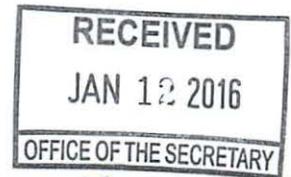


UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION



In the Matter of
Timothy W. Carnahan,
CYIOS Corporation
Respondents

Motion under Rule 410(a) & (e)
Appeal of Initial Decisions by Hearing Officers
&
Prerequisite to Judicial Review

3-16386

RULE 411(b)(2) Discretionary Review.

The Commission may decline to review any other decision. In determining whether to grant review, the Commission shall consider whether the petition for review makes a reasonable showing that:

- (i) a prejudicial error was committed in the conduct of the proceeding; or
- (ii) the decision embodies:
 - (A) a finding or conclusion of material fact that is clearly erroneous; or
 - (B) a conclusion of law that is erroneous; or
 - (C) an exercise of discretion or decision of law or policy that is important and that the Commission should review.

RULE 411(e) *Prerequisite to Judicial Review*. Pursuant to Section 704 of the Administrative Procedure Act, 5 U.S.C. 704, a petition to the Commission for review of an initial decision is a prerequisite to the seeking of judicial review of a final order entered pursuant to such decision.

It has taken the SEC over 18 months to ultimately decide what we the respondents have stated day one - there are no Sarbanes Oxley 105 violations and there is no deceit, fraud or misstatements in this case (see transactions dated June 2014). We are using Rule 410 in order for SEC to review the facts primarily due to the reversal of decision with no violation of Sarbanes Oxley 105. As it stands now, the initial decision is based upon rhetoric, opinion and false statements considered to be "defamatory and slanderous" toward the respondents, and not based upon facts; the integrity of the SEC is in question in this decision and needs to be rectified. As the record stated, our constitutional rights have been violated – due process, right to a jury and disclosure of evidence. The SEC staff from Division of Enforcement clearly didn't act in good faith, but the SEC staff has abused their discretion. The SEC knew or should have known before going on this investigation that there was NO violation of Sarbanes-Oxley; I personally sent an email explaining this fact to the DOE Staff, Complaint Letter to SEC and National Ombudsman – all explaining went in one ear and out the other, wasted taxpayers funds and caused great harm to a small business, its shareholders and ancillary arms.

Respondents FOUR (4) Point Brief the ALJ relied upon false “Preponderance of evidence”

- 1) The SEC Division of Enforcement’s allegations of **Sarbanes-Oxley violations** are found to be **false (not in violation)** yet the ALJ continued to use the “preponderance of evidence” which the respondents are not in violation.

See Initial Decision Order 930 date 12/21/2015 by ALJ (page 1). “Neither Anderson nor CYIOS violated Section 105(c)(7)(B). I therefore dismiss this proceeding as to Anderson and find no Section 105(c)(7)(B) violations by Carnahan or CYIOS.”

The fact that the ALJ based his decision to **GRANT DOE MOTION FOR SUMMARY DISPOSITION** on this alleged violation and now dismisses the violation merely again points to where the ALJ ignored the respondent’s testimony proves prejudice actions toward the respondents. Further, the ALJ **DENIED** Interlocutory appeal and now reverses his decision show a clear misunderstanding of fact; a bias toward SEC DOE.

- 2) All of the SEC Division of Enforcement’s (DOE) allegations are contiguous and based upon the Sarbanes-Oxley alleged violation; thus all DOE’s arguments that they concatenated are all based upon false allegations. See Order of Proceeding (OIP) Section F Violations #21, 22,23,24 and 25 the same statement “*As a result of the conduct described above*” starting with Sarbanes-Oxley alleged violation which is used to “concatenate” violations and to “contiguously” form arguments. The SEC DOE used law CRP 220 to support arguments which now are found to be FALSE – arbitrary and capricious because there is no Sarbanes-Oxley violation. See DOE OIP filed May 1st 2015.

“Under CRP 220(c), which addresses answers to allegations, a respondent must specifically admit or deny each allegation in the OIP. “Any allegation not denied [by Respondents] shall be deemed admitted.” CRP 220(c).”

