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UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION
Admin. Proc. File No. 3-16386

In the Matter of
Timothy W. Carnahan,
CYIOS Corporation
Respondents
Dated: Tuesday, April 05, 2016

DUE: April 18, 2016

Reply Brief to
“Division of Enforcement Opposition brief”
Dated – March 31, 2016

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(5) Five point Reply Brief response to the Division of Enforcement's (DOE) Opposition Brief (OB) (dated: 3/31/16)

1) DOE created a Domino's Story based upon false evidence and the ALJ used it as his "Preponderance Evidence" in the Initial Decision ID

We find that the first sentence of two made below in the excerpt to be offensive, abusive of discretion, and unethical. We have lost millions of dollars as stated in our original appeal brief, spent 18 months of pursuit of legal righteousness to say the least; we want the record to show the DOE has leached out in an act of vengeance with their lack of remorse toward the respondents as well as the shareholders. As we've stated from DAY 1, there is no Sarbanes-Oxley violation or any other violation.

This is an excerpt from page 1 of the OB:

*** Begin excerpt ***

They argue that because they were found--based on a legal technicality--not to have violated SOX Section 105, they therefore also did not commit the other violations for which they were found liable. However, these other violations are distinct legally and factually from the SOX Section 105 charges.

*** End excerpt ***

The DOE has created as we've stated a "Dominos" Story based upon false evidence which the ALJ used as his "preponderance of evidence". From the second sentence above, the DOE is attempting to falsify the record in order to make the appeal seem like it is not linked as we have stated as a "Domino" story.

Below we debunk this attempt, we point to the DOE's own "Expert" Witness testimony at the September 2015 hearing (which we pointed it out in our appeal brief dated March 3rd 2016, top of page 6, but we will copy it below for simplicity and authenticity) that shows clearly, **these violations are from the DOE's "Dominos" story** which is false and the ALJ for 18 months used this story with prejudice to malign CYIOS.

*** begin copy ***

The SEC DOE and ALJ both point to Expert for Internal Controls (see page 8 E. Expert Evidence of INITIAL DECISION) as preponderance of evidence. Below is an excerpt –

First, he opined that disclosures regarding whether or not an issuer has implemented effective internal controls are material. Id. at 6-11. Second, he opined that disclosures regarding whether or not an issuer has implemented a suitable and recognized control framework are material. Id. at 11. Third, he opined that Anderson's duties at appear to have overlapped with those of a corporate controller, and that under COSO, Carnahan should have considered the impact of the PCAOB's investigation of Anderson on CYIOS' internal controls. Id. at 16-17, 21-24, 27; see also Tr. 221. Fourth, he opined that under

COSO, Anderson and Carnahan were “obligated to make reasonable efforts to understand and comply with the terms of the [Order],” and that both Anderson and Carnahan failed to abide by COSO because Carnahan continued to engage Anderson as an accountant after the Order issued. Div. Ex. 24 at 27-29.

DOE goes on to state,

“The misrepresentation that management had assessed the effectiveness of CYIOS' ICFR using the COSO Framework, and that based on that assessment had concluded that ICFR was effective, was material. ... The failure to perform a suitable ICFR assessment calls into question the accuracy of all information in CYIOS' filings-since the accuracy of this information depends on an effective system of ICFR. Consequently, CYIOS violated Sections 17(a)(2)-(3). Carnahan caused CYIOS' violations by signing the false certifications and causing CYIOS to file the misleading filings.”

*** End Copy ***

The above clearly debunks the second sentence of the DOE;

The Expert witness clearly relates the SOX (PCAOB) to the internal controls – the DOE clearly used this as a means to build their “Dominos Story” with falsified evidence. Now that there are no SOX violations, DOE wants to state there is no connection and violations are “distinct” from one to the other --- **this sentence is a complete lie from DOE.**

Also, this sentence from DOE can be used as a fact that DOE has no understanding of internal controls or business in totality – we built our business and our solutions on the principles of the Fifth Discipline that builds a learning organization whereas everything is connected. To learn more about the Fifth Discipline see https://en.wikipedia.org/wiki/Peter_Senge.

What's our point:

DOE manifested the “Dominos Story” with **false evidence** so the SOX Violation (domino #1) would fall and create the Internal Controls violation (domino #2) and would fall to create the Stock Violation (domino #3) that would fall and create the Interstate commerce violation (domino #4) and the ALJ used all this as his “preponderance of evidence” in his Initial Decision.

This case should be dismissed and relief given immediately. The DOE has completely lied, falsified evidence and we will continue to prove this in the next three points. KEEP READING!!!

2) DOE statements are defamatory, prejudice and malign CYIOS

The DOE stated our internal controls were not effective; the DOE contracted an Expert witness in an attempt to confirm that our internal controls were not effective and the ALJ has proven this to be untrue as there was no SOX violation. These attempts to falsify the record were defamatory toward the product and malign CYIOS – DOE did this to support their ROBOCOP program and a Domino's Story that is based upon falsified evidence. Our product is our life line to success – please see our filings (copied for ease of reading below).

