

CYIOS CORP  
Form 10QSB  
November 14, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended

**September 30, 2007**

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, INC.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or  
organization)

03-7392107

(I.R.S. Employer Identification Number)

1300 PENNSYLVANIA AVE, SUITE 700  
WASHINGTON DC

(Address of principal executive offices)

20004

(Zip/Postal Code)

(703) 294-9933

(Telephone Number)

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

YES  NO

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

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date. There were 24,104,210 common stock shares and 29,713,000 preferred shares convertible to common at a 1:1 ratio, par value \$0.001, as of September 30<sup>th</sup>, 2007.

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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.

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**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-QSB 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, Inc. and Subsidiaries**

***Consolidated Condensed Balance Sheet (Unaudited)***  
**As of September 30, 2007**

**ASSETS****CURRENT ASSETS**

Cash and Cash Equivalents	\$ 58,987
Accounts Receivable	38,144
Other Current Assets	4,900
Loan to Shareholder	33,596
<b>TOTAL CURRENT ASSETS</b>	<b>135,627</b>

<b>TOTAL ASSETS</b>	<b>\$ 135,627</b>
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**LIABILITIES AND STOCKHOLDERS' DEFICIT****LIABILITIES**

## Current Liabilities:

Line of Credit	\$ 99,808
Interest Payable	18,640
Taxes Payable	13,629
Payroll Taxes Payable	38,757
Accounts Payable	387,413
<b>TOTAL LIABILITIES</b>	<b>558,247</b>

**STOCKHOLDERS' DEFICIT**

Convertible Preferred Stock (\$.001 par value, 5,000,000 authorized: 29,713 issued and outstanding)	30
Common Stock (\$.001 par value, 100,000,000 shares authorized: 24,104,210 shares issued and outstanding)	24,104
Additional Paid-in-Capital	23,652,621
Accumulated Deficit	(24,099,375)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(422,620)</b>

<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 135,627</b>
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Table of Contents**CYIOS Corporation, Inc. and Subsidiaries****Consolidated Statement of Operations (Unaudited)  
For the period ended September 30, 2007 and 2006**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>SALES AND COST OF SALES:</b>				
Sales	\$ 518,943	\$ 468,450	\$ 1,661,365	\$ 1,260,777
Cost of sales--stock for direct labor	4,500	-	28,746	-
Cost of sales--direct labor	371,421	340,467	1,050,514	839,365
Gross Profit	143,022	127,983	582,105	421,412
<b>EXPENSES:</b>				
Selling, general and administrative	17,545	8,979	89,770	129,326
Payroll Expense--indirect labor	74,737	62,466	229,094	175,309
Employee and Fringe Benefit Expense	41,175	43,986	133,747	97,188
Consulting Expense	131	12,544	11,335	47,329
Bad Debt Expense	-	-	-	525,000
Depreciation Expense	-	-	-	49,111
Professional Fees	9,538	11,772	54,100	77,445
Interest Expense	12,924	6,228	19,335	15,219
	156,050	145,975	537,381	1,115,927
<b>OTHER INCOME/EXPENSE</b>				
Other Income	22,000	-	22,000	-
<b>NET INCOME/(LOSS)</b>				
	\$ 8,972	\$ (17,992)	\$ 66,724	\$ (694,515)
<b>Basic and diluted income (loss) per share</b>				
	\$ 0.000	(0.001)	\$ 0.003	(0.032)
<b>Weighted Average Shares Outstanding</b>				
	24,083,797	22,202,923	23,730,774	21,951,705

Table of Contents**CYIOS Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)  
For the nine months ended September 30, 2007 and 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income/(loss)	\$ 66,724	\$ (694,515)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	-	48,904
Common Shares issued for direct labor	28,746	-
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	22,503	446,952
(Increase)/Decrease in Other Assets	15,013	5,395
Increase/(Decrease) In Interest Payable	13,669	-
Increase/(Decrease) In Payroll Taxes Payable	(8,022)	46,588
Increase/(Decrease) In Taxes Payable	1	(188,237)
Increase/(Decrease) in Accounts Payable	(20,478)	73
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>118,156</b>	<b>(334,840)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	-	420,304
(Increase)/Decrease Shareholder's Loan Receivable	(83,303)	(140,734)
Increase/(Decrease) in borrowings on Line of Credit	(1,171)	56,659
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(84,474)</b>	<b>336,229</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>33,682</b>	<b>1,389</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of Period	25,305	49,857
End of Period	\$ 58,987	\$ 51,246
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>CASH PAID DURING THE YEAR FOR:</b>		
<b>Interest</b>	<b>\$ 13,344</b>	<b>\$ -</b>
<b>NON-CASH OPERATING ACTIVITIES:</b>		
<b>Value of Common Stock and Warrants issued in exchange for services</b>	<b>\$ 28,746</b>	<b>\$ -</b>

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**CYIOS CORPORATION. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2007**

**(Unaudited)**

**NOTE 1 - 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 10Ksb filed April 17<sup>th</sup>, 2007. 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 years. Depreciation expense was \$0 and \$48,904 respectively for the nine months ended September 30, 2007 and 2006.

