

CYIOS CORP  
Form 10-K  
April 02, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-53098**

**CYIOS Corporation**

(Name of Registrant in its charter)

Nevada 03-7392107

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1300 Pennsylvania Avenue, Suite 700, Washington, DC 20004

(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (202) 204 -3006

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$0.001 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

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).

X Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

X 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

**Smaller reporting company X**

(Do not check if a smaller reporting company)

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

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of CYIOS Corporation (consisting solely of 16,085,346 shares of common stock, \$0.001 par value) was approximately \$804,267 based on the average bid and asked price of such common stock (\$.05) as of June 30, 2011.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. At April 2, 2012 there were 36,311,640 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

Table of Contents

## PART I

# Forward-Looking Statements

*This annual report on Form 10-K, press releases and certain information provided periodically in writing or verbally by our officers or our agents contain statements which constitute forward-looking statements. The words "may", "would", "could", "will", "expect", "estimate", "anticipate", "believe", "intend", "plan", "goal", and similar expressions and variations thereof are intended to specifically identify forward-looking statements. These statements appear in a number of places in this Form 10-K and include all statements that are not statements of historical fact regarding the intent, belief or current expectations of us, our directors or our officers, with respect to, among other things: (i) our liquidity and capital resources; (ii) our financing opportunities and plans; (iii) our ability to generate revenues; (iv) market and other trends affecting our future financial condition or plan of operation; and (v) our growth and operating strategy.*

*Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, those set forth in Part II, Item 6 of this annual report on Form 10-K, entitled "Management's Discussion and Analysis or Plan of Operation", and including, without limitation, the "Risk Factors" beginning on page 5 of this annual report. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this Form 10-K after the date of this report.*

## Item 1. Description of Business.

### Corporate History

CYIOS® Corporation ("we", "us", "our", "CYIOS®" or the "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 Yin Hai 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.

## **Overview of Principal Products and Services**

CYIOS® is a holding company made up of two operating subsidiaries: CYIOS Corporation, a District of Columbia corporation (“CYIOS® DC”), and CKO Inc., a District of Columbia corporation (“CKO”). CYIOS® DC builds knowledge management solutions, supports organizations with business continuity and IT services for the Department of Defense (“DoD”) community. CKO is the product arm of CYIOS® that offers CYIPRO™, a business transformation tool that utilizes the first project-based operating system to build knowledge centric organizations. CYIPRO™ provides a virtual work space for collaboration, project management, and document management to help manage people, processes and information. CYIPRO™ also provides key solutions for compliance with Securities and Exchange Commission (“SEC”) Sarbanes-Oxley regulations and compliance with Defense Contract Audit Agency (“DCAA”) and performance based contracting for government contractors.

### ***CYIOS® DC***

We believe CYIOS® DC is recognized as a premier knowledge management solution provider for the DoD. Established in 1994, we have worked closely with the United States military as a small business contractor providing innovative and comprehensive solutions for the Army’s General Officers and high-level military agencies. We pioneered what we believe to be the largest knowledge management portal, U.S. Army Knowledge Online (“AKO”). We win our business through bidding against other companies for government contracts. These bids may be done independently or through teaming arrangements with other contractors.

Timothy Carnahan, our president and Chief Executive Officer, has over 14 years of executive and technical experience with the highest levels of the U.S. government. When supporting the Army General Officer Management Office, Mr. Carnahan designed and implemented the first Knowledge Management (“KM”) system for the Army, America’s Army Online, which became the core for AKO, the portal that supports over 1.8 million soldiers and civilians worldwide. We believe that AKO has become the KM paradigm for the DoD. The DoD intends to increase its KM spending from \$387 million in the fiscal year 2005 to \$524 million in the fiscal year 2010, representing a growing potential market for CYIOS®, where KM is our core competency in both product and service support.

With KM as a major focal point for us, the term and market need further explanation. KM is the name of a concept in which an enterprise consciously and comprehensively gathers, organizes, shares, and analyzes its information in terms of resources, documents, and people skills. In early 1998, it was believed that few enterprises actually had a comprehensive knowledge management practice (by any name) in operation. Advances in technology and the way we access and share information have changed that; it has been proven that successful organizations have some kind of knowledge management framework in place. KM involves data mining and a method or operation to share information among users.

We use our expertise in KM, performance-based contracting, enterprise management, and web-based application development to bid on U.S. government contracts. Historically the company has focused on supporting the U.S.

Army, but under its new growth strategy, it is beginning to look at bids from other DoD agencies as well as all U.S. government agencies.

## ***CKO***

CKO Inc. markets and sells the software product CYIPRO™. CYIPRO™ is a secure, web-based virtual office that uses an array of tools to give any organization the ability to manage and retain knowledge, collaborate data and ideas, and securely store and share information, all for the purpose of making an organization more efficient and therefore more successful. Using the features of CYIPRO™, users can access and manage their entire organization online from any computer with an Internet connection and web browser or from a mobile device with Internet capability. The result: connected, organized and effective business practices.

The tools of our full online office suite include e-mail, document and file management, calendar, tasks, meetings, contacts, project management, reporting, and timesheet management. The power of managing knowledge and collaboration is unleashed when all of these individual components are shared and used within an entire organization, a division, or a project team. We believe CYIPRO™ will remove the dependency of working from an organization's office, which will free employees to access their e-mail, documents, projects, contacts, and reports from any geographic location at any time. We believe operational costs are also reduced as CYIPRO™ helps small businesses eliminate the burdensome expenses of owning and maintaining servers, associated software, and an internal or outsourced IT staff.

## **Recent Developments**

CYIPRO will be a dominant factor moving forward in revenue growth and its target is the government telework initiative. During 2011, we continued to publicize and market CYIPRO. CYIOS signed a term sheet for line of equity for 7 million dollars and filed an S-1 that became effective August 31, 2010 and we are now in the process of filing our Post-Effective Amendment to the S-1, so that we may begin to raise funds via our line of equity. We posted a profit in 2011.

## **Competition**

As a small business, we have eliminated discussions of the mid to large size companies. In the small business space, there are generally about 300 IT contractors that bid against us. We further separate ourselves with our security clearance to an estimated 150 IT contractors. As we get into our specific field of KM, we estimate our competition is narrowed to under 50 companies.

## **Dependence on Few Major Customers**

We are either a prime or sub contractor on contracts with Titan Corporation, Information Management Support Center and GOMO/SLD. Loss of these contracts could have a material adverse effect upon our financial condition and results of operations. We believe that federal governmental agencies will continue to be the source of all or substantially all of our revenues for the foreseeable future.

## **Government Regulations**

All work performed in our space is governed by the federal acquisition regulation. There are small deviations from this named defense federal acquisition regulation.

## **Intellectual Property**

### ***Overview***

Item 1. Description of Business.

We rely on a combination of trademarks, trade secrets and contract law rights in order to protect our brand, intellectual property assets and confidential or proprietary information (our “Proprietary Rights”). Our Proprietary Rights are among the most important assets we possess and we depend significantly on these Proprietary Rights in being able to effectively compete in our industry. We cannot be certain that the precautions we have taken to safeguard our Proprietary Rights will provide meaningful protection from the unauthorized use by others. If we must pursue litigation in the future to enforce or otherwise protect our Proprietary Rights, or to determine the validity and scope of the rights of others, we may not prevail and will likely have to make substantial expenditures and divert valuable resources in the process. Moreover, we may not have adequate remedies if our Proprietary Rights are appropriated or disclosed.

### ***Trademarks***

As of the fiscal year ended December 31, 2011, CYIOS DC has registered the CYIOS®, and CKO has applied for registration of the CYIPRO™ logo with the United States Patent and Trademark Office in order to establish and protect our brand name and logo as part of our Proprietary Rights.

