UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 72723 / July 30, 2014

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3573 / July 30, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-15992

In the Matter of **MARC SHERMAN** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Marc Sherman ("Respondent" or "Sherman").

II.

After an investigation, the Division of Enforcement alleges that:

A. **SUMMARY**

1. During its 2008 fiscal year and continuing up to its filing for Chapter 11 bankruptcy on July 2, 2009 (the "relevant period"), QSGI Inc. ("QSGI" or the "Company") was a reseller of and maintenance services provider for used computer equipment. Sherman, who during the relevant period served as QSGI's Chief Executive Officer and Chairman, was aware of deficiencies in and the circumvention of internal controls for inventory and the resulting falsification of the Company's books and records. On occasion in 2008 and increasing in frequency in 2009, Sherman improperly accelerated the recognition on QSGI's books and records of accounts receivable and receipt of inventory in order to increase the borrowing base available under a revolving credit facility with the Company's chief creditor. Sherman withheld this information from the Company's external auditors in connection with their audit of the financial statements for

the fiscal year ended December 31, 2008 and review of the financial statements for the quarter ended March 31, 2009, and made affirmative material misrepresentations and statements that were materially misleading as a result of his omission of information in management representation letters to the auditors about the design, maintenance, and operation of internal controls. Further, Sherman signed a Form 10-K and a Form 10-K/A for the 2008 fiscal year, each containing a management's report on internal control over financial reporting ("ICFR"), as required by Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") and Exchange Act Rule 13a-15(c), which falsely represented that he, in his capacity as CEO, had participated in assessing the effectiveness of the Company's ICFR. Sherman also signed certifications required under Section 302 of the Sarbanes-Oxley Act and Rule 13a-14 of the Exchange Act included in filings with the Commission falsely representing that he had evaluated ICFR and, based on this evaluation, disclosed all significant deficiencies to the auditors. The certifications were attached to the 2008 Forms 10-K and 10-K/A, and to the first quarter 2009 Form 10-Q filed with the Commission, which Sherman also signed.

B. RESPONDENT

2. Sherman, age 50 and a resident of West Palm Beach, Florida, founded QSGI in 2001. He has since served as QSGI's CEO and Chairman of its Board of Directors. After the Company filed for bankruptcy and until at least July 2010, he served as Chief Financial Officer and Chief Accounting Officer.

C. RELEVANT ENTITY

3. QSGI, Inc., incorporated in 1967 in Delaware under a different name and headquartered during the relevant period in West Palm Beach, Florida, is engaged in the business of purchasing, refurbishing, selling, and servicing used computer equipment, parts and mainframes. On May 4, 2011, the U.S. Bankruptcy Court for the Southern District of Florida, West Palm Beach Division, confirmed QSGI's plan of reorganization pursuant to which, effective June 17, 2011, the corporate shell merged with a private company which had been founded by Sherman and others. The Company's common stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and quoted on the OTC Link (formerly "Pink Sheets") operated by OTC Markets Group Inc.

D. SHERMAN'S AWARENESS OF DEFICIENCIES IN AND CIRCUMVENTION OF INVENTORY CONTROLS

4. During the relevant period, QSGI maintained inventory principally at facilities in New Jersey and Minnesota. The New Jersey inventory, which comprised 50% of the company's reported gross inventory and 55% of its reported net inventory, after reduction for reserves, as of the close of its fiscal year ended December 31, 2008, was comprised of laptops, monitors, and other consumer electronics and components. The Minnesota inventory, which comprised 40% of QSGI's reported gross inventory and 35% of its reported net inventory, after reduction for reserves, as of the close of QSGI's 2008 fiscal year, was comprised chiefly of servers, mainframes, and component parts.

5. For a period of years prior to the Company filing for bankruptcy in 2009, QSGI experienced recurring inventory control problems. Throughout the relevant period, Company personnel: (1) shipped certain inventory received into its facilities out to customers without making the appropriate entries into the Company's books and records; and (2) removed items from physical inventory without relieving the inventory from the Company's books and records. Company personnel removed component parts from the physical inventory for such parts without recording the parts removed and occasionally stripped component parts from operating systems without recording the parts removed. As a result, the Company's books and records incorrectly reflected certain components in inventory and operating systems as intact systems. These component parts were then sold by the Company or used for the Company's maintenance services.

