CYIOS CORP
Form 10-Q
August 14, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended
June 30, 2009
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	03-7392107
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1300 PENNSYLVANIA AVE, SUITE 700 WASHINGTON DC	20004
(Address of principal executive offices)	(Zip/Postal Code)

(202) 204-3006
(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.
x YES ¨ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
¨ 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)
x 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 x 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 28,032,210 common stock shares and 29,713 preferred shared convertible to common at a 1:1 ratio, par value $0.001, as of June 30, 2009.

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 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 June 30, 2009	As of December 31, 2008 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$71,232	$ 27,070
Accounts Receivable	182,736	23,181
Prepaid and Other Current Assets	24,345	16,117
TOTAL CURRENT ASSETS	278,313	66,368
FIXED ASSETS, NET	2,612	3,004
OTHER ASSETS		
Related Party Loan	238,016	262,512
TOTAL OTHER ASSETS	238,016	262,512
TOTAL ASSETS	$518,941	$ 331,884
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES		
Current Liabilities:		
Line of Credit	$84,385	$ 88,392
Accounts Payable	46,125	46,113
Accruals and Other Payables	128,999	22,447
TOTAL LIABILITIES	259,509	156,952
STOCKHOLDERS' DEFICIT		
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: 28,032,210 and 26,857,210 shares issued and outstanding)	28,032	26,857
Additional Paid-in-Capital	24,080,988	24,014,663
Accumulated Deficit	-23,849,618	-23,866,618
TOTAL STOCKHOLDERS' DEFICIT	259,432	174,932
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$518,941	$ 331,884

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
SALES AND COST OF SALES				
Sales	$488,720	$353,057	$863,643	$781,565
Cost of Sales	275,886	220,562	494,394	408,523
Gross Profit	212,834	132,495	369,249	373,042
EXPENSES				
Selling, general and administrative	18,604	33,665	40,986	55,939
Payroll Expense--Indirect Labor	130,466	134,676	247,399	281,711
Consulting and Professional Fees Expense	51,666	21,980	65,721	97,938
Depreciation	196	196	392	392
TOTAL EXPENSES	200,932	190,517	354,498	435,980
Net Income/(Loss) from Operations	11,902	(58,022)	14,751	(62,938)
OTHER INCOME/(EXPENSE)				
Interest Income	1,335	933	2,601	933
Interest Expense	-	(1,131)	(352)	(4,957)
NET OTHER INCOME/(EXPENSE)	1,335	(198)	2,249	(4,024)
PROVISION FOR INCOME TAXES	-	-	-	-
NET INCOME/(LOSS)	13,237	(58,220)	17,000	(66,962)
Net income/(loss) per share--basic and fully diluted	$0.00	$(0.00)	$0.00	$(0.00)
Weighted average shares outstanding--basic and fully diluted	27,041,239	25,678,681	27,595,763	25,717,835

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)

	Preferred Shares (000's)	Preferred Stock $	Common Shares (000's)	Common Stock $	Stock Subscription Receivable	Additional Paid-in Capital	Accumulated Deficit
Balances, December 31, 2007	29,713	$30	25,354,210	$25,354	$ 136,000	$23,886,536	$(23,920,386)
Shares returned	-	-	(500,000)	(500)	(82,500)	(74,500)	-
Payments received for Stock Subscriptions	-	-	-	-	(48,500)	-	-
Reduction for Uncollectible Stock Receivable	-	-	-	-	(5,000)	(5,000)	-
Shares issued for consulting services	-	-	2,003,000	2,003	-	207,627	-
Net Income (loss)		-	-	-	-	-	53,768
Balances, December 31, 2008	29,713	$30	26,857,210	$26,857	$ -	$24,014,663	$(23,866,618)
Shares issued for consulting services	-	-	675,000	775	-	46,725	-
Shares sold	-	-	500,000	400	-	19,600	
Net Income (loss)	-	-	-	-	-	-	17,000
Balances, June 30, 2009	29,713	$30	28,032,210	$28,032	$ -	$24,080,988	$(23,849,618)

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 six months ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(loss)	$17,000	$(66,963)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	392	392
Value of Shares Issued for consulting/employee services	47,500	37,583
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(159,555)	38,734
(Increase)/Decrease in Prepaid and Other Current Assets	(8,228)	267
Increase/(Decrease) in Accruals and Other Payables	106,552	34,166
Increase/(Decrease) in Accounts Payable	12	2,447
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,673	46,626
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase)/Decrease in Related Party Loan	24,496	(60,474)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	24,496	(60,474)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of Common Stock	20,000	5,300
Proceeds Received from Payments made on Stock Subscription Receivable	-	22,500
Payments on Line of Credit	(4,007)	(2,114)
NET CASH PROVIDED BY FINANCING ACTIVITIES	15,993	25,686
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,162	11,838
CASH AND CASH EQUIVALENTS:		
Beginning of Period	27,070	45,498
End of Period	$71,232	$57,336
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE PERIOD FOR:		
Interest	$352	$4,957
Taxes	$-	$-
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Stock Issued for Prepaid Consulting Services	$-	$68,000
Stock Issued for Consulting Services	$47,500	$-
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
June 30, 2009

(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-K filed April 15, 2009. 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 $196 respectively for the three months ended June 30, 2009 and 2008; and $392 and $392 respectively for the six months ended June 30, 2009 and 2008.