### ***Copyrights***

We claim copyright protection and rights to our CYIPRO™ software and operating system.

### ***Trade Secrets***

Whenever we deem it important for purposes of maintaining competitive advantages, we will require parties with whom we share, or who otherwise are likely to become privy to, our trade secrets or other confidential information to execute and deliver to us confidentiality and/or non-disclosure agreements. Among others, this may include employees, consultants and other advisors, each of whom we would require execute such an agreement upon commencement of their employment, consulting or advisory relationships. These agreements will generally provide that all confidential information developed or made known to the individual by us during the course of the individual’s relationship with us is to be kept confidential and not to be disclosed to third parties except under specific circumstances.

As of the fiscal year ended December 31, 2011, we have entered into no confidentiality and/or non-disclosure agreements with our employees, consultants or advisors.

### ***Employees***

As of December 31, 2011, we had 15 full-time employees, with 2 in executive management and administration, 1 in product development and technical operations, and 13 on service contracts on either prime or subcontracted contracts with the United States federal government. We also had 2 independent contractors working in accounting, human resources and administration.

We are not subject to any collective bargaining agreements and believe our relationships with our employees to be excellent.

## **Item 1A. Risk Factors**

*Our business entails a significant degree of risk and uncertainty, and an investment in our securities should be considered highly speculative. What follows is a general description of the material risks and uncertainties, which may adversely affect our business, our financial condition, including liquidity and profitability, and our results of operations, ultimately affecting the value of an investment in shares of our common stock. In addition to other*

*information contained in this annual report on Form 10-K, you should carefully consider the following cautionary statements and risk factors:*

#### 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 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, 2011, and as a result of historical operating losses from prior years, our accumulated deficit was \$24,210,983. 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 effect 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, 2011, 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.

Risks Associated with an Investment in our Common Stock

***Unless an active trading market develops for our securities, you may not be able to sell your shares.***

Although, we are a reporting company and our common shares are quoted on the OTC Bulletin Board (owned and operated by the Nasdaq Stock Market, Inc.) under the symbol “CYIO”, there is not currently an active trading market for our common stock and an active trading market may never develop or, if it does develop, may not be maintained. Failure to develop or maintain an active trading market will have a generally negative effect on the price of our common stock, and you may be unable to sell your common stock or any attempted sale of such common stock may have the effect of lowering the market price and therefore your investment could be a partial or complete loss.

***Since our common stock is thinly traded it is more susceptible to extreme rises or declines in price, and you may not be able to sell your shares at or above the price paid.***

Since our common stock is thinly traded its trading price is likely to be highly volatile and could be subject to extreme fluctuations in response to various factors, many of which are beyond our control, including:

- the trading volume of our shares;
- the number of securities analysts, market-makers and brokers following our common stock;
- changes in, or failure to achieve, financial estimates by securities analysts;
- new products or services introduced or announced by us or our competitors;
- actual or anticipated variations in quarterly operating results;
- conditions or trends in our business industries;
- announcements by us of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- sales of our common stock; and
- general stock market price and volume fluctuations of publicly-traded, and particularly microcap, companies.

You may have difficulty reselling shares of our common stock, either at or above the price you paid, or even at fair market value. The stock markets often experience significant price and volume changes that are not related to the operating performance of individual companies, and because our common stock is thinly traded it is particularly susceptible to such changes. These broad market changes may cause the market price of our common stock to decline regardless of how well we perform as a company. In addition, securities class action litigation has often been initiated

following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in substantial legal fees, potential liabilities and the diversion of management's attention and resources from our business. Moreover, and as noted below, our shares are currently traded on the OTC Bulletin Board and, further, are subject to the penny stock regulations. Price fluctuations in such shares are particularly volatile and subject to manipulation by market-makers, short-sellers and option traders.

***Trading in our common stock on the OTC Bulletin Board may be limited thereby making it more difficult for you to resell any shares you may own.***

Our common stock is quoted on the OTC Bulletin Board (owned and operated by the Nasdaq Stock Market, Inc.). The OTC Bulletin Board is not an exchange and, because trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on a national exchange or on the Nasdaq National Market, you may have difficulty reselling any of the shares of our common stock that you may own.

***Our common stock is subject to the "penny stock" regulations, which are likely to make it more difficult to sell.***

Our common stock is considered a "penny stock," which generally is a stock trading under \$5.00 and not registered on a national securities exchange or quoted on the Nasdaq National Market. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. These rules generally have the result of reducing trading in such stocks, restricting the pool of potential investors for such stocks, and making it more difficult for investors to sell their shares once acquired. Prior to a transaction in a penny stock, a broker-dealer is required to:

- deliver to a prospective investor a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market;
- provide the prospective investor with current bid and ask quotations for the penny stock;
- explain to the prospective investor the compensation of the broker-dealer and its salesperson in the transaction;
- provide investors monthly account statements showing the market value of each penny stock held in the their account; and
- make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that is subject to the penny stock rules. Since our common stock is subject to the penny stock rules, investors in our common stock may find it more difficult to sell their shares.

***Future issuances by us or sales of our common stock by our officers or directors may dilute your interest or depress our stock price.***

We may issue additional shares of our common stock in future financings or may grant stock options to our employees, officers, directors and consultants under our 2006 Employee Stock Option Plan and 2007 Equity Incentive Plan. Any such issuances could have the effect of depressing the market price of our common stock and, in any case, would dilute the interests of our common stockholders. Such a depression in the value of our common stock could reduce or eliminate amounts that would otherwise have been available to pay dividends on our common stock (which are unlikely in any case) or to make distributions on liquidation. Furthermore, shares owned by our officers or directors which are registered in a registration statement, or which otherwise may be transferred without registration pursuant to an applicable exemptions under the Securities Act of 1933, as amended, may be sold. Because of the

perception by the investing public that a sale by such insiders may be reflective of their own lack of confidence in our prospects, the market price of our common stock could decline as a result of a sell-off following sales of substantial amounts of common stock by our officers and directors into the public market, or the mere perception that these sales could occur.

***We do not intend to pay any common stock dividends in the foreseeable future.***

We have never declared or paid a dividend on our common stock and, because we have very limited resources and a substantial accumulated deficit, we do not anticipate declaring or paying any dividends on our common stock in the foreseeable future. Rather, we intend to retain earnings, if any, for the continued operation and expansion of our business. It is unlikely, therefore, that the holders of our common stock will have an opportunity to profit from anything other than potential appreciation in the value of our common shares held by them. If you require dividend income, you should not rely on an investment in our common stock.

**Item 2. Description of Property.**

All of our property is leased and we do not own any real property.

Our headquarters are located at The Ronald Reagan Building, 1300 Pennsylvania Ave, Suite 700 Washington D.C. 20004. We lease this 150 square foot space for a term of 12 months at a rate of \$450 per month. 1 employee is based in our headquarters, the remaining employees work on-site at our customers' locations, and, as such we do not maintain separate office or other space for these employees.

**Item 3. Legal Proceedings.**

As of the date of this annual report on Form 10-K for the fiscal year ended December 31, 2011, there were no pending material legal proceedings to which we were a party and we are not aware that any were contemplated.

In addition, during the past ten years, none of our directors, executive officers or control persons has been involved in any of the following events:

- any bankruptcy petition filed by or against any business of which such person was an executive officer either at the time of the bankruptcy or within two years prior to that time;
- any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and
- being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.
- Any judicial or administrative proceedings resulting from involvement in mail or wire fraud or fraud in connection with any business entity;
- Any judicial or administrative proceedings based on violations of federal or state securities, commodities, banking or insurance laws and regulations, or any settlement<sup>114</sup> to such actions; and

- Any disciplinary sanctions or orders imposed by a stock, commodities or derivatives
- Exchange or other self-regulatory organization.