6. These internal control problems resulted in the falsification of QSGI's books and records relating to QSGI's inventory.

7. These inventory control problems escalated at the Minnesota facility beginning in 2007 for several reasons. First, a manufacturer's policy of curtailing resellers' ability to modify machines to customers' specifications hastened QSGI's shift from selling machines to selling parts and providing repair and maintenance services. This, in turn, exacerbated the problem in Minnesota of personnel removing component parts from operating systems without any corresponding adjustment to the Company's books and records. The units continued to be recorded on the books and records as intact systems. Second, key personnel, including accounting personnel, left the Minnesota operations in late 2007. Personnel designated to replace the departed accounting staff lacked an accounting background and failed to fully carry out their responsibilities. Third, while QSGI management had undertaken to design, document, and implement internal controls to come into compliance with federal securities law requirements, such efforts were not begun in earnest in Minnesota until late 2007, after the departure of key personnel. Prior to that point, QSGI senior management had accorded Minnesota personnel a fair amount of autonomy, including using an accounting system that differed from the one used in New Jersey.

8. The Company's efforts to introduce new controls to the Minnesota operations during the 2008 fiscal year largely failed. More particularly, the Company failed to design procedures taking into account the existing control environment, including the qualifications and experience level of persons employed to handle accounting. Training of accounting, sales, and warehouse personnel either did not take place or was inadequate. As a result, controls the Company attempted to implement in February 2008 were widely ignored during the ensuing ten months of the 2008 fiscal year and well into the 2009 fiscal year. For example, sales and warehouse personnel often failed to document their removal of items from inventory or, to the extent they did prepare the paperwork, accounting personnel often failed to process the paperwork and to adjust inventory in the company's financial reporting system. The Company's attempts to monitor compliance on an ongoing basis were also inadequate. Company personnel regularly circumvented controls.

9. In periodic filings with the Commission relating to the relevant period and certifications included therein pursuant to Rule 13a-14 of the Exchange Act, Sherman acknowledged his responsibility for the design and operation of internal controls.

10. During the relevant period, Sherman knew of ongoing deficiencies in and the circumvention of internal controls relating to inventory. For example, in the final days of the 2008 fiscal year, QSGI senior management, including Sherman, communicated openly amongst themselves about the failed implementation, including training in, and circumvention of controls introduced to the Minnesota operations earlier in the year. Management agreed that corrective action was needed which, given the timing, could not be undertaken until 2009. Based on further communications, management, including Sherman, was aware that the problems continued through the Company filing for bankruptcy in July 2009.

D. SHERMAN'S IMPROPER ACCELERATION OF RECOGNITION OF INVENTORY AND ACCOUNTS RECEIVABLE

11. QSGI reported net losses in each fiscal year from 2005 through 2008. Under these circumstances, QSGI's ability to procure operating funds was critical to the Company's survival.

12. In mid-2008, QSGI entered into a revolving credit facility with its chief creditor. QSGI's inventory and accounts receivable factored into the weekly calculation of the borrowing base under the revolving credit facility. A QSGI employee calculated the borrowing base and reported it to Sherman and to QSGI's Chief Financial Officer, subsequently redesignated QSGI's Vice President of Finance and Controller, ("PFO") for their review prior to sending it to the chief creditor.

13. On occasion in 2008 and continuing on a more frequent basis up until the company filed for bankruptcy in July 2009, the weekly calculations would show that QSGI had exceeded its borrowing limit or would not be able to borrow enough to continue operations through the upcoming week. When this occurred, Sherman, either directly or indirectly through the PFO, directed the QSGI employee to not report the calculations to the creditor pending other items being posted to the books and records so that the employee could redo the weekly calculation.

