

CYIOS CORP  
Form POS AM  
December 12, 2011

DECEMBER 12, 2011 U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

(Post-Effective Amendment No. 5 to Form S-1)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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 Avenue, Ste 700

Washington, DC 20004

(Name and address of principal executive offices)

American Corporate Enterprises, Inc.

123 West Nye Ln. Ste 129

(Name and address of agent for service)

Registrant's telephone number, including area code: 202-204-3006

Approximate date of commencement of proposed sale to the public: **As soon as practicable after the effective date of this Registration Statement.**

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If any of the securities being registered on the Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

**COPIES OF COMMUNICATIONS TO:**

**Scott P. Doney, Esq.**

**3273 E. Warm Springs Rd., Las Nevada 89120**

**Phone: (702) 312-6255 / Fax: (702) 944-7100**

**Explanatory Note**

The Registrant files this post-effective amendment number one to its Registration Statement on Form S-1 (No. 333-165941) as initially filed with the Securities and Exchange Commission on April 8, 2010. This amendment includes the audited financial statements for the fiscal years ended December 31, 2010 and 2009 filed with the Registrant's Annual report on Form 10-K with the Securities and Exchange Commission on April 15, 2011. This amendment also includes the unaudited financial statements for the period ended September 30, 2011 filed with the Registrant's Quarterly Report on Form 10-Q/A with the Securities and Exchange Commission on August 26, 2011.

The Registrant previously paid a registration fee of \$14.97 in connection with the filing of the initial registration statement on Form S-1 (No. 333-165941) filed with the Securities and Exchange Commission on April 8, 2011. The Registrant has increased the price per share in this offering from \$0.06 to \$0.07. Thus, the new registration fee amount is \$28.44, which the Registrant paid at the time of filing this amendment.

No shares offered in this post-effective amendment were previously sold under the Registration Statement on Form S-1 (No. 333-165941) as initially filed with the Securities and Exchange Commission on April 8, 2010. The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Preliminary Prospectus Subject to Completion dated December 12, 2011**

**CYIOS Corporation**

**3,500,000 Shares**

**Common Stock**

This prospectus relates to the resale of up to 3,500,000 shares of the common stock of CYIOS Corporation, a Nevada corporation, by Auctus Private Equity Fund, LLC, a Cayman Island exempted company ("Auctus" or "Selling Security Holder"), a selling shareholder pursuant to Drawdown Notice under a Drawdown Equity Financing Agreement (the "Drawdown Equity Financing Agreement" or "DEFA"), also referred to as an Equity Line of Credit, that we have entered into with Auctus. The Drawdown Equity Financing Agreement permits us to sell shares of our common stock to Auctus enabling us to drawdown up to \$7,000,000 million from Auctus. The registration statement covers the offer and possible sale of approximately \$175,000 based on the most recent market price of \$.04 before the discount offered to Auctus. We will not receive any proceeds from the sale of these shares of common stock offered by Auctus. However, we will receive proceeds from the sale of securities pursuant to each Drawdown Notice we send to Auctus. We will bear all costs associated with this registration.

Auctus is an “underwriter” within the meaning of the Securities Act of 1933, as amended (the “Securities Act”) in connection with the resale of our common stock under the Equity Line of Credit. Auctus will pay us 94% of the lowest closing “best bid” price of the common stock during the five consecutive trading days immediately following the date of our notice to Auctus of our election to put shares pursuant to the Drawdown Equity Financing Agreement.

Our shares of common stock are traded on the Over-the-Counter Bulletin Board (the “OTCBB”) under the symbol “CYIO.OB.” On November 22, 2011, the closing sale price of our common stock was \$0.04 per share.

**The purchase of the securities offered through this prospectus involves a high degree of risk. See section entitled “Risk Factors”.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**The Date of This Prospectus is: December 12, 2011**

### **Summary**

This summary highlights information described more fully elsewhere in this prospectus. You should read the entire prospectus carefully. In this prospectus, “CYIOS,” the “Company,” “CYIOS Corp,” “we,” “us” and “our” refer to CYIOS Corporation, a Nevada corporation.