## Item 4. Mine Safety Disclosure.

N/A

## PART II

## Item 5. Market for Common Equity and Related Stockholder Matters and Registrant Purchases of Equity Securities.

Our shares of common stock trade on the OTC Bulletin Board under the symbol "CYIO". The following is a summary of the high and low bid prices of our common stock on the OTC Bulletin board during the periods presented, as reported by the NASDAQ Stock Market, Inc. Such prices represent inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily accurately represent actual transactions.

### Year Ended December 31, 2011

### Year Ended December 31, 2010

	<u>High</u>
	<u>Low</u>
	<u>High</u>
	<u>Low</u>
First Quarter	\$0.02
	\$0.02
	\$0.05
	\$0.05
Second Quarter	\$0.03
	\$0.03

	\$0.04
	\$0.04
Third Quarter	
	\$0.09
	\$0.07
	\$0.03
	\$0.03
Fourth Quarter	
	\$0.05
	\$0.04
	\$0.02
	\$0.02

As of the fiscal year ended December 31, 2011 we had approximately 103 shareholders of record (excluding the number of persons or entities holding shares of our common stock in nominee or street name through one or more brokerage firms).

### **Dividends**

We have neither declared nor paid any cash dividends on our shares of common stock and do not anticipate declaring or paying any dividends in the foreseeable future. The decision to declare future dividends, if any, will depend upon our results of operations, financial condition, current and future anticipated capital requirements, contractual restrictions, restrictions imposed by applicable law and other factors that our board of directors may deem relevant. Although it is our intention to retain future earnings, if any, for use in our business operations, there are currently no restrictions in place that would limit our ability to pay dividends.

### **Reverse Stock Split**

Effective April 7, 2005 we completed a 1-for-30 reverse stock split of our outstanding shares of common and preferred stock, unless otherwise indicated all references to our outstanding shares of common stock in this annual report on Form 10-K reflect the reverse stock split.

### **Equity Incentive Plans**

On April 21, 2006, the sole member of our board of directors approved the adoption of our 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 there under, 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 our board of directors prior to such anniversary date. The 2006 Plan has a term of 10 years and may be administered by our board of directors or by a

committee made up of not less than 2 members of appointed by our 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 our board of directors.

On November 12, 2007, the sole member of our board of directors approved the adoption of our 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 there under, 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 our board of directors or by a committee appointed by our 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 our 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.

The following table sets forth information as of the fiscal year ended December 31, 2011 with respect to the shares of our common stock that may be issue under each of our 2006 Plan and 2007 Plan.

#### **Equity Compensation Plan Information**

Number of securities  
remaining available for  
future issuance under  
Number of securities  
Weighted-average  
equity compensation  
to be issued upon  
exercise price of  
plans (excluding  
exercise of  
outstanding options,  
securities reflected in  
outstanding options, warrants  
warrants and rights  
column (a))



Plan Category

(a)

(b)

(c)

Equity compensation plans

approved by security holders

-

-

-

Equity compensation plans not

approved by security holders

-

-

35,700

**Total**

-

-

**35,700**

**Recent Sales of Unregistered Securities**

There were no previously unreported sales of unregistered securities during the fiscal years ended December 31, 2011 and 2010. All sales of securities during 2011 and 2010 are outlined in Note E of the notes to the audited financial statements and all of those sales were registered securities.

**Purchases of Equity Securities**

There were no repurchases of equity securities during the fourth quarter of the fiscal year ended December 31, 2011.

**Item 6. Selected Financial Data**

If the registrant qualifies as a smaller reporting company as defined by Rule 229.10(f)(1), it is not required to provide the information required by this Item.

Item 5. Market for Common Equity and Related Stockholder Matters and Registrant Purchases of Equity Securities

## Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, related notes, and other detailed information included elsewhere in this annual report on Form 10-K. Our financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP"), 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. Certain information contained below and elsewhere in this annual report on Form 10-K, including information regarding our plans and strategy for our business, constitute forward-looking statements. See "Note Regarding Forward-Looking Statements."*

### Overview

We are a leading systems integrator and knowledge management solutions provider presently with the U.S. Department of Defense and we have one of the largest knowledge management systems. We have been working to expand into the non-governmental sector by marketing our product CYIPRO™ in hopes to generate revenue. This product is in the CKO Inc. subsidiary company and has generated no income during the process of building the product. We intend on offering the product for sale during 2012 in hopes that this product will make us a leading systems integrator and knowledge management solutions provider in the non-governmental market. All of our revenue is derived from the services provided pursuant to single and multiple year awards to different U.S. Army and federal government agencies. CKO, Inc., one of our operating subsidiaries, provides a designed online office management product which is known as CYIPRO™. For the years ended December 31, 2011 and 2010, we received no revenue from CYIPRO™.

### Results of Operations

#### *Sales/Net Profit*

The total sales for our active subsidiary, CYIOS Corporation, a District of Columbia corporation, for the fiscal year ended December 31, 2011, were \$1,926,324 compared to \$1,849,804 for the fiscal year ended December 31, 2010; an increase in sales of \$76,520 or 4.14%. Our other active subsidiary, CKO, Inc., a District of Columbia corporation, produced no revenue for the fiscal years ended December 31, 2011 and 2010. Net income for the year ended December 31, 2011 was \$118,907, a net income per share of \$0.00, compared to a net loss for the fiscal year ended December 31, 2010 of \$394,051 or a net operating loss per share of \$0.01. Included in the net loss for the year ended December 31, 2010 is a non-cash expense for stock compensation in the amount of \$416,167. This non-cash expense in the amount of \$416,167 is the aggregate market value for the issuance of stock to the President and CEO in the amount of \$350,000 for a bonus for past performance and the remaining \$66,167 was issued to consultants for their services performed during 2010.

In 2006, management made the decision to expand our operations by attempting to increase our business with the Department of Defense and the rest of the federal government. In order to achieve this goal, we have actively bid on request for proposals by different departments and their agencies. We have, and will continue to invest all of our earnings into additional personnel to help achieve this goal. We believe that our efforts in working to achieve the aforementioned goals have helped us achieve a net profit in the year 2011. We are also aggressively marketing the sale of our product CYIPRO™ to Department of Defense, government and small businesses. In the latter part of 2010 and in early 2011 we launched a new marketing campaign to inform the public about our product CYIPRO™.

#### *Cost of Sales*

Cost of sales for the fiscal year ended December 31, 2011 was \$1,015,366 compared to cost of sales for the fiscal year ended December 31, 2010 in the amount of \$1,078,841; a decrease of \$63,475 or approximately 5.88%.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the fiscal years ended December 31, 2011 and 2010 were \$135,168 and \$94,931, respectively; an increase of \$40,237 or 42.39%.

### ***Other Expenses/Stock Compensation***

Total other expenses for the fiscal years ended December 31, 2011 and 2010 were \$698,712 and \$663,557, respectively; an increase of \$35,155 or 5.30%. The total other expenses of \$698,712 in the fiscal year ended December 31, 2011 consisted of \$585,196 in indirect labor and \$113,516 in professional services and consulting fees. The total other expenses of \$663,557 for the fiscal year ended December 31, 2010 consisted primarily of \$595,592 in indirect labor and \$67,181 in professional services fees, consulting services and \$784 in depreciation.

