CYCLO3PSS CORP
Form 10QSB
January 16, 2001

CONFORMED

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTER ENDED November 30, 2000

OR

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

COMMISSION FILE NUMBER 0-22720

CYCLO3PSS CORPORATION
(Name of Small Business Issuer as specified in its charter)

Delaware	87-0455642
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
3646 West 2100 South Salt Lake City, Urah	84120-1202
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (801) 972-9090

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: $.001 Par Value Common Stock

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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. Yes x/ No .

Common Stock outstanding at January 12, 2001 - 30,082,982 shares of $.001 par value Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

FORM 10-QSB

Financial Statements and Schedules
Cyclo3pss Corporation

For Three and Nine Months Ended November 30, 2000

The following financial statements and schedules of the registrant and its consolidated subsidiaries are submitted herewith:

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

Condensed Consolidated Balance Sheets

(UNAUDITED)

	November 30 2000	February 29 2000
Assets		
Current assets:		
Cash	$65,206	$107,565
Accounts receivable	139,214	70,723
Notes receivable	80,000	--
Inventories	17,930	17,930
Prepaid expenses	5,466	5,815
Total current assets	307,816	202,033
Property and equipment, net	77,113	135,521
Other assets:		
Acquired patents, net	45,507	72,807
Developed patents and other, net	62,724	56,623
	$493,160	$466,984

CYCLO3PSS CORPORATION

Condensed Consolidated Balance Sheets (continued)

(UNAUDITED)

	November 30 2000	February 29 2000
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	$96,487	$256,955
Accrued liabilities	180,809	449,440
Note Payable	1,000,000	250,000

Current portion of capital lease obligations	694	3,778
Deferred Revenue	100,000	100,000
Total current liabilities	1,377,990	1,060,173
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock:		
Preferred stock issuable in series: par value $.01, 4,500,000 authorized:		
Series "A" convertible preferred stock; 356,638 shares authorized; 356,638 shares issued and outstanding	356	356
Series "B" convertible preferred stock; 30,000 shares authorized; 716 and 900 shares issued and outstanding at November 30, 2000 and February 29, 2000, respectively	7	9
Series "C" convertible preferred stock; 550 shares authorized; none and 75 shares issued and outstanding at November 30, 2000 and February 29, 2000, respectively	---	1
Class "A" preferred stock, par value $.01; 500,000 shares authorized; none issued or outstanding	---	---
Common stock, par value $.001; 55,000,000 shares authorized; 29,243,975 shares issued at November 30, 2000 and 25,226,066 shares issued at February 29, 2000	29,244	25,225
Additional paid-in capital	19,555,931	19,028,410
Accumulated deficit	(19,968,823)	(19,145,645)
Less treasury stock, 264,000 common shares at cost	(501,545)	(501,545)
Total stockholders' equity (deficit)	(884,830)	(593,189)
	$493,160	$466,984

See accompanying notes to condensed consolidated financial statements

CYCLO3PSS CORPORATION
Condensed Consolidated Statements of Operations

(UNAUDITED)

For the three months ended
November 30,

	2000	1999
Net revenues	$124,876	$268,543
Costs and expenses:		
Cost of sales	84,598	97,573
Research and development	17,793	--
Selling and marketing	27,264	--
General and administrative	148,606	382,739
Depreciation and amortization	26,428	27,981
Total expenses	304,689	508,293
Loss from operations	(179,813)	(239,750)
Interest income	519	--
Interest expense	--	(169)
Net loss	(179,294)	(239,919)
Preferred stock dividends	--	(8,499)
Net loss applicable to common stock	$(179,294)	$(248,418)
Basic and dilutive net loss per common share	$(.01)	$(.01)
Weighted average number of common shares issued and outstanding	28,610,961	18,025,784

See accompanying notes to condensed consolidated financial statements

CYCLO3PSS CORPORATION
Condensed Consolidated Statements of Operations

(UNAUDITED)