14. In order to increase the borrowing base, Sherman directed the accelerated recognition of accounts receivable and/or the receipt of product into inventory on QSGI's books and records. Under generally accepted accounting principles, recognition of the accounts receivables and receipt of product into inventory should not have occurred until days or up to approximately a week later, when all conditions for recognition had been satisfied.

15. Once the accounts receivable and/or receipt of inventory were improperly recorded on QSGI's books and records, the QSGI employee would recalculate the borrowing base using the new figures

E. SHERMAN MISLED QSGI's EXTERNAL AUDITORS

16. At no time during the relevant period did Sherman disclose, or direct anyone else to disclose, to QSGI's external auditors the foregoing inventory and accounts receivable issues and the resulting falsification of QSGI's books and records.

17. To the contrary, in management representations letters to the auditors, Sherman made affirmative misrepresentations and made statements that were misleading as a result of his omitting material facts which were necessary in order to make the statements made not misleading. Sherman affirmatively represented in management representation letters he provided to the auditors in connection with their review of quarterly financial statements in 2008 that either there were no significant deficiencies or that he had disclosed to the auditors all such deficiencies. At the conclusion of the fiscal year, he provided yet another management representation letter in connection with the external auditors' audit of the 2008 fiscal year financial statements in which he acknowledged his responsibility for establishing and maintaining ICFR. Omitted from the letter was any reference to the existence, or his disclosure to the auditors, of significant deficiencies. Following on his management representation letters for the first three quarters of 2008, however, and in the context of his having acknowledged in the year-end management representation letter his responsibility for establishing and maintaining ICFR, the omission of any reference to significant deficiencies implied falsely that none existed. In the management representation letter relating to the external auditors' review of the first quarter 2009 financial statements, Sherman affirmatively misrepresented that he had disclosed to the auditors all significant deficiencies.

18. Had Sherman disclosed to the external auditors the deficiencies in and the circumvention of inventory controls and the improper acceleration of accounts receivable and inventory recognition described above, the auditors would have changed the nature, timing, and extent of their procedures in conducting the audit of the financial statements for the fiscal year ended December 31, 2008 and review of the financial statements for the quarter ended March 31, 2009.

F. SHERMAN'S FALSE REPRESENTATIONS IN MANAGEMENT'S REPORT ON ICFR AND CONCERNING QSGI'S CRITICAL ACCOUNTING POLICIES

19. QSGI's Form 10-K for the fiscal year ended December 31, 2008 included a Company management's report on ICFR, as required by Section 404 of the Sarbanes-Oxley Act and Exchange Act Rule 13a-15(c). A management's report on ICFR was also included in a Form 10-K/A for the 2008 fiscal year.

20. The management report included in both filings falsely represented that QSGI's management, with the participation of QSGI's CEO, Sherman, had evaluated QSGI's ICFR as of December 31, 2008 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated

Framework. In fact, Sherman, in his capacity as CEO, did not participate in any evaluation and was unfamiliar with the referenced framework.

21. The discussion on critical accounting policies in QSGI's Form 10-K for the fiscal year ended December 31, 2008 falsely stated that: (1) QSGI "recognize[d] revenue when it is realized or realizable and earned"; and (2) "[m]anagement continually monitors its inventory valuation . . . ."

22. The discussion on critical accounting policies included in QSGI's Form 10-K/A for the fiscal year ended December 31, 2008 falsely stated that, "[m]anagement closely monitors and analyzes inventory for potential obsolescence and slow-moving items on an item-by-item basis . . . ."

23. Sherman knew, or was reckless in not knowing, that these statements were materially false and misleading. During the relevant period, he had directed the improper accelerated recognition of accounts receivable, which would have had the effect of improperly increasing revenue by a commensurate amount. He also knew that the Company did not closely monitor inventory in the manner described because the Company lacked the necessary resources.

24. Sherman signed the 2008 Form 10-K in his capacity as Chief Executive Officer and Chairman of QSGI's Board of Directors. Sherman signed the 2008 Form 10-K/A in his capacity as Chairman, CEO, CFO and CAO. He was the sole signing officer of the Form 10-K/A. The 2008 Form 10-K and Form 10-K/A were filed with the Commission on March 31, 2009 and July 23, 2010, respectively.