Total Stock Compensation for the fiscal years ended December 31, 2011 and 2010 were \$9,000 and \$416,167, respectively. In the first quarter of 2011, a consultant returned 1,400,000 shares of stock that were valued at \$0.07 per share (a total value of \$98,000) for services not performed. Of the \$98,000, \$57,167 was reversed out of prepaid expense and the remaining \$40,833 was booked as an entry to other income as "Cancellation of shares issued under consulting agreement". The total stock compensation in December 31, 2010 consisted of a \$350,000 stock bonus granted to the President and CEO and stock for compensation for marketing consultants in the amount of \$66,167.

### **Liquidity and Capital Resources**

At December 31, 2011, we had cash and cash equivalents of \$16,675, compared to \$27,603 at December 31, 2010, a decrease of \$10,928.

During the fiscal year ended December 31, 2011, cash provided by operating activities was \$43,612, consisting primarily of the Net Income of \$118,907 offset by:

- Non-cash charges related to the Valuation of Shares returned for consulting services not performed of \$40,833 and Loss on Disposal of Computer Equipment of \$1,436; and
- Working capital changes of \$35,898, consisting primarily of a net increase in Accounts Receivable, Other Assets in the amount of \$6,817 offset by a net decrease in Payroll Taxes Payable, Accounts Payable, and Accruals in the amount of \$29,081.

Cash used in financing activities for the fiscal year ended December 31, 2011 was \$54,540; consisting primarily of:

- Payoff of Convertible Note Payable in the amount of \$36,000; and
- Payments made on the Line of Credit in the amount of \$18,540.

Our long-term working capital and capital requirements will depend upon numerous factors, including our efforts to continue to improve operational efficiency and conserve cash. We are not aware of any known trends or demands, commitments, events or uncertainties that will result in or will reasonably likely result in our liquidity increasing or decreasing in a material way. We do not have any material commitments for capital expenditures as of the fiscal year end December 31, 2011. And, we are not aware of any material trends favorable/unfavorable in our capital resources that may materially change our equity or debt. We do not believe that changes in the spending policies of the U.S. government, such as potential decreases in the budgets of federal agencies, including the Department of Defense, or

delays in the passage of the U.S. Government budget to be uncertainties that are reasonably likely to have a material impact on our liquidity and results of operations. Many budget cuts have been made since 2001 and we have not been materially impacted at all by those budget changes.

### **Off-Balance Sheet Arrangements**

As of the fiscal year ended December 31, 2011, we did not have any off-balance sheet arrangements.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified the following accounting policies, described below, as the most critical to an understanding of our current financial condition and results of operations.

#### ***Revenue Recognition***

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. We follow Statement of Position (“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 us 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.

#### ***Recent Accounting Pronouncements***

In July 2010, the FASB issued Accounting Standard Update No. 2010-20 (ASU No. 2010-20) “Receivables” (Topic 310). ASU No. 2010-20 provides financial statement users with greater transparency about an entity’s allowance for credit losses and the credit quality of its financing receivables. This update is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The amendments in this update apply to both public and nonpublic entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The objective of the amendments in ASU No. 2010-20 is for an entity to provide disclosures that facilitate financial statement users’ evaluation of (1) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (2) How that risk is analyzed and assessed in arriving at the allowance for credit losses and (3) The changes and reasons for those changes in the allowance for credit losses. The entity must provide disclosures about its financing receivables on a disaggregated basis. For public entities ASU No. 2010-20 is effective for interim and annual reporting periods ending on or after December 15, 2010. For nonpublic entities ASU No. 2010-20 will become effective for annual reporting periods ending on or after December 15, 2011. The Company is evaluating the impact ASU No. 2010-20 will have on the financial statements.

In August 2010, the FASB issued Accounting Standard Updates No. 2010-21 (ASU No. 2010-21) “Accounting for Technical Amendments to Various SEC Rules and Schedules” and No. 2010-22 (ASU No. 2010-22) “Accounting for

Various Topics – Technical Corrections to SEC Paragraphs”. ASU No 2010-21 amends various SEC paragraphs pursuant to the issuance of Release no. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies. ASU No. 2010-22 amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics. Both ASU No. 2010-21 and ASU No. 2010-22 are effective upon issuance. The amendments in ASU No. 2010-21 and No. 2010-22 will not have a material impact on the Company’s financial statements.

Other ASUs not effective until after December 31, 2011, are not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

## **Item 8. Financial Statements.**

### **CYIOS Corporation and Subsidiaries**

#### **Index to Consolidated Financial Statements**

	<b>Page</b>
Report of Independent Registered Public Accounting Firm	
	F-21
Consolidated Balance Sheets as of December 31, 2011 and 2010	
	F-23
Consolidated Statements of Operations for the Years Ended December 31, 2011 and 2010	
	F-24
Consolidated Statements of Stockholders’ Equity for the Years Ended December 31, 2011 and 2010	
	F-25
Consolidated Statements of Cash Flows for the Years Ended December 31, 2011 and 2010	
	F-26
Notes to the Consolidated Financial Statements	
	F-27

Silberstein Ungar, PLLC CPAs and Business Advisors

Phone (248) 203-0080

Fax (248) 281-0940

30600 Telegraph Road, Suite 2175

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

CYIOS Corporation

Washington, DC

We have audited the accompanying consolidated balance sheets of CYIOS Corporation (the “*Company*”) as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CYIOS Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Silberstein Ungar, PLLC

Silberstein Ungar, PLLC

Bingham Farms, Michigan

March 28, 2012

**CYIOS Corporation and Subsidiaries**

**Consolidated Balance Sheet**

As of

As of

December 31

December 31,

20112010**ASSETS****CURRENT ASSETS**

Cash and Cash Equivalents

\$ 16,675

\$ 27,603

Accounts Receivable

176,651

172,937

Related Party Interest Receivable

43,434

25,903

Prepaid and Other Current Assets

5,122

76,717

**TOTAL CURRENT ASSETS**

241,882

303,160

**FIXED ASSETS, NET**

-

1,436

**OTHER ASSETS**

Related Party Loan

219,284

219,284

TOTAL OTHER ASSETS		219,284
		219,284
TOTAL ASSETS		\$ 461,166
		\$ 523,880
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Line of Credit		\$ 32,928
		\$ 51,468
Convertible Note Payable		-
		36,000
Accounts Payable		17,275
		9,452
Accruals and Other Payables		23,984
		60,888
TOTAL LIABILITIES		74,187
		157,808
<b>STOCKHOLDERS' EQUITY</b>		
Convertible Preferred Stock (\$.001 par value, 5,000,000 authorized: 29,713 and 29,713 issued and outstanding)		



	30
	30
Common Stock (\$.001 par value, 100,000,000 shares authorized: 36,311,640 and 37,711,640 shares issued and outstanding)	36,311
	37,711
Additional Paid-in-Capital	24,496,376
	24,592,976
Accumulated Deficit	(24,145,738)
	(24,264,645)
TOTAL STOCKHOLDERS' EQUITY	386,979
	366,072
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 461,166
	\$ 523,880

*The accompanying notes are an integral part of these consolidated financial statements.*

**CYIOS Corporation and Subsidiaries**

**Consolidated Statement of Operations**

**Statement of Operations for the years ended**

**December 31,**

**2011**

**2010**

**SALES AND COST OF SALES**

Sales		\$ 1,926,324
		\$ 1,849,804
Cost of Sales		1,015,366
		1,078,841
Gross Profit		910,958
		770,963
<b><u>OPERATING EXPENSES</u></b>		
Selling, general and administrative		135,168
		94,931
Payroll Expense--Indirect Labor		585,196
		595,592
Consulting and Professional Fees Expense		113,516
		67,181
Payroll Expense--Stock Compensation		-
		350,000
Consulting Expense--Stock Compensation		9,000
		66,167
Depreciation		