For the nine months ended November 30,

2000 1999

Net revenues	$350,041	$754,478
Costs and expenses:		
Cost of sales	285,112	345,680
Research and development	51,638	--
Selling and marketing	92,846	--
General and administrative	625,994	709,705
Depreciation and amortization	120,195	88,868
Total expenses	1,175,785	1,144,253
Loss from operations	(825,744)	(389,775)
Litigation settlement expense	---	(853,000)
Interest income	2,697	15
Interest expense	(131)	(747)
Net loss	(823,178)	(1,243,507)
Preferred stock dividends	---	(25,497)
Net loss applicable to common stock	$(823,178)	$(1,269,004)
Basic and dilutive net loss per common share	$(.03)	$(.07)
Weighted average number of common shares issued and outstanding	27,694,704	16,753,956

See accompanying notes to condensed consolidated financial statement

CYCLO3PSS CORPORATION
Condensed Consolidated Statements of Cash Flows
(UNAUDITED)

	For the nine months ended November 30, 2000	1999
Cash flows from operating activities:		
Net loss	$(823,178)	$(1,243,507)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	120,195	88,870
Common stock issued for legal settlement	--	853,000
Common stock issued to board in lieu of compensation	--	13,750

Common stock issued for services	177,060	--
Changes in operating assets and liabilities:		
Decrease in accounts receivable	(148,491)	(43,372)
Increase in inventories	--	11,818
Decrease in prepaid expense	349	42,128
(Decrease) increase in accounts payable and accrued liabilities	(429,099)	146,982
Net cash used in operating activities	(1,103,164)	(130,331)
Cash flows from investing activities:		
Disposal and purchase of property and equipment	6,215	(802)
Addition to developed patents and other	(46,803)	(11,876)
Net cash used in investing activities	(40,588)	(12,678)
Cash flows from financing activities:		
Proceeds from issuance of common stock	150,000	156,825
Proceeds from issuance of warrants	196,000	--
Proceeds from issuance and exercise of stock options	8,477	18,000
Proceeds from notes payable	750,000	--
Principal payments under capital lease obligations	(3,084)	(7,743)
Net cash provided by financing activities	1,101,393	167,082
Net decrease (increase) in cash	(42,359)	24,073
Cash at beginning of period	107,565	36,018
Cash at end of period	$65,206	$60,091
Non-cash financing activities: Issuance of preferred stock dividend	$ --	$ 8,499

See accompanying notes to condensed consolidated financial statements.

CYCLO3PSS CORPORATION
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Financial Statements

The accompanying interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. The balance sheet at February 29, 2000 represents the Company's audited consolidated balance sheet at that date.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal recurring adjustments necessary to present fairly the financial position of Cyclo3pss Corporation ("Company") as of November 30, 2000, and the results of its operations and its cash flows for the interim periods ended November 30, 2000 and November 30, 1999. The operating results for the interim periods are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report to Stockholders for the year ended February 29, 2000.

Organization

The Corporation was formed in Delaware in 1927. In 1990, the Corporation was reorganized as Cyclo3pss Medical Systems, Inc. In 1995, the Company changed its name to Cyclo3pss Corporation. The Company is engaged in the manufacture, sale and installation of ozone food processing products, ozone washing for commercial and institutional laundries, the manufacture and sale of specialty compounds and chemicals, and research and development of technologies for sterilization and/or disinfection of medical and some consumer products.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Inventory

Inventory primarily consists of raw material related to the production of "VAC" soil laundry counting system.

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1. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Comprehensive Income

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", requires that all items that are recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The items of other comprehensive income that are typically required to be displayed are foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. There have been no items of other comprehensive income to date.

2. Basis of Presentation

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has sustained significant net losses which have resulted in an accumulated deficit at November 30, 2000 of $19,968,823 and $19,145,645 at February 29, 2000, and periodic cash flow difficulties, all of which raise substantial doubt of the Company's ability to continue as a going concern.

The net loss for the nine months ended November 30, 2000 was $823,178 and for the year ended February 29, 2000 was $1,960,414. To date, the Company has funded its operations through the issuances of common and preferred stock, and a loan as described further. The Company anticipates a net loss for the year ended February 28, 2001, and with a cash balance of $65,206 at November 30, 2000 and expected cash requirements for the year, there is substantial doubt as to the Company's ability to continue operations.