G. SHERMAN'S FALSE SARBANES-OXLEY CERTIFICATIONS

25. Pursuant to Sarbanes-Oxley Act Section 302 and Exchange Act Rule 13a-14, Sherman signed certifications which were attached to QSGI's 2008 Forms 10-K and 10-K/A and Form 10-Q for the periods ended December 31, 2008 and March 31, 2009, respectively.

26. Sherman individually certified in each filing that, based on his and the other certifying officer's "most recent evaluation of [ICFR]," they had disclosed to QSGI's external auditors all significant deficiencies, "in the design or operation of [ICFR] which are reasonably likely to adversely affect [QSGI's] ability to record, process, summarize and report financial information." Omitted from the certification attached to the Form 10-K, but included in the certification attached to the Form 10-Q, were Sherman's certifications to the effect that the other certifying officer and he: (1) had been responsible for establishing and maintaining ICFR and designing, or supervising others in the design of, ICFR; and (2) had designed, or caused to be designed, such ICFR.

27. Sherman's certifications were false because: (1) he had not participated in designing, establishing, or maintaining ICFR, and had not evaluated ICFR; (2) he and others had on occasion circumvented QSGI's internal controls in accelerating

improperly the recognition of accounts receivable and inventory; and (3) the other certifying officer and Sherman had not made the referenced disclosures to the external auditors.

28. Sherman knew, or was reckless in not knowing, that his certifications were materially false and misleading.

29. As mentioned, Sherman signed the 2008 Form 10-K and Form 10-K/A, which were filed with the Commission. Sherman also signed the Form 10-Q for the first quarter of 2009 in his capacity as CEO and Chairman of the Board of Directors, which was filed with the Commission on May 14, 2009.

H. VIOLATIONS

30. As a result of the conduct described above, Sherman violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibits fraudulent conduct in connection with the purchase or sale of any security involving: a) the use of any device, scheme, or artifice to defraud; b) the making of material misrepresentations or omissions; and c) any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

31. As a result of the conduct described above, Sherman caused QSGI's violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B), which require reporting issuers to make and keep accurate books and records and devise and maintain effective internal accounting controls, respectively.

32. As a result of the conduct described above, Sherman violated Exchange Act Section 13(b)(5), which prohibits any person from knowingly circumventing or knowingly failing to implement a system of internal accounting controls or knowingly falsifying any book, record or account subject to Exchange Act Section 13(b)(2). Sherman also violated Exchange Act Rule 13b2-1, which prohibits any person from, directly or indirectly, falsifying or causing to be falsified, any book, record or account subject to Exchange Act Section 13(b)(2).

33. As a result of the conduct described above, Sherman violated Exchange Act Rule 13b2-2, which prohibits any director or officer of an issuer from, directly or indirectly: (a) making or causing to be made a materially false or misleading statement; or (b) omitting or causing another person to omit to state a material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading, to an accountant in connection with financial statement audits, reviews, or examinations or the preparation or filing of any document or report required to be filed with the Commission.

34. As a result of the conduct described above, Sherman violated Exchange Act Rule 13a-14(a), which requires that an issuer's principal executive officer, or

person’s performing similar functions, certify each periodic report containing financial statements filed by an issuer pursuant to Section 13(a) of the Exchange Act.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate that cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. Whether, pursuant to Section 21C of the Exchange Act, Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of Sections 10(b), 13(b)(2)(A), 13(b)(2)(B) and 13(b)(5) of the Exchange Act and Rules 10b-5, 13a-14, 13b2-1 and 13b2-2 thereunder;

C. What, if any, remedial action is appropriate against Respondent, including, but not limited to, civil penalties pursuant to Section 21B(a) of the Exchange Act;

D. Whether, pursuant to Section 21C(f) of the Exchange Act, Respondent should be prohibited, conditionally or unconditionally, and permanently or for such period of time as it shall determine, from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, or that is required to file reports pursuant to Section 15(d) of the Exchange Act; and

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Jill M. Peterson
Assistant Secretary