SYNNEX CORP
Form 4
April 05, 2016

FORM 4

OMB APPROVAL

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LEUNG SIMON

(Last) (First) (Middle)

44201 NOBEL DRIVE

(Street)

FREMONT, CA 94538

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SYNNEX CORP [SNX]

3. Date of Earliest Transaction (Month/Day/Year)
04/01/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP, GC & Corporate Secretary

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/01/2016		S(1)		3	D	$ 92.69	28,816	D	
Common Stock	04/01/2016		S(1)		33	D	$ 92.62	28,783	D	
Common Stock	04/01/2016		S(1)		33	D	$ 92.61	28,750	D	
Common Stock	04/01/2016		S(1)		33	D	$ 92.58	28,717	D	
Common Stock	04/01/2016		S(1)		33	D	$ 92.47	28,684	D	

Common Stock	04/01/2016	S[(1)]	63	D	$ 92.4	28,621	D
Common Stock	04/01/2016	S[(1)]	67	D	$ 92.27	28,554	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 92.22	28,521	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 92.2	28,488	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 92.09	28,455	D
Common Stock	04/01/2016	S[(1)]	67	D	$ 92.07	28,388	D
Common Stock	04/01/2016	S[(1)]	72	D	$ 92.06	28,316	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 92.02	28,283	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 92	28,250	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.95	28,217	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.91	28,184	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.87	28,151	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.72	28,118	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.63	28,085	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.33	28,052	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.18	28,019	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 91.17	27,986	D
Common Stock	04/01/2016	S[(1)]	67	D	$ 91	27,919	D
Common Stock	04/01/2016	S[(1)]	67	D	$ 90.92	27,852	D
Common Stock	04/01/2016	S[(1)]	33	D	$ 90.49	27,819	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LEUNG SIMON 44201 NOBEL DRIVE FREMONT, CA 94538			SVP, GC & Corporate Secretary	

Signatures

/s/ Simon Y. Leung	04/04/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The sales reported on this Form 4 were effectuated pursuant to a Rule 10b5-1 trading plan adopted by the reporting person on October 28, 2015.

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Depreciation

392

392

Value of Shares Issued for consulting/employee services

374,000

47,500

Changes in Assets and Liabilities:

(Increase)/Decrease in Accounts Receivable

9,306

(159,555)

(Increase)/Decrease in Prepaid and Other Current Assets

5,854

(8,228)

Increase/(Decrease) in Accruals and Other Payables

4,733

106,552

Increase/(Decrease) in Accounts Payable

(50)

12

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

(22,583)

3,673

CASH FLOWS FROM INVESTING ACTIVITIES:

(Increase)/Decrease in Related Party Loan

-

24,496

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

-

24,496

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Issuance of Common Stock

-

20,000

Proceeds Received from Payments made on Stock Subscription Receivable

-

-

Proceeds from Issuance of Convertible Note Payable

50,000

-

Principal Payments Made on line of Credit

(9,648)

(4,007)

Proceeds Received from Draw on Line of Credit

-

-

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

40,352

15,993

NET INCREASE IN CASH AND

CASH EQUIVALENTS

17,769

44,162

CASH AND CASH EQUIVALENTS:

Beginning of Period

76,448

27,070

End of Period

$ 94,217

$ 71,232

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

CASH PAID DURING THE PERIOD FOR:

Interest

$ 2,635

$ 352

Taxes

$ -

$ -

NON CASH INVESTING AND FINANCING ACTIVITIES:

Stock Issued for Prepaid Consulting Services

$ 18,000

$ 47,500

Stock Issued for Consulting Services/Employee Bonus

$ 356,000

$ -

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

CYIOS CORPORATION. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Unaudited)

NOTE A - ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The interim consolidated financial statements and summarized notes included herein were prepared in accordance with accounting principles generally accepted in the United States of America for interim consolidated financial information, pursuant to rules and regulations of the Securities and Exchange Commission. Because certain information and notes normally included in complete consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America were condensed or omitted pursuant to such rules and regulations, it is suggested that these consolidated financial statements be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included in CYIOS Corporations 10-K filed February 26, 2010. These interim consolidated financial statements and notes hereto reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. Such financial results should not be construed as necessarily indicative of future results

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments, including cash, receivables and other current assets, are carried at amounts that approximate fair value. Accounts payable, loans and notes payable and other liabilities are carried at amounts that approximate fair value.

PROPERTY AND EQUIPMENT

The Company provides for depreciation of equipment using accelerated and straight-line methods based on estimated useful lives of five to seven years. Depreciation expense was $196 and $196 respectively for the three months ended June 30, 2010 and 2009 and $392 and $392 for the 6 months ended June 30, 2010 and 2009.

