

CYIOS CORP  
Form 10QSB  
May 15, 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

**March 31, 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 23,680,210.00 common stock shares, par value \$0.001, as of March 31, 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 ITEM 2 of this Report, the section entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION." 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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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-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 March 31, 2007

**ASSETS****CURRENT ASSETS**

Cash and Cash Equivalents	\$ 60,778
Accounts Receivable	39,441
Other Current Assets	5,850
Loan to Shareholder	16,213
<b>TOTAL CURRENT ASSETS</b>	<b>122,282</b>

**PROPERTY AND EQUIPMENT**

Property and Equipment	873,529
Accumulated Depreciation	(873,529)
Net Property and Equipment	-

<b>TOTAL ASSETS</b>	<b>\$ 122,282</b>
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**LIABILITIES AND STOCKHOLDERS' DEFICIT****LIABILITIES****Current Liabilities:**

Line of Credit	\$ 100,979
Shareholder Loan Payable	35,916
Interest Payable	4,971
Taxes Payable (NOTE A)	13,629
Payroll Taxes Payable (NOTE A)	46,588
Accounts Payable (NOTE A)	395,649
<b>TOTAL LIABILITIES</b>	<b>597,732</b>

**STOCKHOLDERS' DEFICIT**

Convertible Preferred Stock (\$.001 par value, 5,000,000 authorized: 911,553 issued and outstanding)	911
Common Stock (\$.001 par value, 100,000,000 shares authorized: 27,101,741 shares issued and outstanding)	27,101
Additional Paid-in-Capital	23,628,232
Retained Deficit	(24,131,694)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(475,450)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 122,282</b>



Table of Contents**CYIOS Corporation, Inc. and Subsidiaries**

Consolidated Statement of Operations (Unaudited)  
**For the three months ended March 31, 2007 and 2006**

	2007	2006
<b>SALES AND COST OF SALES:</b>		
Sales	\$ 566,018	\$ 416,332
Cost of sales	125,301	95,306
Gross Profit	440,717	321,026
<b>EXPENSES:</b>		
Selling, general and administrative	381,638	316,095
Professional Fees	22,574	19,442
Bad Debt	-	525,000
Interest Expense	2,100	5,444
	406,312	865,981
<b>NET INCOME/(LOSS)</b>	<b>\$ 34,405</b>	<b>\$ (544,955)</b>
Basic and diluted income (loss) per share	\$ 0.002	\$ (0.025)
Weighted Average Shares Outstanding	21,686,732	21,567,910

Table of Contents**CYIOS Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)  
For the three months ended March 31, 2007 and 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$ 34,405	\$ (544,955)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	-	41,849
(Increase)/Decrease in Accounts Receivable	21,206	526,303
(Increase)/Decrease in Other Assets	14,063	7,970
Increase/(Decrease) In Taxes Payable	(191)	(138,284)
Increase/(Decrease) in Accounts Payable	(12,242)	(9,294)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>57,241</b>	<b>(116,411)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of common stock/capital contributions	8,236	94,581
Shareholder's Loan Receivable	(16,213)	-
Increase/(Decrease) in Shareholder Loan Payable	(13,791)	(13,265)
Increase/(Decrease) in borrowings on Notes Payable	-	(60,903)
Increase/(Decrease) in borrowings on Line of Credit	-	65,342
<b>NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES</b>	<b>(21,768)</b>	<b>85,755</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>35,473</b>	<b>(30,656)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of Period	25,305	49,857
End of Period	\$ 60,778	\$ 19,201



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CYIOS CORPORATION, AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

(Unaudited)

NOTE 1 - ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS

The consolidated financial statements of CYIOS Corporation, includes its subsidiary by the same name CYIOS Corporation, in addition to CKO, Inc. and WorldTeq Corporation. The Company, through its subsidiary CYIOS Corporation does business as a leading systems integrator and Knowledge Management Solutions provider supporting the United States Army. The company contracts its services for single and multiple year awards to different US Army and US Government agencies. CKO Incorporated owns a custom designed online office management tool called CYIPRO "*C Your Integrated Projects*" ([www.CYIPRO.com](http://www.CYIPRO.com)).

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.

CONTRACTS

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.



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GOODWILL

Goodwill is amortized over the lesser of the useful life of the related assets or ten years.

LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows estimated to be generated by the asset.

REVENUE RECOGNITION

The Company recognizes revenue from government contracts and sales from our product CYIPRO.

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.

BASIS OF PRESENTATION

The interim financial statements and summarized notes included herein were prepared in accordance with accounting principals 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 principals 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.

