

CYIOS CORP  
Form 10QSB  
August 20, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended

**June 30, 2007**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 000-27243

CYIOS CORPORATION, INC.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or  
organization)

03-7392107

(I.R.S. Employer Identification Number)

1300 PENNSYLVANIA AVE, SUITE 700  
WASHINGTON DC

(Address of principal executive offices)

20004

(Zip/Postal Code)

(703) 294-9933

(Telephone Number)

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

YES  NO

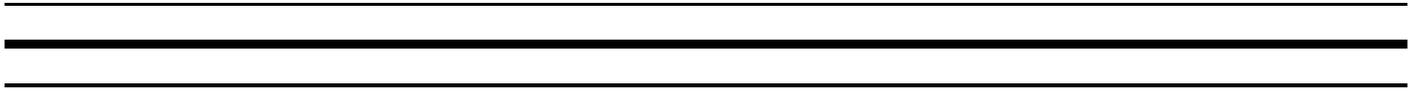
Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, or a non-accelerated filer.

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date. There were 23,824,210 common stock shares and 29,713,000 preferred shares convertible to common at a 1:1 ratio, par value \$0.001, as of June 30<sup>th</sup>, 2007.



Note Regarding FORWARD-LOOKING STATEMENTS

In addition to historical information, this Report contains forward-looking statements. Such forward-looking statements are generally accompanied by words such as "intends," "projects," "strategies," "believes," "anticipates," "plans," and similar terms that convey the uncertainty of future events or outcomes. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in ITEM 2 of this Report, the section entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof and are in all cases subject to the Company's ability to cure its current liquidity problems. There is no assurance that the Company will be able to generate sufficient revenues from its current business activities to meet day-to-day operation liabilities or to pursue the business objectives discussed herein.

The forward-looking statements contained in this Report also may be impacted by future economic conditions. Any adverse effect on general economic conditions and consumer confidence may adversely affect the business of the Company. CYIOS Corporation undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. In addition, readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

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Table of Contents**Part I - FINANCIAL INFORMATION****Item 1. Financial Statements and Supplementary Information**

In the opinion of management, the accompanying unaudited financial statements included in this Form 10-QSB reflect all adjustments necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

**CYIOS Corporation, Inc. and Subsidiaries**

*Consolidated Condensed Balance Sheet (Unaudited)*  
As of June 30, 2007

**ASSETS****CURRENT ASSETS**

Cash and Cash Equivalents	\$ 50,141
Accounts Receivable	58,041
Other Current Assets	7,400
Loan to Shareholder	31,595
<b>TOTAL CURRENT ASSETS</b>	<b>147,177</b>

<b>TOTAL ASSETS</b>	<b>\$ 147,177</b>
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**LIABILITIES AND STOCKHOLDERS' DEFICIT****LIABILITIES**

## Current Liabilities:

Line of Credit	\$ 100,979
Shareholder Loan Payable	25,350
Interest Payable	12,714
Taxes Payable	13,629
Payroll Taxes Payable	46,606
Accounts Payable	407,097
<b>TOTAL LIABILITIES</b>	<b>606,375</b>

**STOCKHOLDERS' DEFICIT**

Convertible Preferred Stock (\$.001 par value, 5,000,000 authorized:29,704 issued and outstanding)	30
Common Stock (\$.001 par value, 100,000,000 shares authorized: 23,824,210 shares issued and outstanding)	23,824
Additional Paid-in-Capital	23,630,397
Accumulated Deficit	(24,113,449)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(459,198)</b>

<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 147,177</b>
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Table of Contents**CYIOS Corporation, Inc. and Subsidiaries****Consolidated Statement of Operations (Unaudited)  
For the period ended June 30,**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>SALES AND COST OF SALES:</b>				
Sales	\$ 600,601	\$ 397,887	\$ 1,166,619	\$ 792,327
Cost of sales	334,432	134,387	614,247	207,800
Gross Profit	266,169	263,500	552,372	584,527
<b>EXPENSES:</b>				
Selling, general and administrative	39,399	30,707	99,825	69,976
Payroll Expense	140,947	264,531	260,092	467,805
Employee Benefit Expense	29,800	18,657	70,695	39,709
Consulting Expense	6,050	19,343	11,204	34,785
Bad Debt Expense	-	-	-	525,000
Depreciation Expense	-	7,054	-	49,111
Professional Fees	21,989	51,230	44,562	65,672
Interest Expense	8,738	3,547	13,344	8,991
	246,922	395,069	499,722	1,261,050
<b>NET INCOME/(LOSS)</b>	<b>\$ 19,246</b>	<b>\$ (131,568)</b>	<b>\$ 52,650</b>	<b>\$ (676,523)</b>
Basic and diluted income (loss) per share	\$ 0.001	\$ <(0.01)	\$ 0.002	\$ <(0.01)
Weighted Average Shares Outstanding	23,774,880	21,595,070	23,616,972	21,581,490