	-
	784
TOTAL OPERATING EXPENSES	
	842,880
	1,174,655
Income/(Loss) from Operations	
	68,078
	(403,692)
<b><u>OTHER INCOME/(EXPENSE)</u></b>	
Interest Income--Related Party	
	17,531
	17,741
Interest Expense	
	(6,098)
	(8,100)
Cancellation of shares issued under Consulting Agreement	
	40,833
	-
Loss on Disposal of Equipment	
	(1,437)
	-
NET OTHER INCOME/(EXPENSE)	
	50,829
	9,641
INCOME/(LOSS) BEFORE PROVISION FOR INCOME TAXES	
	118,907
Item 8. Financial Statements.	27

	(394,051)
PROVISION FOR INCOME TAXES	-
	-
<b>NET INCOME/(LOSS)</b>	118,907
	(394,051)
<b>Net income/(loss) per share--basic and fully diluted</b>	
	\$ 0.00
	\$ (0.01)
<b>Weighted average shares outstanding--basic and fully diluted</b>	
	36,341,353
	36,806,829

*The accompanying notes are an integral part of these consolidated financial statements.*

**CYIOS Corporation and Subsidiaries**

**Consolidated Statement of Stockholders' Deficit**

Preferred  
Common  
Additional  
Shares  
Stock  
Paid-in  
Accumulated  
(000's)  
\$  
Capital

Deficit

Totals

Beginning Balances, December 31, 2009

\$ 30

\$ 30,149

\$ 24,199,038

\$ (23,870,594)

\$ 358,623

Beginning Balances (in shares) at December 31, 2009

29,713

30,148,877

-

-

-

Shares issued for consulting services (in shares)

-

1,000,000

-

-

-

Shares issued for consulting services

-

1,000

36,500

-

37,500

Shares issued to executive officer as a bonus (in shares)

-  
5,000,000

Shares issued to executive officer as a bonus

-  
5,000  
345,000  
-  
350,000

Portion of Note Payable converted to Shares (in shares)

-  
1,562,763

Portion of Note Payable converted to Shares

-  
1,562  
12,438  
-  
14,000

Net Income (loss)

-

	-
	(394,051)
	(394,051)
Ending Balances at December 31, 2010 (in shares)	
	29,713
	37,711,640
	-
	-
	-
Ending Balances at December 31, 2010	
	\$ 30
	\$ 37,711
	\$ 24,592,976
	\$ (24,264,645)
	\$ 366,072
Return of Shares issued for consulting services (in shares)	
	-
	(1,400,000)
	-
	-
	-
Return of Shares issued for consulting services	
	-
	(1,400)
	(96,600)
	-
Item 8. Financial Statements.	31

	(98,000)
Net Income (loss)	-
	-
	-
	118,907
	118,907
Ending Balances at December 31, 2011 (in shares)	
	29,713
	36,311,640
	-
	-
	-
Ending Balances at December 31, 2011	
	\$ 30
	\$ 36,311
	\$ 24,496,376
	\$ (24,145,738)
	\$ 386,979

*The accompanying notes are an integral part of these consolidated financial statements.*

**CYIOS Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows**

**For the years ended**

**December 31,**

**2011**

**2010**



CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income/(loss)

\$ 118,907

\$ (394,051)

Adjustments to reconcile net loss to net cash provided by (used in)

operating activities:

Depreciation

-

784

Loss on Disposal of Computer Equipment

1,436

-

Note Payable Converted into Shares

-

14,000

Value of Shares returned for services not performed

(40,833)

387,500

Changes in Assets and Liabilities:

(Increase)/Decrease in Accounts Receivable

(3,714)

(58,341)

(Increase) in Interest Receivable--Related Party

(17,531)

-

Decrease in Prepaid and Other Current Assets

Item 8. Financial Statements.

14,428

(923)

(Decrease) in Accruals and Other Payables

7,823

(34,588)

(Decrease) in Accounts Payable

(36,904)

5,407

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

43,612

(80,212)

CASH FLOWS FROM INVESTING ACTIVITIES:

(Increase)/Decrease in Related Party Loan

-

15,000

NET CASH PROVIDED BY OPERATING ACTIVITIES

-

15,000

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Issuance of Convertible Note Payable

-

50,000

Principal Reduction on Convertible Note Payable--shares issued

-

(14,000)

Payoff of Convertible Note Payable

Item 8. Financial Statements.

(36,000)

-

Principal Payments Made on line of Credit

(18,540)

(19,633)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

(54,540)

16,367

NET INCREASE IN CASH AND

CASH EQUIVALENTS

(10,928)

(48,845)

CASH AND CASH EQUIVALENTS:

Beginning of Period

27,603

76,448

End of Period

\$ 16,675

\$ 27,603

***SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:***

**CASH PAID DURING THE PERIOD FOR:**

**Interest**

**\$ 6,098**

**\$ 8,100**

**Taxes**

**\$ -**

\$ -

**NON CASH INVESTING AND FINANCING ACTIVITIES:**

**Shares of Common Stock Returned for Consulting Services not Performed**

**\$ 98,000**

\$ -

**Shares of Common Stock Issued for Prepaid Consulting Services**

\$ -

**\$ 37,500**

**Stock Issued for Consulting Services/Employee Bonus**

\$ -

**\$ 356,000**

*The accompanying notes are an integral part of these consolidated financial statements.*

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Activity**—The consolidated financial statements of CYIOS Corporation (The Company), formerly China Print, Inc. include its subsidiary by the same name CYIOS Corporation and CKO, Inc. The Company, through its subsidiary CYIOS Corporation does business as a leading systems integrator and Knowledge Management Solutions provider supporting the DoD and Government. The Company contracts its services for single and multiple year awards to different DoD and US Government agencies. CKO Inc. owns a custom designed online office management product. The Company launched this product in November of 2005 to the general public and commercial businesses.

**Consolidation**—The consolidated financial statements include the accounts of the Company and its Subsidiaries, after all eliminations of all intercompany accounts and transactions.

**Cash and Cash Equivalents**—The Company considers liquid investments with an original maturity of three months or less to be cash equivalents.

**Management’s Use of Estimates**—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**—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.

Revenues are recognized on a monthly basis when hours are billed to the customer for the work performed.

Selecting the appropriate revenue recognition method involves judgment based on the contract and can be complex depending upon the structure and terms and conditions of the contract.

Contract claims are unanticipated additional costs incurred but not provided for in the executed contract price that we seek to recover from the customer. Such costs are expensed as incurred. Additional revenue related to contract claims is recognized when the amounts are awarded by the customer.

**Comprehensive Income (Loss)**—The Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 130, “*Reporting Comprehensive Income*”, which establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. There were no items of comprehensive income (loss) applicable to the Company during the periods covered in the consolidated financial statements.

**Advertising Costs**—Advertising costs are expensed as incurred. For the years ended December 31, 2011 and 2010, the company incurred \$17,537 and \$9,690 respectively.

**Accounting Basis**—The Company uses the accrual basis of accounting and accounting principles generally accepted in the United States of America (“GAAP” accounting). The Company has adopted a December 31 fiscal year end.

#### **NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**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.

**Fair Value of Financial Instruments/Line of Credit**—The carrying amounts reported in the consolidated balance sheet for cash, accounts receivable and payables approximate fair value based on the short-term maturity of these instruments.

**Accounts Receivable**—Accounts deemed uncollectible are written off in the year they become uncollectible. Outstanding Accounts Receivable as of December 31, 2011 was \$176,651 (CYIOS Subsidiary) and as of December 31, 2010 was \$172,937 (CYIOS Subsidiary).