The Company believes that these conditions have resulted from the inherent risks associated with small technology companies. Such risks include, but are not limited to, the ability to (a) generate sales of its product at levels sufficient to cover its costs and provide a return for investors, (b) attract additional capital in order to finance growth, (c) further develop and successfully market commercial products and (d) successfully compete with other technology companies having financial, production and marketing resources significantly greater than those of the Company.

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2. Basis of Presentation (continued)

The Company is attempting to improve these conditions by way of financial assistance through collaborative partnering agreements, issuances of additional equity, debt arrangements, and product sales. Management believes that appropriate funding will be generated and future product sales will result from these opportunities and that the Company will continue operations through the next fiscal year; however, no assurance can be given that sales will be generated or that the additional necessary funding will be raised.

The severe financial condition of the Company was disclosed to Procter & Gamble (" P&G") during the last week of November 1999. P&G responded immediately and after conferring with the Company's management negotiated and subsequently entered into a Letter of Intent on December 10, 1999. The agreement allowed for two separate financings by P&G to the Company. The first, a Secured Convertible Promissory Note for $250,000, was executed and funded in concert with the signing of the Letter of Intent in order to relieve the immediate and critical cash requirements of the Company. The second Secured Convertible Promissory Note for $750,000 provides long-term working capital for the Company. The entire $1,000,000 loan is secured by a first security interest in all of the Company's Intellectual Properties and will be due and payable in full on the one year anniversary date of its execution, February 1, 2001. The loan is non interest bearing, but in the event of a default, it may accrue up to 15% interest. The loan agreement grants a conversion right to P&G allowing for the conversion of all or any part of the outstanding loan, including all or any part of interest due into shares in the Company's common shares of stock at anytime during the term of the loan, and at the sole discretion of P&G, at the average closing bid price of the Company's common stock for ten consecutive business days prior to the date of execution of the note, February 2, 2000, which was $.27987. The Company contemplates engaging in several diverse development and testing contracts within various departments of P&G. In addition, under the terms of the agreement, P&G will be granted an Exclusive First Right of Refusal for the Licensing of all the current and future technologies of the Company.

3. Contingencies

The Company is not a party to and presently is not aware of any pending claims or existing litigation. Previous settled matters are described in the Company's Form 10-KSB for the year ended February 29, 2000.

4. Segment Information

On March 7, 2000 the Company internally realigned its ozone businesses, collapsing two business units, Cyclopss Laundry Systems, Inc. and Eco-Pure Food processing Systems, Inc. During the nine months ended November 30, 2000 the Company operated in two principal industries; the manufacture, sale and installation of ozone products ("ozone products"); and the manufacture and sale of specialty chemicals ("biochemical products"). Operating profit is total revenue less operating expenses, excluding interest expense and general corporate expenses. Corporate assets consist primarily of cash and cash equivalents, other receivables, prepaid expenses, property and equipment and corporate payables.

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4. Segment Information (continued)

	For three months ended		For nine months ended	
	Nov. 30, 2000	Nov. 30, 1999	Nov. 30, 2000	Nov. 30, 1999
Net revenues				
Ozone products	$ 74,729	$ 200,693	$ 157,136	$448,822
Biochemical products	50,147	67,850	192,905	305,656
Total Revenue	$ 124,876	$268,543	$350,041	$754,478
Operating income (loss)				
Ozone products	$ (57,250)	$ 15,297	$ (200,240)	$ (15,007)
Biochemical products	(602)	(5,734)	23,341	71,075
Total operating income (loss)	(57,852)	9,563	(176,899)	56,068
Corporate expenses	(121,961)	(249,313)	(648,845)	(1,298,843)
Interest income	519	--	2,697	15
Interest expense	--	(169)	(131)	(747)
Net income (loss)	$ (179,294)	$ (239,919)	$ (823,178)	$ (1,243,507)
Identifiable assets				
Ozone products			$227,819	$251,693
Biochemical products			71,356	107,334
General corporate assets			193,985	171,889
Total assets			$493,160	$530,916

5. Stockholders' Equity

During the nine months ended November 30, 2000, the Company had the following equity transactions: 184 Series "B" preferred shares were redeemed for 1,879,988 unrestricted common shares pursuant to the legal settlement with Mifal Kilta et al. in September of 1999. Also, 75 shares of Series "C" convertible preferred stock were converted into 744,250 shares of common stock. 392,000 common shares were issued for $196,000 upon the exercise of warrants, and 350,000 shares were issued in lieu of cash payment for services. 167,800 shares were issued in connection with exercise of stock options by the Company's employees. Finally 483,871 shares are due to be issued in connection to a private placement of the company's common stock as described in Liquidity and Capital Resources of this 10-QSB.