The **ALJ relied upon arbitrary and capricious allegations** from DOE for his “preponderance of evidence” and the order of Initial Decision; moreover, the ALJ relied upon this preponderance of evidence for the entire hearing which turns out to be FALSE.

3) The SEC DOE and ALJ both point to Expert advice (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.”

however, now that we have proven our internal controls are in fact effective in all our business operations in contrast to expert evidence and DOE arbitrary and capricious statements about how they failed; nevertheless, the ALJ continues to concatenate these statements and use them as a “preponderance of evidence” against the respondents.

A court should correct its findings and conclusions when its judgment is not guided by sound legal principles such as: 1) when a court relies on clearly erroneous fact findings; 2) relies on erroneous conclusions of law; or 3) misapplies its factual or legal conclusions. *Alcatel U.S.A., Inc. v. DGI Techs, Inc.*, 166 F.3d 772, 790 (5th Cir. 1999). Because as the respondents sworn recorded testimonies that “we knew about the order and took appropriate steps to ensure compliance using our software “CYIPRO” were used to build DOE’s case in one way for the DOE, but now since the case has been reversed, the evidence which persuaded the ALJ to GRANT motion for Summary Disposition now are false statements by the DOE and are being used against the respondents.

DOE contiguously argued and the ALJ used and concatenated facts and misapplied law to build and conclude in his Initial decision order 930 based his “preponderance of evidence”. The excerpt from DOE Motion OIP, page 9 statements are false and now that the ALJ has reversed and found NO Sarbanes-Oxley Violation, these facts should become true and used as true statement in favor of the respondents in that “YES, all internal controls worked great, flawlessly and very effective and all statements on all filings are correct.

“The Respondents admit that Carnahan knew Anderson was under investigation by the PCAOB in 2010. Anderson testified that she told Carnahan about the PCAOB order-which he does not deny. And in any event, the PCAOB Order was readily available by going to the PCAOB website or performing a simple internet search. Consequently, Carnahan knew or should have known, in the exercise of reasonable care, about the PCAOB bar. Carnahan's knowledge can be imputed to CYIOS. See, e.g., SEC v. Manor Nursing Ctrs., Inc. 458 F.2d 1082, 1089 n.3 (2d Cir. 1972) (the state of mind of a corporation's senior officers acting in their corporate capacities can be imputed to the corporation). “

Moreover, DOE stated and the ALJ used erroneous facts as the **“preponderance of evidence”** from DOE Motion for Summary Disposition page 2. (Copied below for ease of reading)

“Once the moving party has carried its burden, "its opponent must do more than simply show that there is some metaphysical doubt as to the material facts." Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 586 (1986). See, e.g., *Firman v. life Ins. Co. of North Am.*, 684 F.3d 533, 538 (5th Cir. 2012). At the summary disposition stage, the Hearing Officer's function is not to weigh the evidence and determine the truth of the matter, but rather to determine whether there are genuine fact issues for resolution at a hearing. See *Anderson*, 477 U.S. at 249.

The point here is the ALJ was prejudice toward the respondents because 1) he ignored the respondents facts and position that was crystal clear in 2010 and will always be crystal clear in regards to the SEC compliance and from the ALJ Initial Decision **that the was No Sarbanes-Oxley VIOLATION** 2) the ALJ used and continued to use the SEC DOE defamatory and slanderous statements like the below as **“preponderance of evidence”**.

“(iii) might have been informed of the PCAOB Order but disregarded it because he considered it insignificant and is "good at blanking things out." [Appx. at DOE-APP000067-68 (Carnahan at 86:10-87:12; 88:3-12; 89:7-90:14)]”

3 more examples of DOE arbitrary and capricious statement used by the ALJ in the INITIAL DECISION are below:

#1 The statement below is UNTRUE and is not FACT and is followed by CORRECTION of the record of FACT.

From:Initial Decision 12/21/2015 - II. Findings of FACT

D. CYIOS’ Periodic Filings and Securities Offerings – page 7

“Carnahan purposefully decided to stop making CYIOS’ periodic filings because the company could not afford to do so.”