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

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the financial statements, related notes, and other detailed information included elsewhere in this Form 10QSB. Certain information contained below and elsewhere in this Form 10QSB, including information regarding our plans and strategy for our business, are forward-looking statements. See "Note Regarding Forward-Looking Statements."

Table of Contents**Corporate Overview**

CYIOS Corporation operates three subsidiaries. The first two, CYIOS Corporation and CKO Incorporated, are the two vehicles the company will be operating its business in, going forward after its merger on September 19, 2005. 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 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 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 provides its services within the following North American Industry Classification System (NAICS) codes:

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

CKO Incorporated is CYIOS' product subsidiary, which offers CYIPRO, an internally-developed online office management platform that has been modeled after Army Knowledge Online (AKO). CYIOS built the prototype for AKO, which now servers over 1.8 million Army users worldwide. CYIPRO was developed as an agency-level business transformation solution in response to Government initiatives in teleworking led by OPM and GSA; the President's Management Agenda and its focus on retaining human capital; FISMA, HSPD-12 and PKI for secure communications through common access cards; Lean Six Sigma to improve workflow and reduce redundancies; and the Clinger-Cohen Act to improve efficiencies in technology. CYIPRO has been positioned to work in conjunction with the AKO model to sell as a customized product to Federal, State and Local Governments. This, in turn, can lead to growth in service contracts for business transformation and modernization solutions.

**Recent Developments**

In May of 2007, after a month of discussions, CYIOS began working, in a type of sub-contracting environment, with a large Federal Government contractor, to place CYIOS personnel on already existing Government contracts. As of May 10<sup>th</sup>, 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.

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During the first quarter of 2007, CYIOS began converting its virtual office project management product into a .net environment with the main goal of allowing the product to work on Microsoft Mobile 5.0 and upcoming versions. This enables the product to work on any PDA (Personnel Digital Assistant) and cell phone device that has Internet access utilizing the MS Mobile browser. CYIOS has renamed the product CYIPRO (C-Your Integrated Projects).

To take advantage of the very low cost of Mobile Internet access in the United Kingdom, in early May of 2007, CYIOS completed negotiations, with an initial sale, with a partner in the United Kingdom to resell and distribute CYIPRO through a network of VAR's (Value Added Resellers).

In March of 2007 CYIOS was awarded a new one-year task order by the Department of Defense, U.S. Army for \$330,000. This task order was awarded on Tuesday, March 28, 2007. The company has the opportunity to get this task order renewed two more times, which would ultimately put the total value at approximately \$1 million over three years.

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.

In January of 2007 CYIOS started off the New Year with signing a subcontract providing Change Management services worth \$225,000 a year. The work is being performed for DHS and is part of a subcontract with one of the top 10 government contractors.

In September of 2006 CYIOS Corporation entered into an agreement to set up and own 25% of a joint venture called CLNS LLC. The company retained InterPlan Systems to co-write a proposal for a multi-billion dollar, multi- award contract with a large Federal Agency for this new entity. This joint-venture includes three other small business DoD contractors. This unique arrangement was created to allow a better chance of winning the contract as the past performance from all four company's combined offered a very solid proposal. Awards are expected August or September 2007.

In July of 2006, CYIOS received a score of 94/100 from the Dun & Bradstreet Open Ratings Past Performance Evaluation. CYIOS scored over 90% in every performance category, including reliability, cost, order accuracy, delivery/timeliness, quality, business relations, personnel, customer support and responsiveness.

In June of 2006, 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 valued at up to \$1 million with over \$300,000 invoiced by the date of this filing. CYIOS designed and now supports the General Officer Management Office (GOMO) Knowledge Management system. The CSA approved, and the Secretary of the Army endorsed, the realignment of GOMO to include Colonels Division, Officer Personnel Management Directorate, U.S. Army Human Resources Command (HRC) to form the Army Senior Leader Development Office (SLD). CYIOS has been recognized for delivering quality work, outstanding customer service, and ingenuity; and this initiative is to expand its efforts to build a knowledge management system for the Colonel's Branch of SLD.

In May of 2006, CYIOS was awarded a \$400k, 1 year follow-on contract at the Headquarters Department of the Army Information Management Support Center (IMCEN). The program, End-User Workstation Survey and Post Installation Quality Assurance, makes CYIOS responsible for the inventory assets of over 10,000 Headquarters, Department of the Army customer desktop devices in the preparation for upgrade or replacement; conduct post-installation quality assurance surveys to gauge customer satisfaction; and provide technical support and training to end users for desktop-related issues after an upgrade or replacement.