<https://www.sec.gov/Archives/edgar/data/1091566/000109156612000007/10KA2012.htm>

The above link is to our 10K/A filing in question where we outline a description of CYIOS as a product to support SEC Compliance and much more.

“CKO is the product arm of CYIOS[®] that offers CYIPRO[™], a business transformation tool that utilizes the first project-based operating system to build knowledge centric organizations. CYIPRO[™] provides a virtual work space for collaboration, project management, and document management to help manage people, processes and information. CYIPRO[™] also provides key solutions for compliance with Securities and Exchange Commission (“SEC”) Sarbanes-Oxley regulations and compliance with Defense Contract Audit Agency (“DCAA”) and performance based contracting for government contractors.”

We point this out because the DOE has lied and made defamatory, prejudice and malign CYIOS’s product, yet – DOE has admitted they have no idea of what the product could do for CYIOS and why would they as they have not evaluated the product nor is it their job; nevertheless they make defamatory statements to malign CYIOS.

3) DOE falsified evidence into the record to malign CYIOS and its filings about internal controls:

From page top of page 6 of the OB,

A. *It is undisputed that CYIOS' Forms 10-K for fiscal years 2009, 2010, and 2011 stated that CYIOS management had assessed the effectiveness of its ICFR **using the COSO Framework** and that CYIOS' ICFR was effective.*

From CYIOS Filing 2011 10K/A

<https://www.sec.gov/Archives/edgar/data/1091566/000109156612000007/10KA2012.htm>

Item 9A(T). Controls and Procedures. (*) below was copied from this section(***)**

What DOE falsified is highlighted in the reference A. What CYIOS actually stated is highlighted below **B** and is directly copied from our filings.

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

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

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

Under Rule 13a-15(c), we use *CYIPRO* based upon “criteria set forth in COSO” and have stated it over and over again but this is a **pattern of the DOE to “falsify” evidence and the record** and the ALJ has relied upon this evidence as the “Preponderance of Evidence” not only in the initial decision ID but throughout this administrative proceeding.

This case should be dismissed immediately and relief granted; anyone can read the direct lie that was written by DOE outlined above.

4) ALJ uses DOE’s False Dominos Story as “preponderance of evidence” to support Stock Violation

From page 8 section c of the OB:

c. CYIOS violated and Carnahan caused violations of Section 17(a)(3) by making repeated material misstatements in CYIOS public filings.

#1 – We have proved above in point 3) that it is the DOE who has misstated, in fact, lied in order to support their “Dominos Story” to attempt malign CYIOS and the ALJ used this as evidence without any regard to our facts which prove prejudice against CYIOS.

#2 – DOE states here highlighted in point 4) - “repeated material misstatements” – we have shown in point 3) that there are none and the **DOE utterly has lied.**

5) DOE falsely “concatenates” yet another violation to the “Dominos Story” – Interstate Commerce violation

From top of page 9 of the OB:

“Finally, it is undisputed that the conduct involved interstate commerce. Carnahan testified that he personally “EDGARized” CYIOS’s filings-transmitting them electronically across state lines. Tr. 64. Thus, the Court should reject the Respondents’ arguments that they did not violate Securities Act Section 17(a)(3).”

DOE states above that “**it is undisputed**” --- **this is a bold face lie.** We’ve stated time over and over again that there are no misstatements, we’ve been proven there are NO SOX Violations and thus it is not possible at the beginning of the inclination of a thought that this “interstate commerce” could be violation and again, **DOE has attempted to misled the record; basically falsified the record.**

The point we want to make here is that yet again, the **DOE will falsify evidence** and the ALJ has up to this point used this as his “Preponderance of evidence” in the ID, it is illegal at minimum and a complete lie.

Conclusion and Relief requested:

We believe a full investigation by the OIG should take place immediately on the fraudulent activities of the DOE, ALJ and the SEC commission because all have had the same information we've given them from day one. If deemed necessary, an investigation the SEC ROBOCOP and on all cases that this DOE team and ALJ have heard – shareholders, issuers and brokers/dealers all alike need not have to be abused by the government. The laws of coercion, misrepresentation, defamation, abuse of power and discretion with malign and prejudice toward the respondents all have to be addressed as well as our constitution and bill of rights at which have been violated.

The Domino's Story – if it not been for the SEC "RoboCop" and **Falsified Domino's Story**, the respondents would not have lost millions -- possible more and would have been compliant with all government rules, regulations, policies and procedures.

Based upon above, the respondents request for dismissal of the Administrative Proceeding collectively and relief granted as deemed in appeal brief.

Vr,



4/5/2016

Timothy Carnahan

(date)



4/5/2016

Timothy Carnahan, CEO and President of CYIOS

(date)

Service List

In accordance with Rule 150 of the Commission's Rules of Practice, I hereby certify that a true and correct copy of the foregoing document was served on the persons listed below on the 5 day of April, 2016, via electronic mail or in person as indicated.

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Please see the attached Hard Copy for case 3-16386
A fax was sent Tuesday, April 5th, 2016
2023691984
Timothy Carnahan
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