PART I - ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS
OR PLAN OF OPERATION

General

Cyclopss Corporation (the "Company") historically has been engaged in a fully integrated business model providing the design, manufacturing, assembly, sales and installation of ozone application technologies and processes. The Company's principal technology provides an alternative to address food safety concerns and laundry disinfection and processing efficiency. Ozone technology is proven to reduce microbial counts on food products without the potential for the development of immunity or resistance by the organism. Ozone laundry systems enable users to reduce costs associated with labor, water, energy, chemical, textile replacement and wastewater. The Company has recently changed its business model to include the licensing of proprietary technologies to partners who have resources and infrastructures better suited to successfully commercialize certain of the Company's technologies or products. The Company has entered into a Technology Licensing Agreement with Consolidated Stills and Sterilizers of Boston, MA. The agreement licenses the ozone medical instrument sterilization technology developed and patented by the Company for an initial licensing fee and future royalties. The Company anticipates negotiating like arrangements on other of its proprietary technologies when the circumstances are beneficial. Cyclopss will continue to engage in all integrated functions required in the synthesis, manufacturing and marketing of its specialty chemicals.

Consumers, food producers and processors, both large and small, are searching for new technologies to address food safety and sterilization concerns. Consumers and food processors, who have relied heavily on chlorination and other chemicals to decontaminate foods and household items, are being forced to consider alternatives to chlorine and other toxic chemicals. The Company believes that ozone products offer a lower cost and more environmentally-friendly and consumer accepted form of decontamination and sterilization than many other chemical treatments.

These statements are forward-looking and involve matters which are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward looking statements. These risks and uncertainties include product development or production difficulties or delays due to supply constraints, technical problems or other factors; technological changes; the effect of global, national and regional economic conditions; the impact of competitive products and pricing; changes in demand; increases in component prices or other costs; and a number of other risks including those identified by the Company throughout Form 10- KSB for February 29, 2000, and other risks identified from time to time in the Company's filings with the Securities and Exchange Commission, press releases and other communications. The Company assumes no obligation to update forward-looking statements.

Results of Operations

The Company's revenues were $124,876 for the three months ended November 30, 2000 compared to $268,543 for the three months ended November 30, 1999. The revenues were $350,041 for the nine months ended November 30, 2000 compared to $754,478 for the nine months ended November 30, 1999. This decrease was mainly due to the Company's shift in the use of its employees and resources from the generation of short term revenues, required to cover operating expenses, to research and design efforts in developing long term future product and application royalty receipts as described further. The Company's gross margin for the three months ended November 30, 2000 was $40,278 compared to $170,970 for the three months ended November 30, 1999. The gross margin for the nine months ended November 30, 2000 was $64,929 compared to $408,798 for the nine months ended November 30, 1999. This reduction is due to a decrease in product sales as described above. The Company continues to closely monitor expenses to minimize all unnecessary operating costs. The Company expects to start receiving royalty payments from the sale of consumer products as described further in this section.

Research and development expenses increased to $17,793 and $51,638 for the three and nine months ended November 30, 2000, respectively from $0 for the three and nine months ended November 30, 1999. The Company eliminated all research and development costs during the three and nine months ended November 30, 1999, due to lack of necessary funds for this function. The Company resumed its research and development efforts in the last quarter of fiscal 2000 when funds and personnel were available for these activities.

Selling and marketing expenses increased to $27,264 and $92,846 for the three and nine months ended November 30, 2000, respectively, from $0 for the three and nine months ended November 30, 1999. In 1999, the Company eliminated marketing staff and eliminated all advertising in order to help conserve cash. Management believes that it is critical to periodically support and supplement its sales efforts through advertising, public relations and trade-show participation when sufficient funds are available, and started to dedicate limited funds to selling and marketing expense in the last quarter of fiscal 2000.