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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.

The Company follows SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Revenue from the contracts is recognized using the specific performance method. Revenue on fixed-price contracts pursuant to which a client pays the Company a specified amount to provide only a particular service for a stated time period, or so-called fee-for-service arrangement, is recognized as amounts become billable, assuming all other criteria for revenue recognition are met. The Company bids on governmental contracts which are generally long-term for a fixed-price per contract. Once the company wins a contract and begins the project, the company bills on a monthly basis for the labor hours worked at the agreed upon price per hour—based on the contract. The company then recognizes the revenue on those actual hours that have been billed to the customer.

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 June 30, 2009 and 2008, the company incurred advertising expense of $2,145 and $2,589 respectively. For the six months ended June 30, 2009 and 2008, the company incurred advertising expense of $4,829 and $5,771.

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.

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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.

RECENT ACCOUNTING PRONOUNCEMENTS

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.

In April 2008, the FASB issued FSP FAS No. 142-3, "Determination of the Useful Life of Intangible Assets", which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142 "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of the expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007) "Business Combinations" and other U.S. generally accepted accounting principles. The implementation of FSP FAS No. 142-3 is not expected to have a material impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The adoption of this statement is not expected to have a material effect on the Company's financial statements.

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In May 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts — An interpretation of FASB Statement No. 60.” SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise’s risk-management activities. SFAS No. 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of this statement is not expected to have a material effect on the Company’s financial statements.

In October 2008, the FASB issued FSP FAS No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active.” This FSP clarifies the application of SFAS No. 157, “Fair Value Measurements,” in a market that is not active. The FSP also provides examples for determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS No. 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The impact of adoption was not material to the Company’s consolidated financial condition or results of operations.

In January 2009, the FASB issued FSP Emerging Issues Task Force ("EITF") Issue No. 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20". This FSP amends the impairment guidance in EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets,” to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an otherthan- temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. This Issue is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of FSP EITF 99-20-1 did not have a material effect on the Company’s consolidated financial statements

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments ". The objective of an other-than-temporary impairment analysis under existing U.S. generally accepted accounting principles (GAAP) is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. FSP FAS No. 115-2 and FAS No. 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. The implementation of FSP FAS No. 115-2 and FAS No. 124-2 did not have a material impact on the Company’s financial position and results of operations.

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In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments". This FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS No. 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The implementation of FSP FAS No. 107-1 did not have a material impact on the Company's financial position and results of operations

In April 2009, the FASB issued FASB Staff Position "FSP" No. SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments". This FSP amends SFAS No. 107 to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The FSP also amends Accounting Principles Board Opinions "APB Opinion" No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FSP becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The implementation of FSP FAS No. 157-4 did not have a material on the Company's financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events".("SFAS No. 165") This Statement establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date and is effective for interim and annual periods ending after June 15, 2009. The adoption of SFAS No. 165 is not expected to have a material impact on the Company's financial statements.

In June 2009, the Financial Accounting Standards Board issued Statement "FASB" issued Statement No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 168"). SFAS No. 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. SFAS No. 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS No. 168 will be effective for financial statements issued for reporting periods that end after September 15, 2009. This statement will have an impact on the Company's financial statements since all future references to authoritative accounting literature will be references in accordance with SFAS No. 168.

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In June 2009, the FASB issued FSP Emerging Issues Task Force ("EITF") Issue No. 09-1, “Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing”. This Issue is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. Share lending arrangements that have been terminated as a result of counterparty default prior to the effective date of this Issue but for which the entity has not reached a final settlement as of the effective date are within the scope of this Issue. This Issue requires retrospective application for all arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. This Issue is effective for arrangements entered into on or after the beginning of the first reporting period that begins on or after June 15, 2009. Early adoption is not permitted. The Company is currently assessing the impact of FSP EITF 09-1 on its financial position and results of operations.

ACCOUNTS RECEIVABLE

Accounts deemed uncollectible are written off in the year they become uncollectible. As of June 30, 2009, the Accounts Receivable balance was $182,736 and the amount deemed uncollectible was $0.