Table of Contents**CYIOS Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)  
For the six months ended June 30, 2007 and 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income/(loss)	\$ 52,650	\$ (676,523)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	-	48,904
Common Shares issued for employee compensation, net	4,243	-
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable Written Off as Bad Debt	-	525,000
(Increase)/Decrease in Accounts Receivable	2,606	(511)
(Increase)/Decrease in Other Assets	12,513	2,120
Increase/(Decrease) In Interest Payable	7,743	-
Increase/(Decrease) In Taxes Payable	(173)	(141,417)
Increase/(Decrease) in Accounts Payable	(794)	(3,004)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>78,788</b>	<b>(245,431)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	2,000	308,128
(Increase)/Decrease Shareholder's Loan Receivable	(55,952)	(16,213)
Increase/(Decrease) in borrowings on Notes Payable	-	(109,540)
Increase/(Decrease) in borrowings on Line of Credit	-	57,259
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(53,952)</b>	<b>239,634</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>24,836</b>	<b>(5,797)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of Period	25,305	49,857
End of Period	\$ 50,141	\$ 44,060
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>CASH PAID DURING THE YEAR FOR:</b>		
Interest	\$ 13,344	\$ 8,991
<b>NON-CASH OPERATING ACTIVITIES:</b>		
Value of Common Stock and Warrants issued in exchange for services	\$ 4,243	\$ -

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**CYIOS CORPORATION. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2007**

**(Unaudited)**

**NOTE 1 - 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 10Ksb filed April 17<sup>th</sup>, 2007. These interim financial statements and notes hereto reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. Such financial results should not be construed as necessarily indicative of future results

**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. Depreciation expense was \$0 and \$48,904 respectively for the six months ended June 30, 2007 and 2006.

**Table of Contents****REVENUE RECOGNITION/CONTRACTS**

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable, and it is reasonably assured to be collectible. The Company follows SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts, as it applies to time-and-material contracts. Revenue on time-and-materials contracts is recognized based on the hours actually incurred at the negotiated contract billing rates, plus the cost of any allowable material costs and out-of-pocket expenses. 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. We recognize revenue from government contracts and sales from our product CYIPRO. CYIOS Corporation has contracts extending out until 2010. All contracts are with the DoD and are in good standing. CYIOS Corporation certifies that it is not on the Debarred/Suspended Contractors List. This has been verified by checking the GAO, Excluded Parties List system <http://epls.arnet.gov> and [www.pogo.org](http://www.pogo.org) (Project on Government Oversight). DoD and government contracts are the primary method to bring revenue into the company.

**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.

**PREFERRED STOCK**

During 2005, we authorized a reverse split 30:1 of all common and preferred shares outstanding. During 2005, the common shares were converted 30 for 1, but the preferred shares were not in error. We have corrected this error by applying the reverse split to our preferred shares outstanding. The outstanding preferred shares before the split is 891,109 and preferred shares outstanding after the 30:1 reverse split is 29,704. This correction is reflected on our current Balance Sheet in the Stockholders' Deficit section.

**COMMON STOCK TRANSACTIONS**

The following table recaps the capital account transactions occurring during the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2007:

<b><u>Month/Description of transaction</u></b>	<b><u>Number of shares</u></b>	<b><u>Price per share</u></b>	<b><u>Total Value</u></b>
January--stock issued for consultant services	50,000	\$ 0.005	\$ 250
February--stock issued for consultant services	50,000	0.0050	250
February--stock issued for employee services	75,000	0.0100	750
March--stock issued for employee services	54,000	0.0500	2,700
April--stock issued for consultant services	50,000	0.0100	500
April--stock issued for employee services	26,000	0.0500	1,300
	75,000	0.0100	750