General and administrative expenses decreased to $148,606 for the three months ended November 30, 2000 from $382,739 for the three months ended November 30, 1999. General and administrative expenses slightly decreased to $625,994 for the nine months ended November 30, 2000 from $709,705 for the nine months ended November 30, 1999. The unusually low general and administrative expenses last year were due to a refund of $138,875 for insurance premiums that was recorded against administrative expenses in the first quarter. Management is closely monitoring and controlling these expenses. These expenses are expected to increase in fiscal 2001, with other potential increases due to management and human resource requirements for the Company should commercial activities increase, and more funds become available for this use.

The Company recorded net loss applicable to common stockholders for the three months ended November 30, 2000 of $179,294 compared to $248,418 for the three months ended November 30, 1999. Net loss applicable to common stockholders for the nine months ended November 30, 2000 of $823,178 compared to $1,269,004 for the nine months ended November 30, 1999. The Company recorded $853,000 in legal settlement expenses in connection with the settlement agreement it

reached with Mifal Klita et al. in September of 1999. During the period from May through August 1996, the Company sold its series B preferred stock in a private placement offering to certain investors pursuant to the provisions of Regulation S. One of these investors, Mifal Klita, a purported Canadian company, filed suit against the Company demanding the removal of the restrictive investment legend which the Company caused to be placed on common shares issued pursuant to the conversion of series B preferred shares. The suit was filed in the Court of Chancery in the State of Delaware, which ruled in favor of the Company on April 8, 1997 and dismissed Mifal Klita's suit. Subsequently, Mifal Klita refiled an amended suit in the Superior Court of the State of Delaware. The final settlement agreement reached by the parties involved, entitled Mifal Klita to the conversion of the series B preferred shares into unrestricted common stock of the Company plus shares for legal fees and other provisions stated in the original agreement. The unrestricted common stock is being disbursed monthly over a two year period.

A toothbrush and a kitchen sponge sanitizer were developed by Otres, a strategic partner, in collaboration with the Company and are the subject of a co-marketing agreement with the Crest and Dawn divisions of P&G. The products are designed to kill 99.9% of germs found on toothbrushes and kitchen sponges using ozone technology, and they address a growing consumer concern, that of reducing the spread of germs and microorganisms, such as streptococci and staphylococci on toothbrushes and e-coli, salmonella and listeria on kitchen sponges. The Company will receive ongoing royalty revenues from the sale of those products. The products became available to the consumer market, via internet sales, in September 2000. The Otres products have been available for purchase on the Company's website (www.cyclopss.com) since October 1999. The Company anticipates that Otres products will be available in grocery, appliance and hardware stores, mass merchandisers and drug stores within six months.

Liquidity and Capital Resources

In December 1999, the Company entered into a Secured Convertible Promissory Note for $250,000 with P&G. In February 2000, the Company entered into a second financing of a Secured Convertible Promissory Note for $750,000 which provides long-term working capital for the Company. With respect to the second $750,000 Note, $250,000 in cash was received and recorded in the first quarter ended May 31, 2000. The balance of $500,000 in cash was received on

June 19, 2000. The entire $1,000,000 loan is secured by a first security interest in all of the Company's Intellectual Properties and will be due and payable in full on the one year anniversary date of its execution, February 3, 2001. The loan agreement grants a conversion right to P&G allowing for the conversion of all or any part of the outstanding loan, including all or any part of interest due, into shares of the Company's unrestricted common stock at anytime during the term of the loan, and at the sole discretion of P&G. Subsequent to the quarter end, P&G and the Company have entered into negotiations which would provide for the conversion of $500,000 of the loan principal to equity, and extension of the loan due date to February of 2002, and the payment of any interest accrued to date through the issuance of common stock. There can be no assurance that these negotiations will continue or that they will fruitful and that an agreement will be reached.

The Company has, and continues to engage in several diverse development and testing contracts within various departments of P&G. In addition, under the terms of the agreement, P&G will be granted an Exclusive First Right of Refusal for the purchase or license of all the current and future technologies of the Company. There are no assurances that cash received from these arrangements will be sufficient to meet the Company's operating needs through February 28, 2001.