CYIOS® Corporation (“we”, “us”, “our”, “CYIOS” or “Company”) was incorporated under the laws of the state of Nevada on October 13, 1997 as Halo Holdings of Nevada, Inc., for purposes of acquiring Halo Holdings, Inc., a Delaware corporation, operating in the aviation and extreme sports entertainment industries. In March 1999, we sold our extreme sports division. Between February 1999 and April 1999 we acquired three operating entities engaged in the business of providing integrated internet access and professional consulting services, and, on July 9, 1999, we changed our name to A1 Internet.com, Inc. to more accurately reflect our then-current operations. In June 2000, in addition to our other operations, we entered into the business of providing long distance services. In December 2000,

we discontinued the operations of several of our subsidiaries which were not focused on our then-core competencies, and on October 15, 2001 we changed our name to WorldTeq Group International, Inc. (“WorldTeq”).

Effective April 7, 2005 we completed a 1-for-30 reverse stock split of our outstanding shares of common stock and changed our name to China Print, Inc., in anticipation of entering into an agreement and plan of merger with Harbin Yinhai Technology Development Company Ltd., a People’s Republic of China company (“HYT”). In June of 2005, the transaction with HYT was terminated.

On September 19, 2005, we entered into an agreement with CYIOS Corporation, a District of Columbia corporation (“CYIOS®DC”), and Timothy Carnahan, whereby we acquired 100% of the issued and outstanding capital stock of CYIOS®DC in exchange for 19,135,000 shares of our common stock. On September 27, 2005 we changed our name to CYIOS®Corporation.

Our principal executive offices are located at 1300 Pennsylvania Avenue, Suite 700, Washington, DC 20004. Our phone number is 202-204-3006. Our fiscal year end is December 31.

### **The transaction with Auctus**

This prospectus relates to the resale of up to 3,500,000 shares of our common stock by Auctus (Investor). Auctus will obtain our common stock pursuant to a Drawdown Equity Financing Agreement (“DEFA”), effective March 24, 2010, entered into by Auctus and CYIOS. The company has paid the Auctus Seventy Five Hundred Dollars (\$7,500) in cash and has also issued to the Investor One Hundred Thousand (100,000) Shares of Restricted Common Stock as a non-refundable origination fee.

In connection with the DEFA, the Company has agreed to issue and sell to Auctus, and Auctus has committed to purchase from the Company, up to \$7,000,000 worth of the Company’s common stock (“Shares”), par value \$0.0001 per share over a three year period. At the date of filing, we may not obtain the full \$7,000,000 in funding as our average trading price is too low. The \$7,000,000 was the amount of funding in the DEFA because this was the amount Auctus agreed to offer the Company. There is no assurance that the market price of our common stock will increase substantially in the near future. The number of common shares that remains issuable is lower than the number of common shares we may need to issue in order to have access to the full amount under the Equity Line of Credit. Therefore, we may not have access to the remaining commitment under the equity line unless we amend our Articles of Incorporation to increase the number of authorized common shares and/or the market price of our common stock increases substantially. Based on our stock price as of December 12, 2011, the registration statement covers the offer and possible sale of only approximately \$164,500 of our shares at current discounted market price of \$.0376 or 94% of \$.04 (our market price at December 12, 2011). We are authorized to issue 100,000,000 shares of common stock and have 36,311,640 (16,085,346 in public float) shares issued and outstanding as of December 12, 2011. The number of common shares that remains issuable is lower than the number of common shares we need to issue in order to have access to the full amount under the Equity Line of Credit. Therefore, we may not have access to the remaining

commitment under the equity line unless we amend our Articles of Incorporation to increase the number of authorized common shares and/or the market price of our common stock increase substantially

The amount that the Company shall be entitled to request from each advance (“Advance”) shall be equal to, at the Company’s election, either (i) \$200,000 or (ii) 200% of the average daily volume (U.S. market only) of the common stock based on the ten (10) trading days preceding the Drawdown Notice Date (as defined in the DEFA), whichever is larger. The purchase price of the common stock shall be set at ninety-four percent (94%) of the lowest closing bid price of the common stock during the pricing period. The pricing period shall be the five (5) consecutive trading days immediately after the Drawdown Notice Date. If the average trading in our common stock is too low, it is possible that we may not be permitted to draw the full amount of proceeds of the drawdown of \$164,500, which may not provide adequate funding for our planned operations.