April--stock issued for employee services			
May--stock issued for employee services	4,000	0.3000	1,200
May--stock issued for employee services	25,000	0.0100	250
May--stock issued for consultant services	50,000	0.0100	500
June--stock issued for consultant services	50,000	0.0100	500
June--stock issued for employee services	15,000	0.0500	750
	524,000		\$ 9,700.00

Table of Contents**STOCK OPTIONS AND WARRANTS**

On April 21, 2006, the company instituted a New Employee Stock Option Plan (New Plan) which voids the Old Employee Stock Option Plan instituted in 2004. Briefly, the purpose of the New Plan is to be carried out by issuing incentive stock options and nonqualified options pursuant to the New Plan (hereinafter referred to as "Options") to one or more key employees of the Company, as determined by the Administrator at the time of the grant. It is intended that to the maximum extent permissible under the Plan, Options shall constitute incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the internal Revenue Code (the "Code") and that to the extent not so permissible, such Options shall not constitute Incentive Stock Options ("Nonqualified Stock Options"). For purposes of the Plan, all references to a subsidiary or subsidiaries shall include only wholly-owned subsidiaries of the Company.

Outstanding stock options and warrants as of December 31, 2006 are as follows:

	<i>Options</i>	<i>Weighted average price per share</i>	<i>Warrants</i>	<i>Weighted average price per share</i>
<b>Outstanding at December 31, 2003</b>	<b>1,232,000</b>	<b>\$ 0.29</b>	<b>4,036,650</b>	<b>\$ 0.66</b>
<b><u>Year ended December 31, 2004</u></b>				
Granted	2,350,000	0.13	9,000,000	0.05
Exercised	-	-	(9,000,000)	0.05
Expired	-	-	(886,650)	2.45
<b>Outstanding at December 31, 2004</b>	<b>3,582,000</b>	<b>0.19</b>	<b>3,150,000</b>	<b>0.16</b>
<b><u>Year ended December 31, 2005</u></b>				
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(87,000)	0.19	-	-
<b>Outstanding at December 31, 2005</b>	<b>3,495,000</b>	<b>0.19</b>	<b>3,150,000</b>	<b>0.16</b>
<b><u>Year ended December 31, 2006</u></b>				
Granted	1,876,300	0.30	-	-
Exercised	(1,872,300)	0.30	-	-
Expired	(145,000)	0.29	(3,150,000)	0.16
Options cancelled and replaced by new option plan	(3,350,000)*	0.18	-	-
<b>Outstanding at December 31, 2006</b>	<b>4,000</b>	<b>0.30</b>	<b>-</b>	<b>-</b>

\*These options were issued under the plan from 2004, the options have been cancelled and superseded by the 2006 plan.

Table of Contents**STOCK OPTIONS AND WARRANTS (CONT'D)**

Outstanding stock options and warrants as of June 20, 2007 are as follows:

	Options	Weighted average price per share	Warrants	Weighted average price per share
Outstanding at December 31, 2005	3,495,000	0.19		
<b><u>Year ended December 31, 2006</u></b>				
Granted	1,876,300	0.30	-	
Exercised	(1,872,300)	0.30	-	
Options cancelled and replaced by new option plan	(3,495,000)*	0.19	-	-
<b>Outstanding at December 31, 2006</b>	<b>4,000</b>	<b>0.19</b>	<b>-</b>	<b>-</b>
<b><u>For the six months ended June 30, 2007</u></b>				
Granted	520,000	0.02	-	
Exercised from 2006	(4,000)	0.30		
Exercised from 2007	(520,000)	0.02	-	
Expired	-	0.19	-	-
<b>Outstanding at June 30, 2007</b>	<b>-</b>	<b>0.19</b>	<b>-</b>	<b>-</b>

\*These options were issued under the plan from 2004, the options have been cancelled and superseded by the 2006 Plan. The remaining authorized to be granted is 603,700.

**GOING CONCERN**

We have had recurring losses from operations to date. During 2006, we had a net loss of \$893,526, a net deficiency of \$24,170,258 and a net working capital deficit of \$522,260. During the second quarter 2007 we showed a net profit of \$19,246 as compared to a net loss (\$131,568) for the same period in 2006.

Management believes that actions presently being taken to raise equity capital, seek strategic relationships and alliances, and build its marketing efforts to generate positive cash flow provide the means for us to continue as a going concern. The unaudited financial statements included with this 10-QSB do not include any adjustments that might result from the outcome of this uncertainty.

