

CYIOS CORP  
Form 10-Q/A  
March 26, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A  
(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, 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  
(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)

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

YES  NO

Indicate by check mark whether the registrant 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)  
 Smaller reporting company

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

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable

date. There were 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.

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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-Q/A 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
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$21,481	\$45,498
Accounts Receivable	41,997	46,398
Prepaid and Other Current Assets	25,529	4,900
<b>TOTAL CURRENT ASSETS</b>	<b>89,007</b>	<b>96,796</b>
<b>OTHER ASSETS</b>		
Loan to Shareholder	249,019	172,406
<b>TOTAL OTHER ASSETS</b>	<b>249,019</b>	<b>172,406</b>
<b>FIXED ASSETS, NET</b>	<b>3,200</b>	<b>3,788</b>
<b>TOTAL ASSETS</b>	<b>\$341,226</b>	<b>\$272,990</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>LIABILITIES</b>		
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
<b>TOTAL LIABILITIES</b>	<b>458,799</b>	<b>417,456</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Convertible Preferred Stock (\$.001 par value, 5,000,000 authorized: 29,713 and 29,713 issued and outstanding)	30	30
Common Stock (\$.001 par value, 100,000,000 shares authorized: 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)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(117,573 )</b>	<b>(144,466 )</b>

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$341,226	\$272,990
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The accompanying notes are an integral part of these unaudited financial statements

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CYIOS Corporation and Subsidiaries  
Consolidated Statement of Operations (Unaudited)

	Three Months ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>SALES AND COST OF SALES</b>				
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
<b>EXPENSES</b>				
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	-
<b>TOTAL EXPENSES</b>	<b>208,698</b>	<b>156,050</b>	<b>649,735</b>	<b>537,381</b>
Net Income/(Loss) from Operations	(52,866 )	(13,028 )	(120,862 )	44,724
<b>OTHER INCOME/(EXPENSE)</b>				
Interest/Other Income	1,022	22,000	1,955	22,000
<b>NET OTHER INCOME/(EXPENSE)</b>	<b>1,022</b>	<b>22,000</b>	<b>1,955</b>	<b>22,000</b>
<b>NET INCOME/(LOSS) FROM CONTINUED OPERATIONS</b>	<b>(51,844 )</b>	<b>8,972</b>	<b>(118,907 )</b>	<b>66,724</b>
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

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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



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CYIOS Corporation and Subsidiaries  
 Consolidated Statements of Cash Flows (Unaudited)  
 For the nine months ended September 30, 2008 and 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
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 )
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>6,380</b>	<b>118,156</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase)/Decrease in Shareholders' Loan Receivable	(76,613 )	(83,303 )
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(76,613 )</b>	<b>(83,303 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
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 )
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>46,216</b>	<b>(1,171 )</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(24,017 )</b>	<b>33,682</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of Period	45,498	25,305
End of Period	\$21,481	\$58,987
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Interest	\$6,344	\$19,335
Taxes	\$-	\$-
<b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>		
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



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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

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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.

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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.

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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.



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## 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.



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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.

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## 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 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	-	

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## 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

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## 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

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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
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