting in a gross profit of $155,832 (46% gross profit margin) compared to cost of sales for the 3rd quarter ended September 30, 2007 of $375,921, resulting in a gross profit of $143,022 (28% gross profit margin). 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 increase by $24,655 or approximately 21% to $140,567 for the 3rd quarter ended September 30, 2008 from $115,915 for the 3rd quarter ended September 30, 2007.

Consulting and Professional Fees: Consulting and professional fees for the 3rd quarter ended September 30, 2008 was $41,118 as compared to $9,669 for the 3rd quarter ended September 30, 2007, resulting in an increase of $31,449.

Depreciation and Interest Expense: Interest expense for the 3rd quarter ended September 30, 2008 was $1,386 as compared to $12,924 for the 3rd quarter ended September 30, 2007—a decrease of $11,538. Depreciation expense for the 3rd quarter ended September 30, 2008 was $196 as compared to $0 for the same quarter ended September 30, 2007. We purchased new computer equipment in late 2007.

Table of Contents

Selling, General, and Administrative: Selling, general and administrative expenses for the 3rd quarter ended September 30, 2008 was $25,431 as compared to $17,545 for the 3rd quarter ended September 30, 2007—an increase of $7,886 or approximately 45%. 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 loss for the 3rd quarter ended September 30, 2008 was $ (51,844) as compared to a net income of $8,972 for the 3rd quarter ended September 30, 2007—a decrease of $60,816. The decrease is primarily due to the fact that sales were down for the 3rd quarter ended September 30, 2008 as compared to the same quarter for 2007. Total cost of sales did decrease for the 3rd quarter ended September 30, 2008 as compared to the same quarter ended September 30, 2007, so we believe we are making progress to keep expenses down as we continue to boost revenues, thus expecting net profits in the 4th quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity: At September 30, 2008, CYIOS had cash and cash equivalents of $21,481, compared with $45,498 at December 31, 2007, a decrease of $24,017.

During the nine months September 30, 2008, cash provided by operating activities was $6,380, consisting primarily of the net loss for the nine months ended September 30, 2008 of $118,907 offset by non-cash charges to:

- Depreciation charges of $588;
- Stock based compensation in the amount of $64,625;
- Reduction in Stock Receivable of $7,500;
- Working capital changes of $52,574, consisting of a net decrease of $3,647 in Accounts Receivable and Other Assets and a net increase of $48,927 in Accrued Expenses, Payroll Taxes Payable, and Accounts Payable.

Investing activities for the nine months ended September 30, 2008 used cash in the amount of $76,613, consisting of an increase in the Shareholder's Loan Receivable.

Financing activities for the nine months ended September 30, 2008 provided cash in the amount of $46,216, consisting of proceeds from the sale of stock in the amount of $5,300 offset by:

- Proceeds from the Stockholder Receivable in the amount of $48,500;
- Payments made on the borrowing on the Line of Credit in the amount of $7,584.

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.

Table of Contents

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, 2008 and 2007 is as follows:

	Number of shares outstanding	
	2008	2007
Common Shares	26,107,210	24,104,210
Preferred Shares	29,713	29,713

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have interest rate exposure relating to certain long-term obligations. The interest rates on the Term Loans are NOT affected by changes in market interest rates. We do not believe we have significant risks due to changes in interest rates.

Item 4. Controls and Procedures

Quarterly Evaluation of Controls. As of the end of the period covered by this quarterly report on Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures ("Disclosure Controls"), as defined in Rules 13a -15(e) and 15d – 15(e) under the Exchange Act. This evaluation (“Evaluation”) was performed by our Chairman, Chief Executive Officer, and Principal Financial Officer, Timothy Carnahan. In this section, we present the conclusions of our CEO as of the date of the Evaluation with respect to the effectiveness of our Disclosure Controls.

CEO and Principal Financial Officer Certifications. Attached to this quarterly report, as Exhibits 31.1 and 31.2, are certain certifications of the CEO, which are required in accordance with the Exchange Act and the Commission's rules implementing such section (the "Rule 13a-14(a)/15d–14(a) Certifications"). This section of the quarterly report contains the information concerning the Evaluation referred to in the Rule 13a-14(a)/15d–14(a) Certifications. This information should be read in conjunction with the Rule 13a-14(a)/15d–14(a) Certifications for a more complete understanding of the topic presented.

Disclosure Controls. Disclosure Controls are procedures designed with the objective of ensuring that information required to be disclosed in our reports filed with the Commission under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that material information relating to us is made known to the CEO and Principal Financial Officer by others, particularly during the period in which the applicable report is being prepared.

Table of Contents

Scope of the Evaluation. The CEO and the Principal Financial Officer's evaluation of our Disclosure Controls included a review of the controls' (i) objectives, (ii) design, (iii) implementation, and (iv) the effect of the controls on the information generated for use in this quarterly report. This type of evaluation is done on a quarterly basis so that the conclusions concerning the effectiveness of our controls can be reported in our quarterly reports on Form 10-Q and annual reports on Form 10-K. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to make modifications if and as necessary. Our intent in this regard is that the Disclosure Controls will be maintained as dynamic systems that change (including improvements and corrections) as conditions warrant.

Conclusions. Based upon the Evaluation, our Disclosure Controls and procedures are designed to provide reasonable assurance of achieving our objectives. Our CEO and Principal Financial Officer has concluded that our Disclosure Controls and procedures are effective at that reasonable assurance level to ensure that material information relating to the Company is made known to management, including the CEO and Principal Financial Officer, particularly during the period when our periodic reports are being prepared. Additionally, there has been no change in our internal controls, (as defined in Rules 13a -15(f) and 15d – 15(f) under the Exchange Act), over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect, our internal controls over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings

The Internal Revenue Service (IRS) has contacted us regarding a matter with WorldTeq Corporation (a Subsidiary). The IRS claims that Worldteq Corporation owes outstanding payroll taxes to the IRS for the years 2000, 2001, and 2002. Our management does not believe that we owe these outstanding debts and we are working with the IRS to resolve this matter.

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, 2007, and as a result of historical operating losses from prior years, our accumulated deficit was $23,855,646. 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 3rd quarter ended September 30, 2008, 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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

Item 6. Exhibits

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

30

Table of Contents

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: November 14, 2008

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

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Timothy Carnahan, Chairman, Chief Executive Officer, and Principal Financial Officer.*
32	Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* filed herein