**SHAREHOLDER LOANS/RELATED PARTY**

We have a Loan Outstanding with one of our officers and major shareholders. The note is payable on demand and bears no interest. The total amount of the Loan Receivable Outstanding is \$6,245.

**Table of Contents****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."

**Corporate Overview**

CYIOS Corporation operates three subsidiaries. The first two, CYIOS Corporation and CKO Incorporated, are the two vehicles the company will be operating its business in, going forward after its merger on September 19, 2005. The company, through its services subsidiary, CYIOS Corporation, provides innovative Business Transformation and Information Technology solutions to the United States Army, Department of Defense (DoD), and other prospective U.S. Government agencies. CYIOS supports its customers through a variety of current contract vehicles including prime contracts, subcontracts, sole source, blanket purchase agreements, and multiple award task orders extending as far out as 2010. CYIOS has received many commendations for its outstanding customer service and support in systems integration and application development, knowledge management and business transformation, and program and project management. As a certified Small Business, CYIOS provides its services within the following North American Industry Classification System (NAICS) codes:

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

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

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### **Recent Developments**

This section has two parts, contracts and ongoing strategy for partnerships and our product CYIPRO.

In May of 2007, after a month of discussions, CYIOS began working, in a type of sub-contracting environment, with a large Federal Government contractor, to place CYIOS personnel on already existing Government contracts. As of May 10<sup>th</sup>, CYIOS has been asked to fill over a dozen different Top Secret positions, ranging from system administrators and application developers to UNIX and CISCO engineers. This is an ongoing effort to work on this contract. We have not to date started any work. We do anticipate starting and recognizing revenue in September.

In March of 2007 CYIOS was awarded a new one-year task order by the Department of Defense, U.S. Army for \$330,000. This task order was awarded on Tuesday, March 28, 2007. The company has the opportunity to get this task order renewed two more times, which would ultimately put the total value at approximately \$1 million over three years. This is ongoing in good standing. Contract has a period until 2010.

In February of 2007 CYIOS once again used the services of InterPlan Systems to co-write a proposal for a U.S. Navy agency. This is a large multi-award contract with award decisions expected by the end of the second quarter of 2007. We have conducted our pre-audit and are in the final stages to complete the audit. It is standard for DCAA to perform audits of contractors before work can commence. Although due to issues out of our control, this has been a lengthy process. We hope to begin bidding on task orders and could recognize revenue by the end of October. We do plan on expanding our team with another large partner in order to further our capabilities. This would be subject to review and approval.

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

In September of 2006 CYIOS Corporation entered into an agreement to set up and own 25% of a joint venture called CLNS LLC. The company retained InterPlan Systems to co-write a proposal for a multi-billion dollar, multi-award contract with a large Federal Agency for this new entity. This joint-venture includes three other small business DoD contractors. This unique arrangement was created to allow a better chance of winning the contract as the past performance from all four companies' combined offered a very solid proposal. Awards are expected August or September 2007. We are patiently waiting a award decision in the next 30 to 60 days.

In June of 2006, CYIOS was awarded a contract to perform work for the U.S. Army's Senior Leadership Development (SLD) under operational control of the Chief of Staff, Army (CSA). The contract is valued at up to \$1 million with over \$300,000 invoiced by the date of this filing. CYIOS designed and now supports the General Officer Management Office (GOMO) Knowledge Management system. The CSA approved, and the Secretary of the Army endorsed, the realignment of GOMO to include Colonels Division, Officer Personnel Management Directorate, U.S. Army Human Resources Command (HRC) to form the Army Senior Leader Development Office (SLD). CYIOS has been recognized for delivering quality work, outstanding customer service, and ingenuity; and this initiative is to expand its efforts to build a knowledge management system for the Colonel's Branch of SLD. We are in the process of expanding this contract with a modification for the training and development section of the Colonel branch. We are also expecting to recomplete this contract for an award of five years. If successful, this contract would extend out til 2012.