Cash used in operating activities was $1,103,164 for the nine months ended November 30, 2000 compared to $130,331 for the nine months ended November 30, 1999. A large portion of this increase was due to the Company paying off accrued liabilities and extremely aged accounts payables that had been accumulating for a substantial amount of time. There was a decrease of $429,098 in accounts payable and accrued liabilities for the nine months ended November 30, 2000 compared to an increase of $146,982 for the same accounts for the nine months ended November 30, 1999.

Net cash expenditures for property, equipment and developed patents were $40,588 for the nine months ended November 30, 2000 compared to $12,678 for the nine months ended November 30, 1999. This increase was due primarily to Company updating, maintaining and filing new patents.

Net cash provided by financing activities for the nine months ended November 30, 2000 was $1,101,393. Proceeds of $196,000 were received from the issuance of 392,000 common shares upon the exercise of the same number of warrants. $750,000 was received from P&G during this period as part of the loan described earlier. $150,000 was received from a private placement of the Company's common stock at $.31 (thirty one cents) in October of 2000. Subsequent ot November 30, 2000, the Company received an additional $40,000 in proceeds as a continuation of its private placement of common stock. Cash provided by financing activities for the nine months ended November 30, 1999 was $167,082, due mainly to issuance of 157 shares of "Series C" preferred shares.

Total assets increased to $493,160 at November 30, 2000 from $466,984 as of February 29, 2000. This increase was mainly due to increase in accounts and notes receivable from $70,723 at February 29, 2000 to $219,214 at November

30, 2000, offset by depreciation of fixed assets, amortization of patents and a decrease in cash.

Total current liabilities increased to $1,377,990 at November 30, 2000 from $1,060,173 at February 29, 2000, mainly due to the increase in notes payable from $250,000 to $1,000,000, offset by a decrease in accounts payable of $160,468 and a decrease in accrued liabilities of $268,631.

Plan of Operation

Under the Company's new plan of operations and revised operations strategy, it will no longer attempt to act as a large volume manufacturer of products using the Company's technology. Instead, the Company intends to act as a provider of specialized and proprietary technologies to others and manufacture small quantities of its products. The Company will direct efforts toward the creation of technology bridges for other companies that will in turn use the Cyclopss technologies to develop new products, processes and services. The Company envisions that it will be able to create strategic alliances, joint ventures and other partnerships with manufacturers, equipment suppliers, and manufacturers and suppliers of disposable and consumable products to utilize the Company's proprietary technologies under a variety of licensing and royalty structures. This new business model will permit the Company to better commercialize its technology, without having to take on the significant cost of developing individual products or manufacturing processes. Revenues will

be derived through royalty and licensing arrangements from the commercialization of the Company's products as well as research and development efforts and services performed on behalf of others. This model will allow the Company to more efficiently utilized its limited resources and provide a more effective means of commercializing its significant technology.

The Company sold an EcoWash ozone laundry system to the US Navy, which was shipped in the third quarter 2000 and paid in the fourth quarter 2000. Also, the Company has entered into an exclusive relationship with Alliance Laundry to jointly furnish Eco-Wash ozone laundry systems to the Navy. The Company anticipates the manufacturing activity will become the function of Alliance or some other contract manufacturer as demand from the Navy dictates. The Company and Alliance are currently in discussions in regards to co-venturing other commercial laundry markets other than the Navy. The Company continues to seek industry participants for design and development work required in modifying their existing products to accommodate the incorporation of the Company's proprietary technologies. This model allows the Company to keep the number of employees limited to specific requirements of the technology application, and converts the Company into a technology purveyor.

This business model is illustrated by the current business relationship between the Company, P&G and Otres, Inc. Cyclopss had established a working relationship with P&G early in 1999. In May of 1999, the Company was approached by the principals of Otres to assist in the development and validation of a toothbrush sanitizer and a kitchen sponge sanitizer utilizing ozone. The management of the Company determined the products could be of great interest to P&G and, after having appropriate confidentiality documents executed, Otres agreed to allow the Company to introduce the product concepts to P&G. P&G determined they had products that would lend themselves to a co-marketing relationship with the Otres appliances as long as the product development was responsibly executed and the technology application proved safe and effective. Both Otres and P&G engaged the Company for these activities. The Company manages the relationship with P&G for Otres under contract, and contributed to the execution of co-marketing agreements between Otres and CREST(R) for the toothbrush sanitizer, and Otres and DAWN(R) for the kitchen sponge sanitizer that were announced at the International Home Appliance Show in Chicago on January 16, 2000. The Company negotiated to receive an ongoing royalty from the sale of these appliances, which may provide for potential future revenues with minimal related costs.

