

CYIOS CORP
Form 10QSB
November 13, 2006

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, 2006

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)

(202) 742-8984
(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 22,530,210.00 common stock shares, par value \$0.001, as of September 30, 2006.

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. Factors that could cause actual results or conditions to differ from those anticipated by these and other forward-looking statements include those more fully described in the "Risk Factors" section of the Company's Registration Statement filed with the Securities and Exchange Commission (the "SEC") on April 12, 2006 on Form 10KSB. In addition, readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

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, 2006

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 51,246
Other Current Assets	23,682
Accounts Receivable	181,516
Loan to Shareholder	16,213
TOTAL CURRENT ASSETS	272,657

PROPERTY AND EQUIPMENT

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

TOTAL ASSETS	\$ 272,657
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LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Expenses (NOTE A)	\$ 390,489
Taxes Payable (NOTE A)	13,629
Payroll Liabilities (NOTE A)	46,588
Interest Payable	18,640
Shareholder Loan Payable	61,878
Note Payable	96,367
TOTAL LIABILITIES	627,591

STOCKHOLDERS' EQUITY

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: 22,680,210 shares issued and outstanding)	22,680
Additional Paid-in-Capital	23,592,721
Retained Deficit	(23,971,246)

TOTAL STOCKHOLDERS' EQUITY		(354,934)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	272,657

CYIOS Corporation, Inc. and Subsidiaries
Consolidated Statement of Operations (Unaudited)
For the period ended September 30,

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
SALES AND COST OF SALES:				
Sales	\$ 468,450	\$ 611,796	\$ 1,260,777	\$ 1,565,827
Cost of sales (NOTE B)	85,763	108,397	293,563	145,693
Gross Profit	382,687	503,399	967,214	1,420,134
EXPENSES:				
Selling, general and administrative	394,451	611,827	1,121,510	1,791,050
Bad Debt	-	-	525,000	-
Interest Expense	6,228	-	15,219	5,800
	400,679	611,827	1,661,729	1,796,850
NET LOSS	\$ (17,992)	\$ (108,428)	\$ (694,515)	\$ (376,716)
Basic and diluted income (loss) per share				
	\$ <(0.01)	\$ <(0.01)	\$ <(0.01)	\$ <(0.01)
Weighted Average Shares Outstanding				
	22,202,923	21,567,910	21,951,705	21,567,910

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

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (694,515)	\$ (376,716)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation	48,904	8,666
Other Assets	5,395	(41,697)
Shareholder Loan Payable	(124,521)	-
Taxes Payable	(188,237)	-
Payroll Liabilities	46,588	-
Accounts receivable	446,952	(39,217)
Loan to Shareholder	(16,213)	-
Accounts payable and accrued expenses	73	152,863
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(475,574)	(296,101)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases	-	85,269
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	-	85,269
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of stock and warrants	420,304	283,540
Bank Loan Payable	56,659	(169,558)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	476,963	113,982
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,389	(96,850)
CASH AND CASH EQUIVALENTS:		
Beginning of period	49,857	-
End of period	\$ 51,246	\$ -

CYIOS CORPORATION. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(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 eXecutive Officer's Office (www.xooffice.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 (Project on Government Oversight). DoD and government contracts are the primary method to bring revenue into the company.

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 eExecutive Officer's Office.

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 12, 2006. 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."

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:

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

CKO Incorporated is CYIOS' product subsidiary, which offers XO Office, 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. XO Office 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. XO Office 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

CYIOS Corporation is using "lessons learned" on its solicitation bid process in order to increase winnings on its current and future proposal efforts. The company's bid team is working simultaneously on efforts using the U.S. Small Business Administration (SBA) and increasing our partner relationships. The bid team is incorporating new tactics to increase its odds of winning multiple-awards with small business set-asides. Multiple-award contracts are used by those agencies that put out a solicitation intended to award contracts to a number of contractors, and are usually long term, multi-million, or even multi-billion dollar contracts. Multiple awards that have small business set-asides are to guarantee a percentage of business to be awarded to small businesses.