#1 Correction from

REPLY BRIEF:

CARNAHAN November, 25 2015: page 7

OIP 10-11 filings; Legal Argument C. from SEC Motion for Summary Disposition

CYIOS filed March, 29th 2013 NT 10K and May 15th, 2013 NT 10-Q; CYIOS was having financial hardship and was not able to continue paying for auditors and lawyers for the filings so Timothy Carnahan did voluntarily file Form 15-12G as the appropriate paperwork May 29th, 2014 Notice of Termination of

Registration. We have less than 300 shareholders 102 at the time of the filing. Moreover, we knew that we were still responsible for filing delinquent periodic reports. Mr. Carnahan called 202 551-3245 and spoke to SEC explaining we are going to do a merger and get all the delinquent filings up to date. If it had not been for the SEC Enforcement's case in question that started mid-June of 2014, we would have been compliant and the SEC would not have had and issue which would have been the best for the shareholders.

The SEC Enforcement investigation has harmed our company due to arbitrary and capricious claims because not one claim is based upon fact which Timothy Carnahan as thoroughly explained throughout the case. See email with SEC enforcement; as you can see the SEC was notified yet did NOT continue in an expeditious manner. Our claim is if it was NOT for the SEC investigation, we would have been compliant and merged. With this regard, the SEC investigation clearly caused CYIOS' violations of Section 13(a) of the Exchange Act not to be corrected.

Attachment(s):
CYIO Ltr 6-21-14.pdf

Date Sent: Saturday, June 21, 2014 8:08:41 PM
Sent From: "Timothy Carnahan" <carnahan@cyios.com>
Sent To: kingdr@sec.gov
Subject: Fwd: Letter of Cancellation (see attached)

David,
Hope your investigation has some substantial reasoning --- it is the direct cause of this letter.
Tim:

Timothy W. Carnahan
CEO
2023691984
CYIOS Corporation
Ronald Reagan Building
1300 Pennsylvania Ave,700
Washington,20004

powered by www.cyipro.com

We had been told from the merger group that they could not merge due to an SEC investigation; Mr. King leading the investigation had communications with a third party about CYIOS Corporation thus leading to a cancellation of the merger.

Our statements of FACT:

From:
Division of Enforcement's Post-Hearing Brief.pdf
Post Hearing Opening Briefs from DOE
Page 9

Due to the reversal of the case and no SOX Violations, the record is not true; "Through his actions Carnahan deliberately... in contrast, the record supports that the SEC is at fault for creating substantial loss to CYIOS shareholders (As Stated in the above email about the merger that was stopped due to SEC FLAWED Investigation)", more so, the

SEC should be held responsible for “causing CYIOS to “Los[e] a ton of business” unlike what SEC states that is was Mr. Carnahan’s Fault.

The page further states “Lundelius describing the statue as “so clear and so basic on its face” that we violated SOX; yet per this Initial Decision, there is no violation; so needs to be stricken from the record.

*** End of #1 Correction

#2 The statement below is UNTRUE and is not FACT and is followed by CORRECTION of the record of FACT.

Initial Decision 12/21/2015

II. Findings of FACT

D. CYIOS’ Periodic Filings and Securities Offerings – page 8

#2 Corrections from

REPLY BRIEF:

CARNAHAN

November, 25 2015: page 6 & 7

*** Begin of #2 Correction

In reference to (OIP ¶ 12-19), the SEC is completely making statements that are arbitrary and at face value wrong in stating Timothy Carnahan did not assess its internal controls of financial reporting (ICRF) using COSO. Our Internal Controls are governed and assessed using our in-house product CYIPRO as stated in several emails (see Internalcontrols.docx). Further, we have completely mapped CYIPRO to ISO 9001 framework to comply with COSO (please see attached Continuous_Process_Improvement_Support.docx). This document was given to the SEC Staff August 25, 2014 2:28 PM.