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

About our product CYIPRO, during the first quarter of 2007, CYIOS began converting its virtual office project management product into a .net environment with the main goal of allowing the product to work on Microsoft Mobile 5.0 and upcoming versions. This enables the product to work on any PDA (Personnel Digital Assistant) and cell phone device that has Internet access utilizing the MS Mobile browser. CYIOS has renamed the product CYIPRO (C-Your Integrated Projects). The prototype is 90% complete and we will be presenting to the Army and to Large integrators for the possibility of licensing our product. We also have engaged with Microsoft to become a ISV in Microsoft SQL product line and Mobile 6.0 operating system. This is a unique opportunity in that there are only 250 companies that have applications in this area. Our product is an enterprise project management system that provides solutions to meet the needs of a consultant or a program manager of multiple teams. See [www.cyipro.com](http://www.cyipro.com) for more information.

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

To take advantage of the very low cost of Mobile Internet access in the United Kingdom, in early May of 2007, CYIOS completed negotiations, with an initial sale, with a partner in the United Kingdom to resell and distribute CYIPRO through a network of VAR's (Value Added Resellers). This effort is on hold until we accomplish our presentations above.

## **FINANCIAL CONDITION**

We currently have financial resources but to support its 25+ member staff in addition to its investment in operations (bids and proposals team) and our product, CYIPRO. The bids and proposals team and management infrastructure of current contracts has been successful in generating more revenue necessary for growth and profit. We are profitable and have outstanding bids awaiting to be awarded and in the process of pre award audit. Over the last quarter, we have sustained and shown growth and are continuing along that successful path.

## **RESULTS OF OPERATIONS**

Total sales for the 2<sup>nd</sup> quarter 2007 were \$600,601 as compared to \$397,887 for the 2<sup>nd</sup> quarter 2006, an increase of approximately 33%. This is a result in winning a contract in 1<sup>st</sup> QTR and sustaining it.

Our net income for the 2<sup>nd</sup> quarter 2007 was \$19,246 as compared to (\$131,568) for the same period in 2006. Our investment in the bids and proposals team has paid off and will continue to pay off in upcoming quarters. Profits are continued to be realized and the company has continued to invest in CYIPRO, the company's virtual office project management tool. Cost of Sales and General Expenses can best be described as contracted services being rendered. We have to pay higher than average salaries to employ the best trained staff and we further have to offer the best benefits for these staff. We are continuing to be successful with our strategy and remain profitable.



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NOTE: A – from Consolidated Condensed Balance Sheet – page 1

WorldTeq Corporation has the Liabilities in Accounts Payable of \$370,347.78 and Taxes Payable & Payroll Liabilities of \$43,206.32. WorldTeq Corporation is an inactive company.

**LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by or (used in) operating activities for the 2<sup>nd</sup> quarter, 2007 was \$74,545 as compared to \$(245,431) for the same period in 2006. This improvement is based upon lowering our overhead and generating more business on our service contracts.

The Company, as of 2<sup>nd</sup> quarter, 2007 has \$147,177 in assets as compared to \$105,865 for the Year End 2006.

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements with any party.

**Critical Accounting Estimates**

There have been no material changes in our critical accounting policies or critical accounting estimates since 2000 nor have we adopted an accounting policy that has or will have a material impact on our consolidated financial statements.

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

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We have interest rate exposure relating to certain long-term obligations. The interest rates on the Term Loans are NOT affected by changes in market interest rates. We do not believe we have significant risks due to changes in interest rates.

**Item 4. Controls and Procedures.**

**DISCLOSURE CONTROLS AND PROCEDURES.** The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, June 30, 2007, we completed an evaluation, under the supervision and with the participation of our management, consisting of our Chief Executive Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act of 1934 Rules 13a-14(C) and 15d-14c). Based upon the foregoing, our Chief Executive Officer concluded that our disclosure controls and procedures are effective in connection with the filing of the annual report on Form 10-KSB for the fiscal year ended December 31, 2006.

**CHANGES IN INTERNAL CONTROLS.** There were no significant changes in our internal controls over financial reporting during the period ended June 30, 2007 that have materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.



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**Part II – OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Not applicable

**Item 1A. Risk Factors.**

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None to report

**Item 3. Defaults Upon Senior Securities.**

Not Applicable

**Item 4. Submission of Matters to a Vote of Security Holders.**

Not Applicable

**Item 5. Other Information.**

Not Applicable

**Item 6. Exhibits.**

Attached

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**SIGNATURE**

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

CYIOS Corporation.

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

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

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

Date: August 14<sup>th</sup>, 2007