REVENUE RECOGNITION/CONTRACTS

The Company derives revenue primarily from the sale and service of information technology services to the government. 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.

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

Net Income/ (Loss) per Common Share

The Company's current earnings per share (EPS) are shown in dual presentation of basic and diluted earnings per share (EPS) with a reconciliation of the numerator and denominator of the EPS computations. Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. If applicable, diluted earnings per share would assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. Accordingly, this presentation has been adopted for the period presented. There were no adjustments required to net loss for the period presented in the computation of diluted earnings per share.

Advertising Costs

Advertising costs are expensed as incurred. For the three months ended June 30, 2010 and 2009, the company incurred advertising expense of $1,875 and $2,145 respectively. For the six months ended June 30, 2010 and 2009, the company incurred advertising expense of $5,129 and $4,829, respectively.

Income Taxes

We account for income taxes using the asset and liability method, which results in recognizing income tax expense based on the amount of income taxes payable or refundable for the current year. Additionally, we evaluate regularly the tax positions taken or expected to be taken resulting from financial statement recognition of certain items. Based on our evaluation, we have concluded that there are no significant uncertain tax positions.

Impairment of Long-Lived Assets

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2010, the FASB issued Accounting Standard Update No. 2010-11 "Derivatives and Hedging" (Topic 815). ASU No. 2010-11 update provides amendments to subtopic 815-15, Derivatives and hedging. The amendments clarify about the scope exception in paragraph 815-10-15-11 and section 815-15-25 as applicable to the embedded credit derivatives. The ASU is effective on the first day of the first fiscal quarter beginning after June 15, 2010. Therefore, for a calendar-year-end entity, the ASU becomes effective on July 1, 2010. Early application is permitted at the beginning of the first fiscal quarter beginning after March 5, 2010

In April 2010, the FASB issued Accounting Standard Update No. 2010-12. "Income Taxes" (Topic 740). ASU No.2010-12 amends FASB Accounting Standard Codification subtopic 740-10 Income Taxes to include paragraph 740-10-S99-4. On March 30, 2010 The President signed the Health Care & Education Affordable Care Act reconciliation bill that amends its previous Act signed on March 23, 2010. FASB Codification topic 740, Income Taxes, requires the measurement of current and deferred tax liabilities and assets to be based on provisions of enacted tax law. The effects of future changes in tax laws are not anticipated." Therefore, the different enactment dates of the

Act and reconciliation measure may affect registrants with a period-end that falls between March 23, 2010 (enactment date of the Act), and March 30, 2010 (enactment date of the reconciliation measure). However, the announcement states that the SEC would not object if such registrants were to account for the enactment of both the Act and the reconciliation measure in a period ending on or after March 23, 2010, but notes that the SEC staff "does not believe that it would be appropriate for registrants to analogize to this view in any other fact patterns."

In April 2010, the FASB issued Accounting Standard Update No. 2010-13 "Stock Compensation" (Topic 718). ASU No.2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The cumulative-effect adjustment should be presented separately. Earlier application is permitted.

RECENT ACCOUNTING PRONOUNCEMENTS (CONT'D)

In April 2010, the FASB issued Accounting Standards Update No.2010-14, "Accounting for Extractive Activities - Oil & Gas" (Topic 932). ASU No. 2010-14 amends FASB accounting Standard paragraph 932-10-S99-1 due to SEC release no. 33-8995 [FR 78], Modernization of Oil and Gas Reporting and provides update as to amendments to SEC Regulation S-X, Rule 4-10.

In April 2010, the FASB issued Accounting Standard Update No. 2010-15. "Financial Services-Insurance" (Topic 944) ASU No.2010-15 gives direction on how investments through separate accounts affect an insurer's consolidation analysis of those investments. Under the ASU: an insurance entity should not consider any separate account interests held for the benefit of policy holders in an investment to be the insurer's interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for the benefit of a related party policy holder as defined in the Variable Interest Entities Subsections of Subtopic 810-10 and those Subsections require the consideration of related parties. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early adoption is permitted. The amendments in this Update should be applied retrospectively to all prior periods upon the date of adoption.

In April 2010, the FASB issued Accounting Standard Update No. 2010-16. "Entertainment-Casinos" (Topic 924). ASU No.2010-16 addresses diversity in practice regarding whether an entity accrues liabilities for a base jackpot before it is won because they could avoid the payment. The amendments in this update clarify that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can avoid paying that jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base and progressive jackpots. The ASU amendments are effective for fiscal years, and the interim periods within those fiscal years, beginning on or after December 15, 2010.

In April 2010, the FASB issued Accounting Standard Update No. 2010-17. "Revenue Recognition-Milestone Method" (Topic 605) ASU No.2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. An entity often recognizes these milestone payments as revenue in their entirety upon achieving a specific result from the research or development efforts. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. The ASU is effective for fiscal years and interim periods within those fiscal years beginning on or after June 15, 2010. Early application is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted.