Date Sent: Monday, August 25, 2014 2:28:25 PM

Sent From: "Timothy Carnahan" <carnahan@cyios.com>

Sent To: "King, David R." <KingDR@SEC.GOV>

Sent CC: "McGuire, Margaret S." <MCGUIREM@SEC.GOV>, "Peavler, David L." <PeavlerD@SEC.GOV>, "Woodcock, David R." <WoodcockD@SEC.GOV>

Subject: RE: Re: CYIOS Corporation (FW-3921)

Attachments: [Continuous_Process_Improvement_Support.docx]

Under Section 17(a)(2) the courts state there must be a “misstatement” and under 17(a)(3) there must be a scheme liability; see S.E.C vs St. Anselm Exploration Co., 936 F. Supp. 2d 1281, 1298-99 (D. Colo 2013); S.E.C vs Kelly, 817 F. Supp. 2d 340, 345 (S.D.N.Y.2011).

Since there has been no “misstatement”, “misrepresentation” and no “scheme”, both 17(a)(2) and 17(a)(3) SEC claims fail by law. Moreover, 17(a)(3) must be based upon something beyond the same claim of “misstatements” or “misrepresentation” which in this case we proved that there are not any misstatements or misrepresentations. See St. Anselm, 936 F. Supp. At 1298-99; Kelly, 817 F. Supp. 2d at 345.

Again, Carnahan and CYIOS did in fact evaluate ICFR for each 10-K and 10-Q. Carnahan and CYIOS do maintain documentation of management's assessments of ICFR. As Carnahan discussed with the SEC back in July 2014, CYIOS does maintain "evidential matter, including documentation to provide reasonable support for management's assessment of the effectiveness" of CYIOS' internal control over financial reporting—the CYIPRO program based operating system that Carnahan created was built with ICFR and COSO in mind. Carnahan's certifications that CYIOS had assessed ICFR are true.

(OIP ¶ 20) The issuance of common shares in reliance on 2009 filings (10-K) was not in violation due to misleading statement as the SEC has capriciously claimed because we proved we have a system in place CYIPRO in our above statement of fact. Form S-8's reliance upon this filing and the 2010 10-Q's are accurate.

Legal Argument D & E from Motion for Summary Disposition
Timothy Carnahan did not violate Rule 13a-15 or 13a-14 as ISO 9000:2008 is a recognized standard by the government of United States. As Rule 13a-15(c) states we do not have to use COSO but something similar. As the email stated Monday, August 25, 2014 we proved we used a suitable, recognized control framework.

*** End of #2 Corrections

#3 The statement below is UNTRUE and is not FACT and is followed by CORRECTION of the record of FACT.

Initial Decision 12/21/2015

II. Findings of FACT

E. Expert Evidence – page 8

ALJ Relied expressly on Expert opinion "as the standard of proof" that was totally based upon alleged violation of Sarbanes Oxley (section C. page 6), but here now with the "initial decision" the alleged violations have been proven NOT to be a violation; as such, the expert opinion is a moot point. Moreover, the Expert was proven in Court not to be a lawyer and stated, "I would need a lawyer to understand the case" see court transcripts. Nevertheless, there are NO FACTS to support any violations from Carnahan or CYIOS.

Moreover again, the following three statements are NOT FACTUAL and should be stricken from use as a "preponderance of the evidence" (see statement from ALJ "Initial Decision page 16").

- 1) "In any event, CYIOS' ICFR has gaping holes, which suggests it has never been assessed."
- 2) see Div Ex. 3 at 100; Resp. Ex. 3. Rather, he essentially conceded in his post-hearing brief that he did not use the COSO framework for CYIOS' ICFR assessments. See Carnahan Br. at 6 ("ISO 9000:2008 is a recognized standard . . . [and] we do not have to use COSO but something similar"). Indeed, he does not appear to have even a rudimentary understanding of COSO, much less an understanding sufficient to use it to assess CYIOS' ICFR. See, e.g., Tr. 212-13.
- 3) All such statements were false and failed to comply with both Rule 13a-14 and

Rule 13a-15. Because Carnahan signed and was responsible for the contents of CYIOS' periodic filings, he violated both Rule 13a-14 and Rule 13a-15. See Tr. 157-58; Div. Ex. 2 at 58, 60. Moreover, the contrast between Carnahan's complete failure to assess ICFR and the statements to which he attested in CYIOS' periodic filings was extreme, so much so that his statements were knowingly false. That is, Carnahan at least deliberately disregarded a regulatory requirement.