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In April of 2006, CYIOS received certification as a Microsoft Small Business Specialist. Not only does this help the company become more valuable as it reaffirms the company as an expert in its areas of specialty, but also it will help increase business, especially in the commercial sector as Microsoft offers very aggressive sales assistance programs to its small business specialist partners. Recently this has become more significant as the company works with Microsoft on its recent efforts to convert its product, CKO, to work on MS Mobile 5.0/6.0 software for mobile phone PDA's.

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**FINANCIAL CONDITION**

We currently have limited financial resources but the company is able to support its 25+ member staff in addition to its investment in operations (bids and proposals team) and products, like the development of CYIPRO. The bids and proposals team and management infrastructure of current contracts has been successful in generating more revenue necessary for growth and profit.

**RESULTS OF OPERATIONS**

NOTE: A – from Consolidated Condensed Balance Sheet

Subsidiary company WorldTeq Corporation has the Liabilities in Accounts Payable of \$370,347.78 and Taxes Payable & Payroll Liabilities of \$53,177.07. WorldTeq Corporation is a subsidiary that was inherited as part of the merger in September 2005. This debt is static, not recurring or growing.

Total sales for the first quarter 2007 were \$566,018 as compared to \$416,332 for the quarter ended March 31, 2006, an increase of over 35%. CYIOS Corporation revenues have increased due to expansion of current contracts and newly awarded contracts.

Our net income for the quarter ending March 31, 2007 was \$34,405 as compared to (\$544,955) for the same period in 2006. Our net income has increased significantly. Our investment in the bids and proposals team has paid off and will continue to pay off in upcoming quarters. This is the company's first profitable quarter since the 2005 merger with WorldTeq with a net income per share of .002 compared to a net loss per share of (.025) during the same period in 2006. Profits were realized for this first time even while the company has continued to invest in CYIPRO, the company's virtual office project management tool. With this upward trend, we should continue to see increased revenues and profitability, with positive cash flow, in upcoming quarters.

Cost of sales for the first quarter of 2007 was \$125,301 as compared to \$95,306 for the same quarter in 2006. The product, CYIPRO, is an expense that has not recouped its costs and our profits from services are maintaining the development and sales of the product. While using its own product is a major benefit to the company's management, CYIPRO also serves as a showcase for our performance and capabilities when working toward selling services.

General expenses for the first quarter of 2007 were \$406,312 as compared to \$865,981 for the same quarter in 2006. This is a significant decrease and is due in part to the benefits the company receives from using CYIPRO, which now positions us to take on new contracts without any major increase in COGS, mainly being additional overhead staff to support contracts. We expect this trend to continue and to have a consistent decrease in general expenses.

**LIQUIDITY AND CAPITAL RESOURCES**

Net cash used in operating activities for the period ended March 31, 2007 and 2006 was \$57,241 and (\$116,411) respectively. This improvement is based upon lowering our overhead and generating more business on our service contracts.

The Company, at March 31, 2007 and Year End 2006, had total assets of approximately \$122,282 and \$105,865 respectively.



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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.

"Summary of Significant Accounting Policies" in this Quarterly Report on Form 10-QSB and the Notes to Consolidated Financial Statements in our Annual Report on Form 10Ksb for the fiscal year ended December 31, 2006

**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.**

DISCLOSURE CONTROLS AND PROCEDURES. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, March 31, 2007, we completed an evaluation, under the supervision and with the participation of our management, consisting of our Chief Executive Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act of 1934 Rules 13a-14(C) and 15d-14c). Based upon the foregoing, our Chief Executive Officer concluded that our disclosure controls and procedures are effective in connection with the filing of the annual report on Form 10-KSB for the fiscal year ended December 31, 2005.

CHANGES IN INTERNAL CONTROLS. There were no significant changes in our internal controls over financial reporting during the period ended March 31, 2007 that have materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

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**Part II – OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Not applicable

**Item 1A. Risk Factors.**

All contracts are performance based and if performance metrics are not met, the contract could be negatively affected.

**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.**

Attached

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**SIGNATURE**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYIOS Corporation.

/s/ Timothy Carnahan  
Timothy Carnahan  
Chief Executive Officer, President,  
Treasurer, and Chairman of the Board

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Timothy Carnahan  
Timothy Carnahan  
Chief Executive Officer, President, Treasurer, and  
Chairman of the Board

Date: May 15<sup>th</sup>, 2007