In April 2010, the FASB issued Accounting Standard Update No. 2010-18. "Receivables" (Topic 310). ASU No.2010-18 provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition. Paragraph 310-30-15-6 allows acquired assets with common risk characteristics to be accounted for in the aggregated as a pool. Upon establishment of the pool, the pool becomes the unit of accounting. When loans are accounted for as a pool, the purchase discount is not allocated to individual loans; thus all of the loans in the pool accrete at a single pool rate (based on cash flow projections for the pool). Under subtopic 310-30, the impairment analysis also is performed on the pool as a whole as opposed to each individual loan. Paragraphs 310-40-15-4 through 15-12 establish the criteria for evaluating whether a loan modification should be classified as a troubled debt restructuring. Specifically paragraph 310-40-15-5 states that "a restructuring of a debt constitutes a troubled debt restructuring for purposes of this subtopic if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise

<u>RECENT ACCOUNTING PRONOUNCEMENTS (CONT'D)</u>

consider." The ASU is effective for modification of loans accounted for within pools under subtopic 310-30

occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted.

In May 2010, the FASB issued Accounting Standard Update No. 2010-19 "Foreign Currency". ("ASU No. 2010-19"). ASU 2010-19, codifies the SEC staff announcement made at the March 18, 2010, EITF meeting. The ASU "provides the SEC staff's views on certain foreign currency issues related to investments in Venezuela." These issues relate to Venezuela's highly inflationary status. The ASU became effective on March 18, 2010.

Other ASUs not effective until after June 30, 2010, are not expected to have a significant effect on the Company's consolidated financial position or results of operations.

<u>Accounts Receivable</u>

Accounts deemed uncollectible are written off in the year they become uncollectible. As of June 30, 2010, the Accounts Receivable balance was $105,290 and the amount deemed uncollectible was $0.

<u>PREFERRED STOCK</u>

As of June 30, 2010, the outstanding preferred stock is 29,713.

<u>COMMON STOCK</u>

The following table recaps the capital account transactions occurring during the 1st quarter of 2010:

<u>Month/Description of transaction</u>

<u>Number of shares</u>

<u>Price per share</u>

<u>Total Value</u>

March--Stock issued to Executive Officer as bonus

5,000,000

$ 0.07

$ 350,000

March--Stock issued for Consulting Services

100,000

$ 0.06

$ 6,000

March--Stock issued for Consulting Services

450,000

$ 0.04

$ 18,000

Total

5,550,000

$ 374,000

No shares of Common Stock were issued during the 2nd quarter of 2010.

STOCK-BASED COMPENSATION

Stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The Company has awarded stock-based compensation both as restricted stock and stock options. Any stock options granted were immediately exercised upon grant.

STOCK OPTIONS AND WARRANTS

On April 21, 2006, the Company's board of directors approved the 2006 Employee Stock Option Plan (the "2006 Plan"). The 2006 Plan provides for the issuance of a maximum of 3,000,000 shares of common stock in connection with stock options granted thereunder, plus an annual increase to be added on the first nine anniversaries of the effective date of the 2006 Plan, equal to at least (i) 1% of the total number of shares of common stock then outstanding, (ii) 350,000 shares, or (iii) a number of shares determined by the Company's board of directors prior to such anniversary date. The 2006 Plan has a term of 10 years and may be administered by the Company's board of directors or by a committee made up of not less than 2 members of appointed by the Company's board of directors.

Participation in the 2006 Plan is limited to employees, officer, directors and consultants of the Company and its subsidiaries. Incentive stock options granted pursuant to the 2006 Plan must have an exercise price per share not less than 100%, and non-qualified stock options not less than 85%, of the fair market value of our common stock on the date of grant. Awards granted pursuant to the 2006 Plan may not have a term exceeding 10 years and will vest upon conditions established by the Company's board of directors.

On April 21, 2006 the Company filed a registration statement on Form S-8 with the SEC registering 3,000,000 shares of common stock for issuance upon exercise of options granted pursuant to the 2006 Plan. As of December 31, 2007, options to acquire 1,812,300 shares of common stock were granted and exercised and there are 1,187,700 shares available for issuance under the 2006 Plan.

On November 12, 2007, the Company's board of directors approved the 2007 Equity Incentive Plan (the "2007 Plan"). The 2007 Plan provides for the issuance of a maximum of 3,500,000 shares of common stock in connection with awards granted thereunder, which may include stock options, restricted stock awards and stock appreciation rights. The 2007 Plan has a term of 10 years and may be administered by the Company's board of directors or by a committee appointed by the Company's board of directors (the "Committee"). Participation in the 2007 Plan is limited to employees, officer, directors and consultants of the Company and its subsidiaries.