NOTE: Auctus shall immediately cease selling any shares within a Drawdown Notice if the price falls below seventy-five percent (75%) of the average closing bid price of the common stock over the preceding ten (10) trading days prior to the Drawdown Notice Date (the “Floor”). Notwithstanding, the Company, in its sole and absolute discretion, may waive its right with respect to the Floor and allow Auctus to sell any shares below the Floor Price. In the event that the Company does not waive its right with respect to the Floor, Auctus shall immediately cease selling any shares within the Drawdown Notice if the price falls below the Floor Price. If the company does waive the floor price it could cause the share price to fall substantially. The floor price restriction only applies to the five day trading period then the transaction is closed.

Also note, there is an ownership limit of 4.99% (see section 7.2 (g) of the DEFA) and, neither the company’s right to waive the floor price and/or the ownership limit of 4.99% can impact the price at which the company can put the shares to the investor (Auctus).

On the Advance Date, the Company shall deliver to the Investor the number of shares of the Common Stock registered in the name of the Investor as specified in the Drawdown Notice. In addition, the Company must deliver the other required documents, instruments and writings required. If the Company has not paid the fees, expenses, and disbursements of the Investor in accordance with the DEFA, Section 12.4, the amount of such fees, expenses, and disbursements may be deducted by the Investor directly out of the proceeds of the Advance with no reduction in the amount of shares of the Company’s Common Stock to be delivered on the Advance Date.

The Company has certain obligations upon closing that must be met:

- The shares delivered to the Investor must be done so through a Deposit/Withdrawal at Custodian (DWAC) from a Deposit Trust Company and shares must have proof that they are free of restrictive legends.
- The Company’s Registration Statement with respect to the resale of the shares of Common Stock delivered in connection with the Advance shall have been declared effective.

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- The Company shall have obtained all material permits and qualifications required by any applicable state for the offer and sale of the Registrable Securities.
- The Company shall have filed with the SEC in a timely manner all reports, notices and other documents required.
- All fees set forth in Section 12. 4 of the DEFA shall have been paid or withheld.
- The Company's transfer agent is DWAC eligible.

We believe that we will be able to meet all of the above obligations mandated in Section 2.3 of the DEFA (mentioned above). We are aware that if we fail to perform our obligations and we fail to deliver to the Investor on the Advance Date the shares of Common Stock corresponding to the applicable Advance, the Investor shall suffer financial hardship and therefore we acknowledge that we will be liable for any and all losses, commission, fees, interest, legal fees or any other financial hardships caused to the Investor. Fees and penalties for such losses (liquidated damages) to the Investor shall be paid by the Company in accordance with the following schedule:

Payments for Each Number of Days Overdue	\$10,000 Worth of Common Stock
1	\$100
2	\$200
3	\$300
4	\$400
5	\$500
6	\$600
7	\$700
8	\$800
9	\$900
10	\$1000
Over 10	\$1000 + \$200 for each Business Day beyond the tenth day

**The chart below depicts a quick view of the transaction and where to go for further information:**

Common stock offered:	Up to 3,500,000 shares of common stock, no par value, to be offered for resale by Auctus.
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Common stock to be outstanding after this offering:	39,811,640 shares to be outstanding after this offering
Use of proceeds:	We will not receive any proceeds from the sale of the shares of common stock offered by Auctus. However, we will receive proceeds from the Equity Line of Credit. See "Use of Proceeds".
Risk factors:	An investment in our common stock involves a high degree of risk. See "Risk Factors" of this prospectus.
OTC Bulletin Board symbol:	"CYIO.OB"

**Summary of Financial Information:**

	<b>As of September 30, 2011 (unaudited)</b>		<b>As of December 31, 2010</b>
			<b>Derived from audited Financial Statements</b>
<b>Balance Sheet Data</b>			
Cash	\$	36,694	\$ 27,603
Total Assets	\$	469,216	\$ 523,880
Liabilities		\$ 96,783	\$ 157,808
Total Stockholders' Equity (Deficit)	\$	469,216	\$ 366,072
	<b>For the three months ended</b>	<b>For the nine months ended</b>	<b>For the year ended</b>
	<b>September 30, 2011</b>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>Statement of Operations Data</b>			
Revenue	\$	482,993	\$ 1,453,131
Income/(Loss) for the Period	\$	(17,680)	\$ 104,361
			\$ 1,849,804
			\$ (394,051)