**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.

**Property and Equipment**—Property and equipment is stated at cost. Depreciation is provided by the straight-line method over the estimated economic life of the property and equipment remaining from five to seven years. New

computer equipment assets in the amount of \$3,917 were purchased in 2007 and in 2011 this equipment was disposed of and written off as a loss in the amount of 1,437.

**Recent Accounting Pronouncements**—In August 2010, the FASB issued Accounting Standard Updates No. 2010-21 (ASU No. 2010-21) “Accounting for Technical Amendments to Various SEC Rules and Schedules” and No. 2010-22 (ASU No. 2010-22) “Accounting for Various Topics – Technical Corrections to SEC Paragraphs”. ASU No 2010-21 amends various SEC paragraphs pursuant to the issuance of Release no. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies. ASU No. 2010-22 amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics. Both ASU No. 2010-21 and ASU No. 2010-22 are effective upon issuance. The amendments in ASU No. 2010-21 and No. 2010-22 will not have a material impact on the Company’s financial statements.

Other ASUs not effective until after December 31, 2011, are not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

### **NOTE B—FINANCING FACILITY**

During the year ended December 31, 2003 the Company entered into an accounts receivable financing facility for a maximum of \$500,000 with an unrelated third party. Collateral for the facility is a first security interest in all corporate assets and a personal guarantee of the Company’s majority shareholder. The Company pays a 2% fee for each advance and interest accrues on all advances at a floating rate, at the prime rate published in the Wall Street Journal plus 2% (5.25% at December 31, 2011). The Company is advanced 90% of all government contract invoices. The advances are used for general corporate working capital. Residual, or holdback amounts, less fees and interest, are remitted to the Company when payments are received from the government. All of the Company’s revenue stream and accounts receivables are factored through this facility.

### **NOTE C—INCOME TAXES**

Due to the prior years’ operating losses and the inability to recognize an income tax benefit therefrom, there is no provision for current or deferred federal or state income taxes for the year ended December 31, 2011.

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, 2011 is as follows:

Total Deferred Tax Asset

\$ 2,231,203

Valuation Allowance

(2,231,203)

Net Deferred Tax Asset

-

The reconciliation of income taxes computed at the federal statutory income tax rate to total income taxes for the years ended December 31, 2011 and 2010 is as follows:

**2011****2010**

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%

**NOTE C—INCOME TAXES (CONT'D)**

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 \$(26,545) and \$(6,579) in 2011 and 2010, respectively. No tax benefits have been recorded for the nondeductible (tax) expenses (including stock for services) totaling \$17,583,375.

As of December 31, 2011, the Company had federal and state net operating loss carryforwards as follows of \$6,562,363 which will expire at various times through the year 2031.

**NOTE D—CONCENTRATION**

All of the Company's revenue are generated from either a prime or sub contractor on contracts with the Information Management Support Center U.S. Army and GOMO/SLD. Loss of these contracts could have a material effect upon the Company's financial condition and results of operations.

**NOTE E—EQUITY**

**Common Shares**

The Company is authorized to issue 100,000,000 shares of \$.001 par value stock and as of December 31, 2011 the Company had 36,311,640 shares outstanding. During 2011 and 2010, the Company issued the following shares of common stock:

During 2011, the only stock activity was for the return of 1,400,000 shares of stock from a consultant who did not perform the agreed upon consulting services (see note G for details of the transaction).

During 2010, the Company issued 7,562,763 common shares to investors, employees, and consultants. The shares issued as stock compensation were valued at the fair market value price at date of issuance and were registered securities. The issuance of the shares and the value is detailed in the following table:

**Month/Description of transaction****Number of shares****Price per share****Total Value**

March 17, 2010—Officer Stock Bonus

5,000,000

\$ 0.0700

\$ 350,000

March 24, 2010—Consulting Services

100,000

\$ 0.0600

\$ 6,000

March 31, 2010—Consulting Services

450,000

\$ 0.0400

\$ 18,000

August 20, 2010—Debt Conversion

133,333

\$ 0.0150



	\$ 2,000
October 19, 2010—Debt Conversion	
	540,541
	\$ 0.0074
	\$ 4,000
October 27, 2010—Consulting Services	
	450,000
	\$ 0.0300
	\$ 13,500
December 13, 2010—Debt Conversion	
	888,889
	\$ 0.0090
	\$ 8,000
<b>Total</b>	
	<b>7,562,763</b>
	<b>\$ 401,500</b>

### *Preferred Shares*

The Company is authorized to issue 5,000,000 shares of \$.001 par value, non-voting, convertible preferred shares. The preferred shares are convertible to common shares at a 1 to 1 ratio. As of December 31, 2011, the Company had 29,713 preferred shares outstanding. During 2011 and 2010, the Company did not issue any preferred shares of stock.

## **NOTE F—Stock options and warrants**

### **Employee Stock Option Plan**

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.

## **NOTE F—Stock options and warrants (CONT'D)**

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, 2011, 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, 2007 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, 2011, options to acquire 2,054,000 shares of common stock were granted and exercised and there are 1,210,700 shares available for issuance under the 2007 Plan.

### **Stock Options and Warrants**

During the years ended December 31, 2011 and 2010, no stock options were granted or exercised.

During 2011, prepaid stock compensation in the amount of \$9,000 was expensed. In October 2010, a consulting contract was signed with a marketing/public relations group. The group was issued 450,000 shares of stock on October 27, 2010 at a fair market value per share of \$.03 (\$13,500 total value) in exchange for 6 months of consulting services. The \$13,500 was booked to prepaid expense and amortized over 6 months. The total stock compensation expensed for this transaction during the years December 31, 2011 and 2010 were \$9,000 and \$4,500, respectively.

### **Valuation of Stock-based Compensation on Common Stock**

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 as restricted stock.

The method used to estimate the fair value of the awards granted under the share-based payment arrangements is calculated as the value of the stock at the date the stock option is exercised.

**Valuation of Stock-based Compensation on Common Stock (cont'd)**

Compensation expense for common stock is recognized on the date of the grant at the closing price of the stock on the date of the grant.

Our statement of operations for the years ended December 31, 2011 and 2010 included stock-based compensation of \$9,000 and \$416,167, respectively.

The Company does not have any unrecognized stock-based compensation expense at December 31, 2011.

**NOTE G—Cancellation of Shares Issued under Consulting Agreement**

In the first quarter of 2011, a consultant returned 1,400,000 shares of stock that were valued at \$0.07 per share (a total value of \$98,000) for services not performed. Of the \$98,000, \$57,167 was reversed out of prepaid expense and the remaining \$40,833 was booked as an entry to other income as “Cancellation of shares issued under consulting agreement”.

**NOTE H—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-fourth of the employee’s contribution up to a maximum of 4% of the employee’s wages. Employees are vested in the Company’s contribution 25% a year and are fully vested after four years. The Company’s contributions for the years ended December 31, 2011 and 2010 were \$14,978 and \$14,768 respectively.

**NOTE I—COMMITMENTS/LEASES**

The Company entered into a lease agreement on July 8, 2005 for office space. The current lease agreement is in effect for 12 months. Under this agreement the monthly fees are \$350 per month. The Company’s estimated future yearly minimum lease obligations are as follows:

<u>Amount</u>	<u>Year</u>
	2012
	\$4,200
	2012
	\$4,620
	2013
	\$5,082
	2014
	\$5,590

2015  
 \$6,150  
 Total  
 \$25,642

Total rent expense for 2011 and 2010 was \$4,124 and \$12,905 respectively.

**NOTE J—RELATED PARTIES**

The Company has a Note Receivable with one of its officers and major shareholders. The note is payable on demand and bears 8% interest per annum. The outstanding balance as of December 31, 2011 is \$219,284.