Incentive stock options granted pursuant to the 2007 Plan must have an exercise price per share not less than 100%, and non-qualified stock options not less than 85%, of the fair market value of the Company's common

stock on the date of grant. Awards granted pursuant to the 2007 Plan may not have a term exceeding 10 years and will vest upon conditions established by the Committee.

On November 29, 2006 the Company filed a registration statement on Form S-8 with the SEC registering 3,500,000 shares of common stock for issuance upon exercise of options granted and exercised pursuant to the 2007 Plan. As of December 31, 2007, options to acquire 2,054,000 shares of common stock were granted and exercised and there are 1,446,000 shares available for issuance under the 2007 Plan.

<u>STOCK OPTIONS AND WARRANTS (CONT'D)</u>

<u>Outstanding stock options and warrants as of June 30, 2010 are as follows:</u>

Stock/Options

Weighted average price per share

Aggregate intrinsic value

Outstanding at December 31, 2008

2,014,284

0.13

261,857

<u>For the year ended December 31, 2009</u>

Granted

3,291,667

0.06

197,500

Options forfeited or expired

(2,014,284)

0.13

(261,857)

Exercised in 2009

(3,291,667)

0.06

(197,500)

Outstanding at December 31, 2008

-

0.13

-

For the period ended June 30, 2010

Granted

-

-

-

Exercised in the first and second quarter 2010

-

-

-

Outstanding at June 30, 2010

-

-

-

NOTE B-INCOME TAXES

Due to the prior years' operating losses and the inability to recognize an income tax benefit, there is no provision for current or deferred federal or state income taxes for the year ended December 31, 2009.

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, 2009 is as follows:

Total Deferred Tax Asset

$ 2,264,327

Valuation Allowance

(2,264,327)

Net Deferred Tax Asset

-

The reconciliation of income taxes computed at the federal statutory income tax rate to total income taxes for the year ended December 31, 2009 is as follows:

2009

2008

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 B-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 $1,352 and $(18,281) in 2009 and 2008, respectively. No tax benefits have been recorded for the nondeductible (tax) expenses (including stock for services) totaling $17,210,808.

As of December 31, 2009, the Company had federal and state net operating loss carryforwards as follows of $6,659,786 which will expire at various times through the year 2029.

NOTE C-CONCENTRATION

The Company is either a prime or sub contractor on contracts with L-3 Communications, SERCO, TMS, Information Management Support Center (IMCEN) and GOMO/SLD. Loss of these contracts could have a material effect upon the Company's financial condition and results of operations.

NOTE D-SEGMENT REPORTING

Net sales and Profit/ (Loss) by Segment for the three months ended June 30, 2010 and 2009 are broken down as follows:

Net Sales by Segment

For the 3 months ended June 30, 2010

CYIOS

CYIOS Group

CKO

Totals

Sales, net

$ 459,679

$ -

$ -

$ 459,679

Cost of Sales

264,142

-

-

264,142

Gross Profit

$ 195,537

$ -

$ -

$ 195,537

Profit/(Loss) by Segment

For the 3 months ended June 30, 2010

CYIOS

CYIOS Group

CKO

Totals

Net (Loss)

$ (14,682)

$ -

$ (1,708)

$ (16,390)

Net Sales by Segment

For the 3 months ended June 30, 2009

CYIOS

CYIOS Group

CKO

Totals

Sales, net

$ 488,720

$ -

$ -

$ 488,720

Cost of Sales

275,886

-

-

275,886

Gross Profit

$ 212,834

$ -

$ -

$ 212,834

Profit/(Loss) by Segment

For the 3 months ended June 30, 2009

CYIOS

CYIOS Group

CKO

Totals

Net (Loss)

$ 15,129

$ -

$ (1,892)

$ 13,237

NOTE D-SEGMENT REPORTING (CONT'D)

Net sales and Profit/ (Loss) by Segment for the six months ended June 30, 2010 and 2009 are broken down as follows:

Net Sales by Segment

For the 6 months ended June 30, 2010

CYIOS

CYIOS Group

CKO

Totals

Sales, net

$ 905,955

$ -

$ -

$ 905,955

Cost of Sales

$ 530,441

-

-

530,441

Gross Profit

$ 375,514

$ -

$ -

$ 375,514

Profit/(Loss) by Segment

For the 6 months ended June 30, 2010

CYIOS

CYIOS Group

CKO

Totals

Net (Loss)

$ (413,406)

$ -

$ (3,412)

$ (416,818)