## **Risk Factors**

Investing in our shares is very risky. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected; and, if this were to happen, the price of our shares could decline significantly and you might lose all or a part of your investment. Our forward-looking statements in this prospectus are also subject to the following risks and uncertainties. In deciding whether to purchase our shares, you should carefully consider the following factors, among others, as well as information contained in this prospectus.

### **General Business Risks**

Our limited operating history may not serve as an adequate basis upon which to judge our future prospects and results of operations.

We were incorporated in October 1997, but only began our present operation in September 2005, and, as such, we have a limited operating history, and our historical operating activities may not provide a meaningful basis upon which to evaluate our business, financial performance or future prospects. We may not be able to achieve similar operating results in future periods, and, accordingly, you should not rely on our results of operation for prior periods as indications of our future performance.

Our historical operating losses and negative cash flows from operating activities raise an uncertainty as to our ability to continue as a going concern.

We have a history of operating losses and negative cash flows from operating activities. In the event that we are unable to sustain our current profitability or are otherwise unable to secure external financing, we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern. Any such inability to continue as a going concern may result in our security holders losing their entire investment. Our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles, contemplate that we will continue as a going concern and do not contain any adjustments that might result if we were unable to continue as a going concern. Changes in our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our expansion plans, lower than anticipated revenues, increased expenses, potential acquisitions or other events will all affect our ability to continue as a going concern.

**Our liquidity and capital resources are very limited.**

Our ability to fund working capital and anticipated capital expenditures will depend on our future performance, which is subject to general economic conditions, our ability to win government contracts, our private customers, actions of our competitors and other factors that are beyond our control. Our ability to fund operating activities is also dependent upon (i) the extent and availability of bank and other credit facilities, (ii) our ability to access external sources of financing, and (iii) our ability to effectively manage our expenses in relation to revenues. There can be no assurance that our operations and access to external sources of financing will continue to provide resources sufficient to satisfy liabilities arising in the ordinary course of our business.

**Our accumulated deficit makes it more difficult for us to borrow funds.**

As of the fiscal year ended December 31, 2010, and as a result of historical operating losses from prior years, our accumulated deficit was \$24,264,645. Lenders generally regard an accumulated deficit as a negative factor in assessing creditworthiness, and for this reason, the extent of our accumulated deficit coupled with our historical operating losses will negatively impact our ability to borrow funds if and when required. Any inability to borrow funds, or a reduction in favorability of terms upon which we are able to borrow funds, including the amount available to us, the applicable interest rate and the collateralization required, may affect our ability to meet our obligations as they come due, and adversely affect on our business, financial condition, and results of operations, raising substantial doubts as to our ability to continue as a going concern.

## **Risks Associated with our Business and Industry**

We depend on contracts with federal government agencies for all of our revenue, and if our relationships with these agencies were harmed our future revenues and growth prospects would be adversely affected.

Revenues derived from contracts with federal government agencies accounted for all of our revenues for the fiscal year ended December 31, 2010, and we believe that federal government agencies will continue to be the source of all or substantially all of our revenues for the foreseeable future. For this reason, any issues that compromise our relationship with agencies of the federal government in general, or with the Department of Defense in particular, would have a substantial adverse effect on our business. Key among the factors in maintaining our relationships with federal government agencies are our performance on individual contracts, the strength of our professional reputation and the relationships of our key executives with government personnel. To the extent that our performance does not meet expectations, or our reputation or relationships with one or more key personnel are impaired, our business, financial condition and results of operations will be negatively affected and we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

The federal government may modify, curtail or terminate our contracts at any time prior to their completion, which would have a material adverse effect on our business.

Federal government contracts are highly regulated and federal laws and regulations require that our contracts contain certain provisions which allow the federal government to, among other things:

- terminate current contracts at any time for the convenience of the government, provided such termination is made in good faith;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- curtail or modify current contracts if requirements or budgetary constraints change; and
- adjust contract costs and fees on the basis of audits done by its agencies.