#3 CORRECTIONS:

SEC Guidance. <http://www.sec.gov/info/smallbus/404guide/controls.shtml>

The SEC doesn't have specific rules that tell smaller public companies how to do this. There is, however, useful guidance available from other sources. One of these is the internal control framework set out by a private sector organization called the Committee of Sponsoring Organizations of the Treadway Commission.

See Corrections #2 as well

#4 The statement below is UNTRUE and is not FACT and is followed by CORRECTION of the record of FACT.

Initial Decision 12/21/2015

The statement below from top of page 6 of the Initial Decision. We highlighted unsupported opinion that was used as FACT in Initial Decision as "preponderance of evidence" and thus should be stricken from the record as false statements or mere layman opinions. The SEC has not considered all the FACTUAL evidence submitted as (Continuous_Process_Improvement_Support.docx) and has never evaluated CYIPRO. It is virtually impossible for the SEC to construe what CYIPRO does or doesn't do for CYIOS. Moreover, the paragraph contradicts it's statements between the first and last statement.

****Begin Statement****

CYIPRO also "provides key solutions for compliance with [Commission] Sarbanes-Oxley regulations and compliance with Defense Contract Audit Agency ('DCAA') and performance based contracting for government contractors." Id. at 100. How CYIPRO accomplishes this is not clear. The most detailed description of CYIPRO in the record concerns

its functionality as a personnel timekeeping system. See Resp. Ex. 3 at 1-2 (of 3 pdf pages). The description also claims that CYIPRO allows "accurate quantification of the costs on each project

and process," and provides for "continuous improvement and planning." Id. at 2 (of 3 pdf pages). The description does not cite Sarbanes-Oxley, Commission regulations, or ICFR.

See

generally id.

***** End Statement *****

#5 The statement below is UNTRUE and is not FACT and is followed by CORRECTION of the record of FACT.

Initial Decision 12/21/2015 E. Expert Evidence – page 8

Lundelius opined at the hearing on several other issues, including that: (1) under COSO, if CYIOS' software failed to detect the Order automatically, then a manual process for detecting it (such as checking the PCAOB's website) would have been required; (2) compliance with COSO standards cannot be achieved merely by compliance with ISO standards; and (3) CYIOS lacked human resources internal controls. See Tr. 213-15.

It is a FACT that manual review took place (see Tr of Carnahan and Anderson) and Carnahan took appropriate action; thus from this initial decision deemed to be correct.

It is a FACT that SEC does NOT require you do use COSO – its just a guide as stated in #3 correction.

It is a FACT that our human resource has been automated with very little at all human intervention.

The ALJ used these arbitrary and capricious statements (see Carnahan reply Brief as this was pointed out) and converted them into “preponderance of evidence”.

- 4) The ALJ Initial Decision is as he stated based upon (“preponderance of evidence”) page 2 of Initial Decision section II. **FINDINGS OF FACT**, this **preponderance of evidence** has been found to be FALSE; thus the INITIAL DECISION is based upon arbitrary and capricious statements and thus the Initial Decision should be dismissed.

CONCLUSION - REQUEST to DISMISS CLAIMS

This motion to dismiss and give relieve as deem necessary to the respondents should be GRANTED on the basis of fact and factual sworn statements **from the respondents that have been found TRUE in the Initial Decision.**

Based upon above, CYIOS respondents request for dismissal of the Administrative Proceeding collectively.

Vr,



Timothy Carnahan

1/11/2016
(date)



Timothy Carnahan, CEO and President of CYIOS

1/11/2016
(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 11 day of January, 2016, via electronic mail (where indicated) and United Parcel Service (UPS) overnight mail :

Honorable Brenda P. Murray Chief Administrative Law Judge
Securities and Exchange Commission 100 F Street, N.E.
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By Electronic mail: ALJ@SEC.GOV

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Timothy McCole
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