Net Sales by Segment

For the 6 months ended June 30, 2009

CYIOS

CYIOS Group

CKO

Totals

Sales, net

$ 863,643

$ -

$ -

$ 863,643

Cost of Sales

494,394

-

-

494,394

Gross Profit

$ 369,249

$ -

$ -

$ 369,249

Profit/(Loss) by Segment

For the 6 months ended June 30, 2009

CYIOS

CYIOS Group

CKO

Totals

Net (Loss)

$ 23,730

$ (352)

$ (6,378)

$ 17,000

NOTE E-PENSION PLAN

The Company has a 401(k) plan which is administered by a third-party administrator. Individuals who have been employed for one month and reached the age of 21 years are eligible to participate. Employees may contribute up to the legal amount allowed by law. The Company matches one quarter of the employee's contribution up to a maximum of 4% of the employee'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 three months ended June 30, 2010 and 2009 were $3,886 and $0 respectively. The Company's contributions for the six months ended June 30, 2010 and 2009 were $7,090 and $1,597, respectively.

NOTE F-COMMITMENTS/LEASES

The Company entered into a lease agreement on July 8, 2005 for office space. The current lease agreement is in effect from August 2009 to August 2010, and at that time is up for renewal. Monthly fees are $1,040.

Total rent expense for the three months ended June 30, 2010 and 2009 was $4,456 and $4,524, respectively. Total rent expense for the six months ended June 30, 2010 and 2009 was $8,852 and $8,956, respectively.

NOTE G-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 June 30, 2010 is $234,284.

Annual payments including principal and interest are as follows:

Year-ended

Interest

Principal

2010

$ 16,702

$ 11,996

2011

$ 16,958

17,153

2012

$ 15,534

18,576

2013

$ 13,992

20,118

2014

$ 12,322

21,788

2015 and thereafter

$ 31,310

144,653

Total principal and interest payments

$ 106,817

$ 234,284

The above Related Party Loan is secured by 8,000,000 shares of stock owned by the related party.

NOTE H-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 three months ended June 30, 2010 and 2009 are as follows:

For the 3 months ended June 30, 2010

For the 3 Months Ended June 30, 2009

Income

Shares

Per-Share

Income

Shares

Per-Share

(Numerator)

(Denominator)

Amount

(Numerator)

(Denominator)

Amount

Net Income/(Loss)

$ (16,390)

$ 13,237

Basic EPS

Income available to common stockholders

(16,390)

35,698,877

$ (0.00)

13,237

27,810,232

$ 0.00

Effect of Dilutive Securities

Warrants

Convertible preferred stock

29,713

29,713

Diluted EPS

Net Income/(Loss)

(16,390)

35,728,590

$ (0.00)

13,237

27,839,945

$ 0.00

NOTE H-NET INCOME/ (LOSS) PER COMMON SHARE (CONT'D)

The Company's reconciliation of the numerators and denominators of the basic and fully diluted income per shares is as follows for the six months ended June 30, 2010 and 2009 are as follows:

For the 6 months ended June 30, 2010

For the 6 Months Ended June 30, 2009

Income

Shares

Per-Share

Income

Shares

Per-Share

(Numerator)

(Denominator)

Amount

(Numerator)

(Denominator)

Amount

Net Income/(Loss)

$ (416,818)

$ 17,000

Basic EPS

Income available to common stockholders

(416,818)

35,698,877

$ (0.01)

17,000

27,566,050

$ 0.00

Effect of Dilutive Securities

Warrants

Convertible preferred stock

29,713

29,713

Diluted EPS

Net Income/(Loss)

(416,818)

35,728,590

$ (0.01)

17,000

27,595,763

$ 0.00

NOTE I-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 CYIOS Group is 14.75%. The outstanding balances of the line of credit by Subsidiary as of June 30, 2010 are as follows:

CKO

$ 43,082

CYIOS Group

18,370

$ 61,452

NOTE J-PREPAIDS

On September 29, 2009, the company issued 1,400,000 shares of common stock to a consulting firm for services to be rendered through September 15, 2011. The Company measured the value of the stock given for services at the date given, September 28, 2009 (measurement/grant date). The total value of the services has been estimated to be $98,000 which is based on a fair market value per share of $.07 on September 29, 2009. The $98,000 is to be amortized over 36 months. The total amount charged to expenses for the 3 months ending June 30, 2010 was $8,166.66. The total amount charged to expenses for the 6 months ending June 30, 2010 was $16,333.32.

On March 31, 2010, the company issued 450,000 shares of common stock to a consulting firm for services to be rendered through July 2010. The Company measured the value of the stock given for services at the date given, June 30, 2010 (measurement/grant date). The total value of the services has been estimated to be $18,000 which is based on a fair market value per share of $.04 on March 31, 2010. The $18,000 is to be amortized over 4 months. The total amount charged to expenses for the 3 months ending June 30, 2010 was $4,500. The total amount charged to expense for the 6 months ending June 30, 2010 was $4,500.