Should the federal government modify, curtail or terminate our contracts for any reason, we may only recover our costs incurred and profit on work completed prior to such modification, curtailment or termination. The federal government regularly reviews our costs and performance on its contracts, as well as our accounting and general business practices. The federal government may reduce the reimbursement for our fees and contract-related costs as a result of such an audit. There can be no assurance that one or more of our federal government contracts will not be modified, curtailed or terminated under these circumstances, or that we would be able to procure new federal government contracts to offset the revenue lost as a result of any modification, curtailment or termination. As our revenue is dependent on our procurement, performance and receipt of payment under our contracts with the federal government, the loss of one or more critical contracts could have a material adverse effect on our business, financial condition and results of operations and we may not be able to meet our obligations as they come due, raising

substantial doubts as to our ability to continue as a going concern.

The federal government has increasingly relied upon contracts that are subject to a competitive bidding process. If we are unable to consistently win new awards under these contracts our business may be adversely affected.

We obtain many of our contracts with the federal government through a process of competitive bidding and, as the federal government has increasingly relied upon contracts that are subject to competitive bidding, we expect that much of the business we are awarded in the foreseeable future will be through such a process. There are substantial costs and a number of risks inherent in the competitive bidding process, including the costs associated with management time necessary to prepare bids and proposals that we may not be awarded, our failure to accurately estimate the resources and costs required to service contracts that we are awarded, and the risk that we may encounter unanticipated expenses, delays or modifications to contracts previously awarded. Our failure to effectively compete and win contracts through, or manage the costs and risks inherent in the competitive bidding process could have a material adverse effect on our business, financial condition and results of operations.

Our revenues and growth prospects may be adversely affected if we or our employees are unable to obtain the requisite security clearances or other qualifications needed to perform services for our customers.

Many federal government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue anticipated from the contract. Employee misconduct, including security breaches, or our failure to comply with laws or regulations applicable to our business could cause us to lose customers or our ability to contract with the federal government, which would have a material adverse effect on our business, financial condition and results of operations and we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

Because we are a federal government contractor, misconduct, fraud or other improper activities by our employees or our failure to comply with applicable laws or regulations could have a material adverse effect on our business and reputation.

Because we are a federal government contractor, misconduct, fraud or other improper activities by our employees or our failure to comply with applicable laws or regulations could have a material adverse effect on our business and reputation. Such misconduct could include the failure to comply with federal government procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in federal government contracts and any other applicable laws or regulations. Many of the systems we develop involve managing and protecting information relating to national security and other sensitive government functions. A security

breach in one of these systems could prevent us from having access to such critically sensitive systems. Other examples of potential employee misconduct include time card fraud and violations of the Anti-Kickback Act. The precautions we take to prevent and detect these activities may not be effective, and we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees could subject us to fines and penalties, loss of security clearance and suspension or debarment from contracting with the federal government, any of which would have a material adverse effect on our business, financial condition and results of operations and we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts, which affect how we do business with our customers. Such laws and regulations may potentially impose added costs on our business and our failure to comply with applicable laws and regulations may lead to penalties and the termination of our federal government contracts. Some significant regulations that affect us include:

- the Federal Acquisition Regulations and their supplements, which regulate the formation, administration and performance of federal government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations; and
- the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based government contracts.

Additionally, our contracts with the federal government are subject to periodic review and investigation. Should such a review or investigation identify improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including the termination of our contracts, forfeiture of profits, the triggering of price reduction clauses, suspension of payments, fines and suspension or debarment from doing business with federal government agencies. We could also suffer harm to our reputation, which would impair our ability to win awards of contracts in the future or receive renewals of existing contracts. Although we have never had any material civil or criminal penalties or administrative sanctions imposed upon us, it is not uncommon for companies in our industry to have such penalties and sanctions imposed on them. If we incur a material penalty or administrative sanction in the future, our business, financial condition and results of operations could be adversely affected.

Our business is subject to routine audits and cost adjustments by the federal government, which, if resolved unfavorably to us, could adversely affect our financial condition.