Annual payments including principal and interest are as follows:

	<u>Year</u>
<b><u>Interest and Principal Payments</u></b>	
	2012
	\$ 31,926
	2013
	31,926
	2014
	31,926
	2015
	31,926
	2016
	31,926
	2016 and thereafter
	122,977
Total Interest and Principal Payments	
	\$ 282,608

Interest Income for the years December 31, 2011 and 2010 were \$17,531 and \$17,741.

**NOTE K—LINE OF CREDIT**

Two of the Company's subsidiaries have lines of credit with Bank of America. The line of credit for CKO is 10.75% interest and the line of credit for China Print, Inc. is 14.75%. The line of credit for China Print was paid off in the 3rd quarter of 2011. The outstanding balances of the line of credit by Subsidiary as of December 31, 2011 are as follows:

CKO	\$32,928
China Print	-
	\$ 32,928

**NOTE L—NET INCOME/ (LOSS) PER COMMON SHARE**

The Company's reconciliation of the numerators and denominators of the basic and fully diluted income per shares is as follows for the years ended December 31, 2011 and 2010 are as follows:

**For the year ended December 31, 2011**

Income
Shares
Per-Share
(Numerator)
(Denominator)
Amount

**Net Income/(Loss)**

\$ 118,907

**Basic EPS**

Income available to common stockholders

118,907

36,311,640

\$ 0.00

**Effect of Dilutive Securities**

Warrants

Convertible preferred stock

29,713

**Diluted EPS**

**Net Income/(Loss)**

118,907

36,341,353

\$ 0.00

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents which would arise from the exercise of warrants outstanding using the treasury stock method and the average market price per share during the year. Options warrants and convertible preferred stock which are common stock equivalents are not included in the diluted earnings per share calculation for December 31, 2010 since their effect is anti-dilutive.

**NOTE M—CONVERTIBLE NOTE PAYABLE**

On January 5, 2010, the company received proceeds from a Note Payable (“Note”) due to an outside party in the amount of \$50,000. A total of 4,761,905 shares were placed in reserve if the Note Payable was converted. On August 20, 2010, \$2,000 of the principal balance was converted into 133,333 common shares of CYIOS Corporation stock. On October 19, 2010, \$4,000 of the principal balance was converted into 540,541 common shares of CYIOS Corporation stock. On December 13, 2010, \$8,000 of the principal balance was converted into 888,889 common shares of CYIOS Corporation stock. As of December 31, 2010 the total Note Payable outstanding was \$36,000.

The Company subsequently paid off the remaining principal balance of \$36,000 on January 26, 2011 in full satisfaction of the outstanding Note Payable. The remaining shares not issued for conversion in the amount of 3,199,142 were removed from reserve.

**NOTE N—SUBSEQUENT EVENTS**

In accordance with ASC 855-10, the Company has analyzed its operations subsequent to December 31, 2011 to the date these financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these financial statements other than those events described above.

**Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.**

There were no events or disagreements requiring disclosure under Item 304(b) of Regulation S-B during the fiscal year ended December 31, 2011. For additional information regarding the change in our certifying accountants,

reference is made to our Current Report on Form 8-K/A filed on March 31, 2011.

## **Item 9A(T). Controls and Procedures.**

Our management is responsible for establishing and maintaining adequate control over our financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within the specified time periods. Our Chief Executive Officer and Principal Financial Officer, Timothy Carnahan is responsible for establishing and maintaining our disclosure controls and procedures. The controls and procedures established by us are designed to provide reasonable assurance that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms.

Our disclosure controls and procedures were designed to provide reasonable assurance that the information required to be disclosed in reports filed Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified and that it is accumulated and communicated to our management, including certifying officers, as appropriate to allow timely decisions regarding timely disclosure.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective at the reasonable assurance level.

Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Our annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting pursuant to the temporary rules set forth by the Securities and Exchange Commission that permit the Company to provide only management’s report on the annual report.

We evaluated and assessed the effectiveness of our internal control over financial reporting as of December 31, 2007, using criteria set forth in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Chief Executive Officer and Principal Financial Officer has also concluded, based on his evaluation of our controls and procedures that as of December 31, 2011, our internal controls over financial reporting are effective and provide a reasonable assurance of achieving their objective.

The Chief Executive Officer and Principal Financial Officer has also concluded that there were no change in our internal controls over financial reporting identified in connection with the evaluation that occurred during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

During the year 2008, we became aware of the fact that the Shareholder Loan outstanding to our CEO and major

shareholder is considered to be a prohibited transaction according to Section 402 of the Sarbanes-Oxley Act of 2002. However, Section 402 does contain a grandfather clause exempting from the prohibition any loans maintained by the issuer on July 30, 2002; provided, however, that there are no material modifications to, or renewal of the terms of, such loans following that date. A portion of the Shareholder Loan does meet the exemption rules of the grandfather clause; however, after that date additional amounts were added to the Shareholder Loan. The Company has addressed this issue and is disclosing the matter here and has executed a new promissory note for the full amount owed to the Company of \$262,512 (the original amount). The terms of the promissory note state that the payoff of the note must be made within a reasonable amount of time and bears an interest rate of 8% per annum. The Company will no longer make payments to the CEO or any other executive officer or director that would be classified as a loan.

## Item 9B. Other Information.

None

## PART III

### Item 10. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.

#### Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors as of December 31, 2011.

Name	Age	Position
------	-----	----------

Timothy W. Carnahan		
---------------------	--	--

	44	
--	----	--

		Director, Chief Executive Officer and Treasurer
--	--	---

*Timothy Carnahan* has served as our Chief Executive Officer, Treasurer and Chairman of our board of directors since September 2005. Previously, from July 2004 through September 2005 Mr. Carnahan served as the President and founder of CKO, Inc., a District of Columbia corporation (“CKO”), and from April 1995 through September 2005 as the President and founder of CYIOS Corporation, a District of Columbia corporation (“CYIOS DC”). CKO and CYIOS DC presently make up our two operating subsidiaries. Mr. Carnahan has some level of security clearance at the Department of Defense. Mr. Carnahan holds a Bachelor of Science degree in Computer Science from Old Dominion University.

#### Family Relationships

There are no family relationships among any of our directors or executive officers.



## Legal Proceedings

During the past five years, none of our directors, executive officers or control persons have been involved in any of the following events:

- any bankruptcy petition filed by or against any business of which such person was an executive officer either at the time of the bankruptcy or within two years prior to that time;
- any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and
- being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors and persons who beneficially own more than 10% of our common stock to file reports of ownership and changes in ownership with the Securities Exchange Commission. These persons are required to provide us with copies of all Section 16(a) forms that they file. Based solely on our review of these forms and written representations of our executive officers and directors, we believe that all Section 16(a) filing requirements were met during the fiscal year ended December 31, 2011.

## Code of Ethics

We have adopted a written code of ethics that applies to all of our officers, directors and employees, including our principal executive officer and principal financial officer, or persons performing similar functions.

## Audit Committee

As of the date of this annual report for the fiscal year ended December 31, 2011, we have no standing committees and our entire board of directors serves as our audit and compensation committees.

## Item 11. Executive Compensation.

The following table sets forth all compensation awarded, paid to or earned by our Chief Executive Officer, who was our only executive officer during the fiscal year ended December 31, 2011.

Summary Compensation Table

### Name and principal position

Year

Salary (\$)

Bonus (\$)

Stock Awards

(\$)

Option Awards

(\$)

Non-Equity Incentive Plan Compensation

(\$)

Non-qualified Deferred

Compensation Earnings

(\$)

All Other

Compensation

(\$)

**Total Compensation (\$)**

**Timothy Carnahan, Chief Executive Officer**

**2011**

**\$191,679**

--

-

--

--

--

--

**\$550,013**

The following table sets forth certain information concerning unexercised options, stock that has not vested, and equity incentive plan awards for each of our named executive officers outstanding as of December 31,

2010.