NOTE K-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. The Note with an interest rate of 8% is due in full in September 2010 and has the option to be converted into shares of CYIOS stock if the company does not pay the Note in full plus interest by the due date. A total of 4,761,905 shares have been place in reserve if the Note Payable is converted. Total interest accrued for this note as of June 30, 2010 is $2,000.

Item 2. Management's Discussion and Analysis

The following discussion should be read in conjunction with the consolidated financial Statements and related notes thereto included elsewhere in this report.

INTRODUCTION

CYIOS Corporation and its subsidiaries are collectively referred to as CYIOS. The following Management Discussion and Analysis of Financial Condition and Results of Operations was prepared by management and discusses material changes in the financial condition and results of operations and cash flows for 2nd quarter ended June 30, 2010 and 2009 for CYIOS. Such discussion and comments on the liquidity and capital resources should be read in conjunction with the information contained in the accompanying unaudited consolidated financial statements prepared in accordance with U.S. GAAP.

The discussion and comments contained hereunder include both historical information and forward-looking information. The forward-looking information, which generally is information stated to be anticipated, expected, or projected by management, involves known and unknown risks, uncertainties and other factors that may cause the actual results and performance to be materially different from any future results and performance expressed or implied by such forward-looking information. Potential risks and uncertainties include risks and uncertainties set forth under the heading "Risk Factors" and elsewhere in this Form 10-Q.

Corporate Overview

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

518112

WEB SEARCH PORTALS

518210

DATA PROCESSING, HOSTING AND RELATED SERVICES

519100

OTHER INFORMATION SERVICES

519190

ALL OTHER INFORMATION SERVICES

541510

COMPUTER SYSTEMS DESIGN AND RELATED SERVICES

541511

CUSTOM COMPUTER PROGRAMMING SERVICES

541512

COMPUTER SYSTEMS DESIGN SERVICES

541513

COMPUTER FACILITIES MANAGEMENT SERVICES

541519

OTHER COMPUTER RELATED SERVICES

541611

ADMIN. MANAGEMENT AND GENERAL MGMT CONSULTING

SERVICES

541618

OTHER MANAGEMENT CONSULTING SERVICES

541690

OTHER SCIENTIFIC AND TECHNICAL CONSULTING SERVICES

CKO Incorporated is CYIOS' subsidiary, which offers the product CYIPRO; a business transformation tool that utilizes the first project based operating system (OS). This new project OS is the nucleus of why CYIPRO can transform your people, processes and information into a productive, effective and rich environment. CYIPRO securely brings the latest concepts of business transformation and technology to fruition. CYIOS built the prototype for the U.S. Army, named AKO, which now serves over 1.8 million Army users worldwide and has built CYIPRO to complement knowledge management and business transformation for agencies and commercial business. CYIPRO was developed as an agency-level business transformation solution in response to Government initiatives in teleworking led by OPM and GSA; the President's Management Agenda and its focus on retaining human capital; FISMA, HSPD-12 and PKI for secure communications through common access cards; Lean Six Sigma to improve workflow and reduce redundancies; and the Clinger-Cohen Act to improve efficiencies in technology. CYIPRO has been positioned to work in conjunction with the AKO model to sell as a customized product to Federal, State and Local Governments. This, in turn, can lead to growth in service contracts for business transformation and modernization solutions.

Recent Developments

In the 1st Quarter 2010, our numbers show loss over last year this time. We are a public company without the benefits of raising capital for the company and this is a serious issue with our growth. Although our sales were up over last year at this time, we incurred more expenses in the amount of stock compensation to consultants and our President and CEO. We have engaged with a financial advisor and we are in the process of filing an S-1 to raise money. This advisor will help find the right investor(s) to help fuel our business growth - with this help in the neighborhood initially up to $7,000,000. Our growth will be substantially higher and really has no hard line of a ceiling once we have these funds in place. Our industry is over $100 billion dollar industry and we have proven our capabilities and shown our successes. We are currently speaking with investors and plan on closing a deal very shortly.

In the 2nd Quarter 2010, we are showing a loss. Our sales were slightly lower this quarter as compared to this same quarter a year ago. Also, our expenses were up due to stock issuances to consultants for their services. We are still in the process of filing an S-1 to raise money.

FINANCIAL CONDITION

We currently have financial resources to support our operational (overhead) staff and our product, CYIPRO. We have incurred a loss in the second quarter of 2010 mainly due to a slight reduction in sales for the quarter and an increase in expenses for stock compensation paid to consultants. We are looking for, and engaged with, investors to raise capital for growth and to establish our advisory board.