Federal government agencies routinely audit and review their contractors' performance, cost structure and compliance with applicable laws, regulations and standards. They also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Such audits may result in adjustments to our contract costs, and any costs found to be improperly allocated will not be reimbursed.

We incur significant pre-contract costs that if not reimbursed would deplete our cash balances and adversely affect our financial condition.

We often incur costs on projects outside of a formal contract when customers ask us to begin work under a new contract that has yet to be executed, or when they ask us to extend work we are currently doing beyond the scope of the initial contract. We incur such costs at our risk, and it is possible that the customers will not reimburse us for these costs if we are ultimately unable to agree on a formal contract which could have an adverse effect on our business, financial condition and results of operations.

Our intellectual property may not be adequately protected from unauthorized use by others, which could increase our litigation costs and adversely affect our business.

Our intellectual properties, including our brands, are some of the most important assets that we possess in our ability to generate revenues and profits and we rely significantly on these intellectual property assets in being able to effectively compete in our markets. However, our intellectual property rights may not provide meaningful protection from unauthorized use by others, which could result in an increase in competing products and services and a reduction in our own ability to generate revenue. Moreover, if we must pursue litigation in the future to enforce or otherwise protect our intellectual property rights, or to determine the validity and scope of the proprietary rights of others, we may not prevail and will likely have to make substantial expenditures and divert valuable resources in any case.

We face substantial competition in attracting and retaining qualified senior management and key personnel and may be unable to develop and grow our business if we cannot attract and retain as necessary, or if we were to lose our existing, senior management and key personnel.

Our success, to a large extent, depends upon our ability to attract, hire and retain highly qualified and knowledgeable senior management and key personnel who possess the skills and experience necessary to execute our business strategy. Our ability to attract and retain such senior management and key personnel will depend on numerous factors, including our ability to offer salaries, benefits and professional growth opportunities that are comparable with and

competitive to those offered by more established companies operating in our industries and market segments. We may be required to invest significant time and resources in attracting and retaining, as necessary, additional senior management and key personnel, and many of the companies with which we will compete for any such individuals have greater financial and other resources, affording them the ability to undertake more extensive and aggressive hiring campaigns, than we can. Furthermore, an important component to overall compensation offered to senior management and key personnel may be equity. If our stock prices do not appreciate over time, it may be difficult for us to attract and retain senior management and key personnel. Moreover, should we lose our key personnel, we may be unable to prevent the unauthorized disclosure or use of our trade secrets, including our practices, procedures or client lists. The normal running of our operations may be interrupted, and our financial condition and results of operations negatively affected, as a result of any inability on our part to attract or retain the services of qualified and experienced senior management and key personnel, our existing key personnel leaving and a suitable replacement not being found, or should any former member of senior management or key personnel disclose our trade secrets.

The loss of our Chief Executive Officer could have a material adverse effect on our business.

Our success depends to a large degree upon the skills, network and professional business contacts of our Chief Executive Officer, Timothy Carnahan. We presently do not maintain key person life insurance on, and have no employment agreement with, Timothy Carnahan, and there can be no assurance that we will be able to retain him or, should he choose to leave us for any reason, to attract and retain a replacement or additional key executives. The loss of our Chief Executive Officer would have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations, raising substantial doubts as to our ability to continue as a going concern.

### **Risk Factors Related to Our Securities, the Equity Line of Credit and This Offering**

We are registering an aggregate of 3,500,000 shares of common stock to be issued under the Equity Line of Credit. The sale of such shares could depress the market price of our common stock.

We are registering an aggregate of 3,500,000 shares of common stock under the registration statement of which this prospectus forms a part for issuance pursuant to the Equity Line of Credit. The sale of these shares into the public market by Auctus could depress the market price of our common stock. As of December 12, 2011, there were 36,611,640 shares of our common stock issued and outstanding. Please note that Auctus' ability to sell shares during the pricing period could cause the price of our shares to fall substantially because our trading volume is generally low and we have the ability to waive the floor price for the shares Auctus may sell.

We May Not Have Access to the Full Amount under the Equity Line.