On October 6, 2000 the Company entered into a "Term Sheet/ Letter of Agreement" to acquire Oxidyn Incorporated, a North Carolina Corporation. Oxidyn manufactures and sells patented proprietary ozone sanitation systems to the food and beverage industries. The acquisition is subject to a number of specific conditions including the completion of due deligince by each party, and providing Oxidyn with operationg cost of $40,000 a month. To date the Company has made a loan of $80,000 to Oxidyn. As of the date of this filing Oxidyn's preliminary audit suggest it will be unable to meet certain primary conditions of the agreement. The Company will incur no further expenses regarding the transaction unless new terms can be negotiated.

To better provide the personnel required under this business model the Company moved its Research and Development activities to New Mexico in February 2000. The Company maintains a limited administrative staff, and its Biochemical division in its current offices in Salt Lake City, Utah. Subsequent to the quarter end the Company has reduced the administrative space in Salt Lake City, Utah from 6,400 square feet to 1,260 square feet, by subleasing the extra space.

The Company anticipates its revenues as well as the source of those revenues to change significantly through establishment of these types of strategic alliance relationships. However, there can be no assurance that the financing as completed with P&G will be sufficient to offset cash demands, nor can there be any assurance that any of the Company's products will be accepted in such numbers as to make the royalty revenues significant enough to cover the cost of operation.

Even with sufficient funds available, the ongoing challenge facing the Company is that of educating potential partners, government, industry and the end consumer about the benefits of ozone. Ozone is a naturally-occurring phenomenon that is usually associated with photochemical smog or an eroding level of protection in our atmosphere. It is the Company's intent to provide this education and show the beneficial side of ozone- decontamination. For industry, ozone is a cost competitive and environmentally-friendly answer to microbial contaminates. For the consumer, ozone kills harmful microorganisms quickly and leaves behind no chemical residue.

The Biochem products will continue to be driven by customer requests and increased sales will be derived from contract product development. Current sales activities will be evaluated and alternatives looked for to improve profit margins. Joint efforts will continue with Foster Miller, Inc., in order to create a market for Biochem's monomer to the aerospace industry.

The information set forth herein as to anticipated research and development costs, equipment purchases and increase in employees are management's best estimates based upon current plans. Actual expenditures may be greater or less than such estimates depending on many factors including, but not limited to the availability of new technologies, the completion or lack of completion of certain strategic alliances, and the timing and successful completion of the Company's stated requirement to acquire additional operating and growth capital, industry initiatives, success of the Company's research and development efforts, and other factors.

From time to time, the Company may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. The private Securities litigation Reform Act of 1995 provides a safe harbor for forward looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include, but are not limited to, the following:

1. Market acceptance of the Company's products;
2. Obtaining sufficient additional operating capital in the form of debt or equity; 3. The existence of an orderly market in the Company's securities; 4. Increased sales of the various products of the Company; 5. Continued success in the Company's research and development activities; and 6. Successful completion of strategic alliances.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings. None

Item 2. Changes in Securities. None.

Item 3. Defaults Upon Senior SecuritieNone.

Item 4. Submission of Matters to a Vote of Security HoldNone.

Item 5. Other Information.

Item 6(a). Exhibits and Reports on Form S-8. To register Executive Employee Stock Option Agreements, register shares for director fees, legal and consulting fees.

6(b) Exhibits and Reports on Form S-3. To register 3,573,024 shares of Common stock that may be used by P&G in lieu of cash repayment of the $1,000,000 Promissary Note as described above.

6(c) Exhibits and Reports on Form 8-K. To report on the possible acquisition of Oxidyn Incorporated , by Cyclopss Corporation.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYCLO3PSS CORPORATION

Date: January 15, 2001

By/s/ William R. Stoddard

William R. Stoddard
Chief Executive Officer
Principal Executive Officer

Date: January 15, 2001

By/s/ Mondis Nkoy

Mondis Nkoy
Controller, Corporate Secretary
Principal Financial Officer