Outstanding Equity Awards at Fiscal Year-End

Option Awards

Stock Awards

**Name**

Number of securities underlying unexercised options (#) Exercisable

Number of securities underlying unexercised options (#)

Unexercis-able

Equity Incentive Plan Awards: Number of Securities underlying unexercised unearned options (#)

Option exercise price (\$)

Option expiration date

Number of shares or units of stock that have not vested (#)

Market value of shares or units of stock that have not vested (\$)

Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#)

**Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested (\$)**

**Timothy Carnahan, Chief Executive Officer**

--

--

--

--

--

--

--

--

--

**Director Compensation**

No salary or regular compensation is paid to our directors. Pursuant to our bylaws, our directors are eligible to be reimbursed for their actual out-of-pocket expenses incurred in attending board meetings and other director functions, as well as fixed fees and other compensation to be determined by our board of directors. No such compensation or expense reimbursements have been requested by our directors or paid to date.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding the beneficial ownership of our common stock as of April 2, 2012. The information in this table provides the ownership information for:

- each person known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors and executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership has been determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to our common stock and those rights to acquire additional shares within sixty days. Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares of common stock indicated as beneficially owned by them, except to the extent such power may be shared with a spouse. Common stock beneficially owned and percentage ownership are based on 37,711,640 shares of common stock currently outstanding and no additional shares potentially acquired within sixty days.

### Name and address of beneficial owner (1)

#### Amount and nature of beneficial ownership

#### Percent of Class

Timothy Carnahan

20,226,294

55.70

%

All officers and directors as a group

20,226,294

55.70

%

(1)

The address of each person listed is care of CYIOS Corporation, 1300 Pennsylvania Avenue, Suite 700, Washington D.C. 20004.

## Item 13. Certain Relationships and Related Transactions, and Director Independence.

We have determined that our sole director, Timothy Carnahan, is not independent based on an analysis of the standards for independence set forth in Section 121A of the American Stock Exchange Company Guide. Mr. Carnahan has an outstanding promissory note with the Company in the amount of \$219,284. This promissory note existed prior to the Company going public and the terms of the promissory note are described in Note J of the notes to the audited financial statements.

## Item 14. Principal Accountant Fees and Services.

The following table sets forth the aggregate amount of various professional fees billed by our principal accountants with respect to our last two fiscal years:

**Year Ended December 31,**

**2011**

**2010**

Silberstein Ungar, PLLC (5)

Silberstein Ungar, PLLC (5)

Jewett, Schwartz Wolfe and Assoc (5)

Audit Fees (1)

\$22,500

\$ 16,000

\$ 6,000

Audit Related Fees (2)

-

-

-

Tax Fees (3)

-	-
-	-
All Other Fees (4)	-
-	-
Total Accounting Fees and Services	\$22,500
\$ 16,000	\$ 6,000

(1) Audit Fees: These are fees for professional services for the audit of our annual financial statements, and for the review of the financial statements included in our filings on Forms 10-Q, and for services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Audit-related Fees: These are fees for the assurances and related services reasonably related to the performance of the audit or the review of our financial statements.

(3) Tax Fees: These are fees for professional services with respect to tax compliance, tax advice, and tax planning.

(4) All Other Fees: These are fees for permissible work that does not fall within any of the other fee categories, i.e., Audit Fees, Audit-related Fees or Tax Fees.

(5) As disclosed in a current report on Form 8-K filed with the SEC, Jewett, Schwartz, Wolfe, & Associates (JSW & Assoc.) was dismissed as our independent auditor, and we appointed Silberstein Ungar,P LLC as our new independent auditor for the fiscal year ended December 31, 2010.

**Pre-Approval Policy For Audit and Non-Audit Services**

We do not have a standing audit committee, and the full Board performs all functions of an audit committee, including the pre-approval of all audit and non-audit services before we engage an accountant.

**PART IV**

**Item 15. Exhibits.**

<b>No.</b>	
<b>Description of Exhibit</b>	

Item 15. Exhibits.

2.1

Stock acquisition agreement by and between cyios corporation (formerly china printing, Inc.) and timothy carnahan dated September 19, 2005, incorporated by reference to exhibit 1.01 on form 8-k filed September 16, 2005

3(i)(1)

Articles of Incorporation of CYIOS Corporation, dated October 11, 1997, incorporated by reference to Exhibit 2.A on Form 10-SB filed September 3, 1999.

3(i)(2)

Certificate of Amendment to the Articles of Incorporation of CYIOS Corporation, dated April 26, 1999, incorporated by reference to Exhibit 2.B on Form 10-SB filed September 3, 1999.

3(i)(3)

Certificate of Amendment to the Articles of Incorporation of CYIOS Corporation, dated November 8, 2001, incorporated by reference to Exhibit 4.3 on Form S-8 filed November 29, 2007.

3(i)(4)

Certificate of Amendment to the Articles of Incorporation of CYIOS Corporation, dated April 7, 2005, incorporated by reference to Exhibit 4.4 on Form S-8 filed November 29, 2007.

3(i)(5)

Certificate of Amendment to the Articles of Incorporation of CYIOS Corporation, dated October 21, 2005, incorporated by reference to Exhibit 4.5 on Form S-8 filed November 29, 2007

3(i)(6)

certificate of designation, dated June 1, 1999, incorporated by reference to exhibit 3(i) on form 10-K filed on march 26, 2010

4.1

Bylaws of CYIOS Corporation, dated October 15, 1999, incorporated by reference to Exhibit 2.D on Form 10-SB filed September 3, 1999.

4.2

2007 Equity Incentive Plan, incorporated by reference to Exhibit 4.7 on Form S-8 filed November 29, 2007.

14.1

code of business and ethics, incorporated by reference to exhibit 14 on form 10-ksb filed on April 20, 2004.

15.1

Letter regarding change in certifying accountant, incorporated by reference to exhibit 15 on form 8-k/a filed on march 31, 2011.

21.1

Subsidiaries of CYIOS Corporation.\*

31.1

Certification of CYIOS Corporation president, Chief Executive Officer , Principal Financial Officer and director, Timothy Carnahan, required by Rule 13a-14(a) or Rule 15d-14(a), dated April 2, 2012.\*

32.1

Certification of CYIOS Corporation president, Chief Executive Officer, Principal Financial Officer, and director Timothy Carnahan, required by Rule 13a-14(b) or Rule 15d-14(b), dated April 2, 2012.\*

\* Filed herewith.

**Exhibit 21.1**

### **Subsidiaries**

CYIOS Corporation, a District of Columbia corporation

CKO, Inc., a District of Columbia corporation

**Exhibit 31.1**

### **Certification**

I, Timothy Carnahan, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2011 of CYIOS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;



b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 2, 2012

By:

/s/

Timothy Carnahan

President, Chief Executive Officer, Principal Financial Officer, Principal Accounting Officer, & Director

**Exhibit 32.1**

### **Certification**

In connection with the annual report of CYIOS Corporation (the "Company") on Form 10-K for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Timothy Carnahan, Chief Executive Officer and Principal Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350, as adopted), that based on my knowledge:

1. The Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

1. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of the periods covered by the Annual Report.

Date: April 2, 2012

By:

/s/

Timothy Carnahan

President, Chief Executive Officer, Principal Financial Officer, Principal Accounting Officer, & Director

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 2, 2012 **CYIOS Corporation** By: /s/ Timothy W. Carnahan President, Chief Executive Officer, Principal Financial officer, Principal Accounting Officer & Director