On December 12, 2011, the closing price of our common stock was \$0.04. There is no assurance that the market price of our common stock will increase substantially in the near future. The entire commitment under the Equity Line of

Credit is \$7,000,000. Presumably we will maintain the market price of our common stock at or around \$0.04 per share, we will need to issue approximately 186,170,212 shares [(\$7,000,000/\$.0376 (discounted market price)] of common stock to Auctus in order to have access to the full remaining amount under the Equity Line of Credit. We are authorized to issue 100,000,000 shares of common stock and have 36,611,140 (16,085,346 in public float) shares issued and outstanding as of December 12, 2011. The number of common shares that remains issuable is lower than the number of common shares we need to issue in order to have access to the full amount under the Equity Line of Credit. Therefore, we may not have access to the remaining commitment under the equity line unless we amend our Articles of Incorporation to increase the number of authorized common shares and/or the market price of our common stock increase substantially. In addition, based on our stock price as of December 12, 2011, the registration statement covers the offer and possible sale of only approximately \$131,600 of our shares at current market price of \$.04 and the discounted market price with Auctus of \$.0376 per share.

Resulting dilutive risk since Auctus will pay less than the prevailing market price per share.

The common stock to be issued to Auctus pursuant to the Drawdown Equity Financing Agreement (“DEFA”) will be purchased at a six percent (6%) discount to the lowest closing “best bid” price of the common stock during the five consecutive trading days immediately following the date of our notice to Auctus of our Drawdown Notice. Auctus has a financial incentive to sell our common stock immediately upon receiving the shares to realize the profit equal to the difference between the discounted price and the market price. If Auctus sells the shares, the price of our common stock could decrease. If our stock price decreases, Auctus may have a further incentive to sell the shares of our common stock that it holds. These sales may have a further impact on our stock price. Auctus will not engage in short-selling because a floor price has been set and Auctus will immediately cease selling any shares if the stock price falls below seventy-five (75%) of the average closing bid price of the stock over the preceding ten (10) trading days prior to any Drawdown Notice. The floor price can be waived only by the Company, if the company does waive the floor price it could cause the share price to fall substantially. Please note that Auctus’ ability to sell shares during the pricing period could cause the price of our shares to fall substantially because our trading volume is generally low and we have the ability to waive the floor price for the shares Auctus may sell.

There may not be sufficient trading volume in our common stock to permit us to generate adequate funds.

The Drawdown Equity Financing Agreement provides that the dollar value that we will be permitted to draw from Auctus will be either: (A) 200% of the average daily volume in the US market of the common stock for the twenty trading days prior to the Drawdown Notice, or (B) \$200,000. If the average daily trading volume in our common stock is too low, it is possible that we would only be permitted to draw \$200,000, which may not provide adequate funding for our planned operations. However, if we were to request a Drawdown Notice based on an average price for the last 5 days of \$.04 per share, Auctus would pay 94% of that price or \$.0376. In order to obtain \$200,000 shares, we would have to issue Auctus approximately 5,319,149 shares which is above the amount we are requesting for this S-1 (3,500,000). We do not have a sufficient amount of shares in funding based on the 3,500,000 that we have requested in this S-1 to fund the entire \$200,000 and we would need an additional 1,819,149 to fund the full \$200,000.



The sale of our common stock to Auctus in accordance with the DEFA may have a dilutive impact on our shareholders. As a result, our net income per share could decrease in future periods and the market price of our common stock could decline. In addition, the lower our stock price is at the time we exercise our put option, the more shares of our common stock we will have to issue to Auctus in order to drawdown on the facility. If our stock price decreases, then our existing shareholders would experience greater dilution for any given amount raised through the offering.

Additionally, since Auctus will pay less than the prevailing market rate:

- The equity financing pricing mechanism used to determine sales price to Auctus will have a dilutive effect on the market price resulting in a decline in market price since Auctus will be paying 94% of the closing price of the common stock for 5 consecutive days following notice date. At the current market price of \$.04 per share (as of December 12, 2011), Auctus would pay \$.0376 per share.
- Auctus will not be able to engage in short-selling because the selling price will be limited by the floor price that Auctus must stay above during its selling activities. Any short sales that do occur by other parties would cause the price of shares to further decline since trading would be generally low.