OVERVIEW

CYIOS does business as a leading systems integrator and Knowledge Management Solutions provider supporting the United States Army. All of CYIOS' revenue is derived from the services it provides for single and multiple year awards to different US Army and US Government agencies. CKO, Inc., one of the CYIOS subsidiaries provides a designed online office management product which is known as CYIPRO. For the three months ended June 30, 2010 and 2009, CYIOS received no revenue from CYIPRO. For the six months ended June 30, 2010 and 2009, CYIOS received no revenue from CYIPRO.

RESULTS OF OPERATIONS

Revenue: Total sales for the 2nd quarter 2010 were $459,679 as compared to $488,720 in sales for the 2nd quarter 2009, a decrease of approximately 5.94%. Total sales for the 1st and 2nd quarter of 2010 were $905,955 as compared to total sales for the 1 st and 2nd quarters of 2009 of $863,643. The overall increase in sales was due to the Company winning new contracts in 2010.

Cost of Sales: Cost of sales for the 2nd quarter 2010 were $$264,142, resulting in a gross profit of $195,537 (42.54% gross profit margin) compared to cost of sales for the 2nd quarter 2009 of $275,886, resulting in a gross profit of $212,834 (43.55% gross profit margin). Cost of sales for the 1st and 2nd quarters 2010 were $530,441, resulting in a gross profit margin of $375,514 (41.45%) compared to cost of sales for the 1st and 2nd quarters 2009 of $494,394, resulting in a gross profit margin of $369,249 (42.75% gross profit margin). Cost of sales have decreased for the 2nd quarter in 2010 as compared to 2009 by approximately 4.26% overall. Cost of sales increased for the 1st and 2nd quarters of 2010 by 7.29% overall compared to cost of sales for the 1st and 2 nd quarters 2009. Cost of sales consists solely of direct labor expense which can best be described as contracted services being rendered. We have to pay higher than average salaries to employ the best trained staff and we must also offer the best benefits for these staff.

Indirect Labor: Indirect labor expense increased by $17,713 or approximately 13.58% to $148,179 for the 2nd quarter ended 2010 from $130,466 for the 2 nd quarter ended 2009. Indirect labor for the 1st and 2nd quarters of 2010 increased by $58,850 or approximately 23.79% to $306,249 compared to indirect labor for the 1st and 2nd quarters of 2009 in the amount of $247,399. The increase is a direct result of the hiring of a new administrative staff person. A stock bonus was paid to our CEO and president. During the 1st quarter of 2010, the company's board authorized the issuance of 5,000,000 shares valued at $.07 per share or $350,000 in total.

Consulting and Professional Fees: Consulting and professional fees for the 2nd quarter ended 2010 was $18,876 as compared to $51,666 for the 2nd quarter ended 2009, resulting in a decrease of $32,790. Consulting and professional fees for the 1st and 2nd quarters ended 2010 were $47,256 as compared to $65,271 in consulting and professional fees for the 1st and 2nd quarter ended 2009, resulting in a decrease of $18,465. The overall decrease from 2010 to 2009 was a result of decrease in our use of consultants' services and legal fees.

Depreciation and Interest Expense: Interest expense for the 2nd quarter ended 2010 was $2,635, as compared to $0 for the 2nd quarter ended 2009. The increase is a result of interest being accrued on a Note Payable in the amount of $50,000. Interest expense for the 1st and 2nd quarters ended 2010 was $5,282 as compared to $352 for the 1st and 2nd quarters ended 2009. Again the increase in interest expense is a direct result of interest accruing on the outstanding Note Payable in the amount of $50,000. Depreciation expense for the 2nd quarter ended 2010 and 2009 was $196 and $196, respectively. Depreciation expense for the 1st and 2nd quarters 2010 and 2009 was $392 and $392, respectively.

Selling, General, and Administrative: Selling, general and administrative expenses for the 2nd quarter ended of 2010 was $25,048 as compared to $18,064 for the 2nd quarter ended 2009-an increase of $6,444 or approximately 34.64%. Selling, general and administrative expenses for the 1st and 2 nd quarters of 2010 was $53,300 as compared to $40,986 for the 1st and 2nd quarters ended 2009-an increase of $12,314 or 30.04%. Selling, general, and administrative expenses consist primarily of advertising, conference fees, fees, insurance, office supplies, rent, and travel and entertainment expenses. The increase is primarily due to the increase in additional filing fees for the S-1.