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**REVENUE RECOGNITION/CONTRACTS**

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable, and it is reasonably assured to be collectible. The Company follows SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts, as it applies to time-and-material contracts. Revenue on time-and-materials contracts is recognized based on the hours actually incurred at the negotiated contract billing rates, plus the cost of any allowable material costs and out-of-pocket expenses. 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. We recognize revenue from government contracts and sales from our product CYIPRO. CYIOS Corporation has contracts extending out until 2010. All contracts are with the DoD and are in good standing. CYIOS Corporation certifies that it is not on the Debarred/Suspended Contractors List. This has been verified by checking the GAO, Excluded Parties List system <http://epls.arnet.gov> and [www.pogo.org](http://www.pogo.org) (Project on Government Oversight). DoD and government contracts are the primary method to bring revenue into the company.

**NET LOSS PER SHARE OF COMMON STOCK**

Net loss per share of common stock is based on the weighted average number of shares of common stock outstanding. Common stock equivalents are not included in the weighted average calculation since their effect would be anti-dilutive.

***PREFERRED STOCK***

As of September 30, 2007, the outstanding preferred stock is 29,713.



Table of Contents**COMMON STOCK TRANSACTIONS**

The following table recaps the capital account transactions occurring during the 1<sup>st</sup> and 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2007:

<b>Month/Description of transaction</b>	<b>Number of shares</b>	<b>Price per share</b>	<b>Total Value</b>
January--stock issued for consultant services	50,000	\$ 0.005	\$ 250
February--stock issued for consultant services	50,000	0.0100	500
February--stock issued for employee services	75,000	0.0100	750
March--stock issued for employee services	54,000	0.0500	2,700
April--stock issued for consultant services	50,000	0.0100	500
April--stock issued for employee services	26,000	0.0500	1,300
April--stock issued for employee services	75,000	0.0100	750
May--stock issued for employee services	4,000	0.3000	1,200
May--stock issued for employee services	25,000	0.0100	250
May--stock issued for consultant services	50,000	0.0100	500
June--stock issued for consultant services	50,000	0.0100	500
June--stock issued for employee services	15,000	0.0500	750
August—stock issued for consultant services	50,000	0.0100	500
Sept—stock issued for consultant services	200,000	0.0100	2000
Sept—stock issued for employee services	30,000	0.1500	4500
	804,000		\$ 16,950

**STOCK OPTIONS AND WARRANTS**

On April 21, 2006, the company instituted a New Employee Stock Option Plan (New Plan) which voids the Old Employee Stock Option Plan instituted in 2004. Briefly, the purpose of the New Plan is to be carried out by issuing incentive stock options and nonqualified options pursuant to the New Plan (hereinafter referred to as "Options") to one or more key employees of the Company, as determined by the Administrator at the time of the grant. It is intended that to the maximum extent permissible under the Plan, Options shall constitute incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the internal Revenue Code (the "Code") and that to the extent not so permissible, such Options shall not constitute Incentive Stock Options ("Nonqualified Stock Options"). For purposes of the Plan, all references to a subsidiary or subsidiaries shall include only wholly-owned subsidiaries of the Company.

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Outstanding stock options and warrants as of December 31, 2006 are as follows:

	<i>Options</i>	<i>Weighted average price per share</i>	<i>Warrants</i>	<i>Weighted average price per share</i>
<b>Outstanding at December 31, 2003</b>	<b>1,232,000</b>	<b>\$ 0.29</b>	<b>4,036,650</b>	<b>\$ 0.66</b>
<u>Year ended December 31, 2004</u>				
Granted	2,350,000	0.13	9,000,000	0.05
Exercised	-	-	(9,000,000)	0.05
Expired	-	-	(886,650)	2.45
<b>Outstanding at December 31, 2004</b>	<b>3,582,000</b>	<b>0.19</b>	<b>3,150,000</b>	<b>0.16</b>
<u>Year ended December 31, 2005</u>				
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(87,000)	0.19	-	-
<b>Outstanding at December 31, 2005</b>	<b>3,495,000</b>	<b>0.19</b>	<b>3,150,000</b>	<b>0.16</b>
<u>Year ended December 31, 2006</u>				
Granted	1,876,300	0.30	-	-
Exercised	(1,872,300)	0.30	-	-
Expired	(145,000)	0.29	(3,150,000)	0.16
Options cancelled and replaced by new option plan	(3,350,000)*	0.18	-	-
<b>Outstanding at December 31, 2006</b>	<b>4,000</b>	<b>0.30</b>	<b>-</b>	<b>-</b>

\*These options were issued under the plan from 2004, the options have been cancelled and superseded by the 2006 plan.

Outstanding stock options and warrants as of September 30, 2007 are as follows:

	<i>Options</i>	<i>Weighted average price per share</i>	<i>Warrants</i>	<i>Weighted average price per share</i>
Outstanding at December 31, 2005	3,495,000	0.19	-	-
<u>Year ended December 31, 2006</u>				
Granted	1,876,300	0.30	-	-
Exercised	(1,872,300)	0.30	-	-
Options cancelled and replaced by new option plan	(3,495,000)*	-	-	-