The CYIOS bid team is analyzing every multi-award where it could perform on and will work with the SBA to make sure that any of these multi-awards the company wants to bid includes a "total small business category." This will be done through the SBA requesting that the agency placing the multi-award solicitation set aside awards for total small businesses. This will greatly increase CYIOS' chance of winning on these multiple awards because; when competing against like size contractors CYIOS is confident that it's expertise, reputation, and proven past performance will beat out other like size contractors.

Through lessons-learned CYIOS management sees the importance of having the confidence backing of a large contractor. When Government agencies see that CYIOS has large successful contractors as bidding partners they put more confidence in the company's ability to perform. CYIOS is working with two very large businesses to cement formal relationships. While this is a benefit to help the company bid and win multiple awards, both large companies have very high interest in the company's XO Office product, one company in particular shares the same philosophy in business process re-engineering that XO provides and could become a welcome backer and adversary of the product.

Below is a chart (figure 1) from our XO Office product, the chart is depicting the work accomplished by the CEO during the third quarter 2006. The chart shows that the CEO is involved on a daily basis in Dept of contracts, Board of Directors, Dept of Human Resources and others as seen on the chart. Each business unit can be further broken down into categories whereas we can see trends of the work being accomplished. It is a prime example of practicing what you preach. In the upcoming 10Q filings, we will be showing more reports with trends and associated costs that most importantly affect the bottom line. If we are doing something that doesn't work, we will simply stop doing that process or refine it if it is working well. These are the first steps in building a knowledge centric organization and becoming Six sigma & Lean and having total accountability for your COGS.

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 and products, like the development of eXecutive Officer's Office. Most of the cost incurred is for the bids and proposals team. The bids and proposals team is necessary for growth and is foreseen to not be a burden after an awarded contract or two in the near future.

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.

RESULTS OF OPERATIONS

Total sales for the third quarter 2006 were \$468,450 as compared to \$611,796 (CYIOS Corporation was \$426,830) for the quarter ended September 30, 2005. CYIOS Corporation revenues have increased \$41,620 due to expansion of current contracts and newly awarded contracts.

Our net loss for the quarter ending September 30, 2006 was \$17,992 or less than \$.01 per share, as compared to \$108,428 for the same period in 2005. This loss has been significantly reduced. Our investment in the bids and proposals team has paid off and will continue to pay off in upcoming quarters. With this continuing trend, we should be cash flow positive in upcoming quarters.

Cost of sales for the third quarter of 2006 was \$85,763 as compared to \$108,397 for the same quarter in 2005. The product, eExecutive Officer's Office is an expense that has not recouped its costs and our profits from services are maintaining the development and sales of the product. eExecutive Officer's Office is a show case of our performance and capabilities when working toward selling services.

NOTE: B - from Consolidated Statement of Operations

Starting July 1, 2006, Cost of sales has been reduced, as we've put some of our overhead on billable contracts. Cost of sales decreased to \$85,763 in the third quarter 2006 from \$112,494 in the second quarter 2006. We expect this trend to continue and to have a consistent decrease in cost of sales.

General expenses for the third quarter of 2006 were \$394,451 as compared to \$611,827 for the same quarter in 2005. Currently we are positioned to take 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 September 30, 2006 and 2005 was (\$475,574) and (\$296,101) respectively. This comparison is different due to the merger 3QTR 2005.

The Company at September 30, 2006 and Year End 2005 had total assets of approximately \$272,657 and \$756,306 respectively. The total assets have increased by approximately \$80,000 from June 30, 2006 to September 30, 2006. The overall reduction was due to a receivable of \$525,000 that was not collected.

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 10-KSB for the fiscal year ended December 31, 2005

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, September 30, 2006, 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 September 30, 2006 that have materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable

Item 1A. Risk Factors.

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.

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: November 09, 2006