Net Income/ (Loss) from Operations: Net loss for the 2nd quarter ended 2010 was $16,390 as compared to a net income of $7,237 for the 2nd quarter ended 2009-a decrease of $23,627. Sales were down for the 2nd quarter of 2010 and expenses were up during the quarter 2010. The increase in expenses is primarily due to the fact that we incurred expenses in the form of stock compensation totaling $21,667; an increase in our indirect labor costs; and an increase in our selling, general and administrative expenses. Net loss for the 1st and 2nd quarters ended 2010 was $416,818 as compared to a net income of $17,000 for the 1st and 2nd quarters ended 2009-a decrease of $433,818. For the 1 st and 2nd quarters of 2010 sales were up from 2009 for the same period, but expenses were also up. The increase in expenses for the 1st and 2nd quarters combined is primarily due to stock compensation expense in the amount of $385,833 and higher expenses in indirect labor, and selling, general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity: At June 30, 2010, CYIOS had cash and cash equivalents of $94,217, compared with $71,232 at June 30, 2009, an increase of $17,769.

During the six months ending June 30, 2010, cash used in operating activities was $22,583, consisting primarily of the net loss for the six months ended June 30, 2010 of $416,818 offset by non-cash charges to:

- Depreciation charges of $392;
- Stock based compensation in the amount of $374,000;
- Working capital changes of $19,843, consisting of a net decrease of $15,160 in Accounts Receivable and Other Assets and a net decrease of $4,683 in Accrued Expenses, Payroll Taxes Payable, and Accounts Payable.

Financing activities for the six months ended June 30, 2010 provided cash in the amount of $40,352, consisting of:

- Proceeds from the issuance of a Convertible Note Payable in the amount of $50,000 less.
- Payments made on the Line of Credit in the amount of $9,648.

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.

Off-Balance Sheet Arrangements: The Company does not have any off-balance sheet arrangements with any party.

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

OUTSTANDING SHARE DATA

The outstanding share data as of June 30, 2010 and 2009 is as follows:

	Number of shares outstanding	
	2010	2009
Common Shares	35,698,877	28,032,210
Preferred Shares	29,713	29,713

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Management does not believe that there is any material risk exposure with respect to derivative or other financial instruments that would require disclosure under this item.

Item 4. Controls and Procedures

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 its Principal Financial Officer (collectively, the "Certifying Officers") are responsible for 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.

As of the end of the period covered by this report, the Certifying Officers evaluated the effectiveness of our disclosure controls and procedures. Based on the evaluation, the Certifying Officers concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

The Certifying Officers have also concluded, based on their evaluation of our controls and procedures that as of June 30, 2010, our internal controls over financial reporting are effective and provide a reasonable assurance of achieving their objective.

The Certifying Officers have also concluded that there was no change in our internal controls over financial reporting identified in connection with the evaluation that occurred during our 2nd 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 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 outstanding balance of the Shareholder Loan was $234,784 as of June 30, 2010. 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 4T. Controls and Procedures

(a) *Conclusions regarding disclosure controls and procedures*. Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures; as such term is defined under Rule 13a-15 promulgated under the Exchange Act as of June 30, 2010. 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. Our management including our certifying officer concludes that our disclosure controls and procedures are effective at the reasonable assurance level as of the end of the period covered by the report.

(b) *Management's Report On Internal Control Over Financial Reporting*. It is management's responsibilities to establish and maintain adequate internal controls over the Company's financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers and effected by the issuer's management and other personnel, 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 and includes those policies and procedures that:

• Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and

• Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management of the issuer; and

• Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

As of the end of the period covered by the Quarterly Report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of our internal control over financial reporting.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

Based on that evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, internal controls over financial reporting were effective as of the end of the period covered by the Report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

This Quarterly Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Quarterly Report.

(c) *Changes in internal control over financial reporting*. There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

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 Form 10-Q, 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 historical operating losses and negative cash flows from operating activities raise an uncertainty as to our ability to continue as a going concern.

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

Our liquidity and capital resources are very limited.

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

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

As of the fiscal year ended December 31, 2009, and as a result of historical operating losses from prior years, our accumulated deficit was $23,870,593. Lenders generally regard an accumulated deficit as a negative factor in assessing creditworthiness, and for this reason, the extent of our accumulated deficit coupled with our historical operating losses will negatively impact our ability to borrow funds if and when required. Any inability to borrow funds, or a reduction in favorability of terms upon which we are able to borrow funds, including the amount available to us, the applicable interest rate and the collateralization required, may affect our ability to meet our obligations as they come due, and adversely affect on our business, financial condition, and results of operations, raising substantial doubts as to our ability to continue as a going concern.

Risks Associated with our Business and Industry

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

Revenues derived from contracts with federal government agencies accounted for all of our revenues for the 1st quarter ended June 30, 2010, and we believe that federal government agencies will continue to be the source of all or substantially all of our revenues for the foreseeable future.

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

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

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the Federal Acquisition Regulations and their supplements, which regulate the formation, administration and performance of federal government contracts;

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the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations; and

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