PREFERRED STOCK

As of June 30, 2009, the outstanding preferred stock is 29,713.

COMMON STOCK

The following table recaps the capital account transactions occurring during the 1st and 2nd quarters of 2009:

The following table recaps the capital account transactions occurring during the 2nd quarter of 2009.

Month/Description of transaction	Number of shares	Price per share	Total Value
January--Stock Bonus issued to Employee	100,000	$0.05	$4,500
January--Stock issued for Consulting Services	550,000	$0.05	$27,500
February--Stock Bonus issued to Employee	25,000	$0.06	$1,500
May--Stock issued for Consulting Services	100,000	$0.14	$14,000
May--Stock sold	400,000	$0.05	$20,000
Total	1,175,000		$67,500

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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Outstanding stock options and warrants as of June 30, 2009 are as follows:

	Options	Weighted average price per share	Warrants	Weighted average price per share
Outstanding at December 31, 2007	2,750,000	0.26		
For the year ended December 31, 2008				
Granted	2,003,000	0.26	-	
Options forfeited or expired	(335,716)	0.13		
Options forfeited or expired	(400,000)	0.29	-	
Exercised in 2008	(2,003,000)	0.26	-	-
Outstanding at December 31, 2008	2,014,284	0.13	-	-
For the period ended June 30, 2009				
Granted	775,000	0.06	-	
Options forfeited or expired	(167,858)	0.13		
Exercised in the 1st and 2nd quarter of 2009	(775,000)	0.06	-	
Outstanding at December 31, 2008	1,846,426	0.13	-	-

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, 2008.

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, 2008 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, 2008 is as follows:

	2008		2007	
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	%

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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 $(16,581) and $(88,332) in 2008 and 2007, respectively. No tax benefits have been recorded for the nondeductible (tax) expenses (including stock for services) totaling $17,210,808.

As of December 31, 2008, 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 2028.

NOTE C—CONCENTRATION

The Company is either a prime or sub contractor on contracts with L-3 Communications, SERCO, TMS, 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

Net sales and Profit/ (Loss) by Segment for the three months ended June 30, 2009 and 2008 are broken down as follows:

Net Sales by Segment	For the Three Months Ended June 30, 2009			
	CYIOS	CYIOS Group	CKO	Totals
Sales, net	$ 488,720	$ -	$ -	$ 488,720
Cost of Sales	275,886	-	-	275,886
Gross Profit	$ 212,834	$ -	$ -	$ 212,834

Profit/(Loss) by Segment	For the Three Months Ended June 30, 2009			
	CYIOS	CYIOS Group	CKO	Totals
Net (Loss)	$ 15,129	$ -	$ (1,892)	$ 13,237

Net Sales by Segment	For the Three Months Ended June 30, 2008				
	CYIOS	CYIOS Group	CKO	WorldTeq	Totals
Sales, net	$ 428,508	$ -	$ -	$ -	$ 428,508
Cost of Sales	182,661	-	-	-	182,661
Gross Profit	$ 245,847	$ -	$ -	$ -	$ 245,847

Profit/(Loss) by Segment	For the Three Months Ended June 30, 2008				
	CYIOS	CYIOS Group	CKO	WorldTeq	Totals
Net Operating Profit/(Loss)	$ (57,011)	$ (20)	$ (1,190)	$ -	$ (58,221)

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Net sales and Profit/ (Loss) by Segment for the six months ended June 30, 2009 and 2008 are broken down as follows:

Net Sales by Segment	For the Six Months Ended June 30, 2009			
	CYIOS	CYIOS Group	CKO	Totals
Sales, net	$ 863,643	$ -	$ -	$ 863,643
Cost of Sales	(494,394)	-	-	(494,394)
Gross Profit	$ 1,358,037	$ -	$ -	$ 1,358,037

Profit/(Loss) by Segment	For the Six Months Ended June 30, 2009			
	CYIOS	CYIOS Group	CKO	Totals
Net (Loss)	$ 23,730	$ (352)	$ (6,378)	$ 17,000

Net Sales by Segment	For the Six Months Ended June 30, 2008				
	CYIOS	CYIOS Group	CKO	WorldTeq	Totals
Sales, net	$ 781,565	$ -	$ -	$ -	$ 781,565
Cost of Sales	408,523	-	-	-	408,523
Gross Profit	$ 373,042	$ -	$ -	$ -	$ 373,042

Profit/(Loss) by Segment	For the Six Months Ended June 30, 2008				
	CYIOS	CYIOS Group	CKO	WorldTeq	Totals
Net Operating Profit/(Loss)	$ (62,056)	$ (20)	$ (4,886)	$ -	$ (66,962)

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 quarter of the employee's contribution up to a maximum of 4% of the employee&#