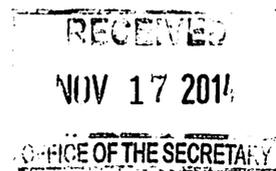


**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-16044**

In the Matter of  
  
QSGI, INC.  
  
Respondent



**RESPONDENT'S OPPOSITION TO THE DIVISION OF ENFORCEMENT'S**  
**MOTION FOR SUMMARY DISPOSITION**

Respondent QSGI, INC. ("QSGI"), by and through its undersigned counsel, respectfully files its Opposition to the Division of Enforcement's Motion for Summary Disposition in this matter. Although QSGI is not current in its reporting obligations under the Securities Exchange Act of 1934, it has struggled financially since its bankruptcy in 2011 to recover to a point that it now has the financial resources to achieve reporting compliance in the near future and sustain future compliance with applicable reporting requirements. The facts of this matter do not warrant revocation of registration of QSGI's securities as sought by the Division of Enforcement. Under applicable standards, the appropriate remedy in this matter would be a suspension of the registration of QSGI's securities for an equitable period of time as determined by the Administrative Law Judge which would automatically convert into revocation if QSGI had not brought its reporting current by the end of the suspension period.

## STATEMENT OF FACTS

QSGI does not dispute the content of the Division of Enforcement's Statement of Facts as set forth in its Brief in Support of its Motion for Summary Disposition except to the extent that the Division might suggest that there is any probative value applicable to this matter from the separate initiation of an administrative proceeding against QSGI's Chief Executive Officer (as yet unresolved) and a settled administrative proceeding, without adjudication, against its former Chief Financial Officer pertaining to alleged pre-bankruptcy reporting deficiencies. No conclusions can reasonably be drawn from mere allegations in those matters that apply to the issues in the instant proceeding.

QSGI maintains that the facts set forth and relied upon by the Division of Enforcement are not adequate to support the argument made by the Division of Enforcement for the revocation of the registration of QSGI's securities. QSGI offers additional material facts as set forth in the Affidavit of Carlos A. Sardinia attached to this Opposition and made a part hereof for all purposes for consideration by the Court as the Trier of Fact.

## ARGUMENT

### **Standards Applicable to this Proceeding.**

QSGI acknowledges that it has not met its SEC reporting obligations since coming out of bankruptcy in August of 2011. QSGI also acknowledges that applicable law subjects a company to revocation or suspension from registration of its securities for reporting deficiencies as determined by the Trier of Fact. QSGI further acknowledges that the standards applicable to that determination are set forth in Gateway Int'l Holdings, Inc., Admin. Proc. File No. 3-11894,

2006 WL 1506286 (May 31, 2006) and have recently been applied by this Court in Cepheus Acquisition Corp., et al. Initial Decision as to China Integrated Energy Inc., File No. 3-15942 (November 3, 2014). In determining the appropriate sanction to apply in a specific matter the Court must consider a number of factors including “the seriousness of the issuer’s violations, the isolated or recurrent nature of the violations, the degree of culpability involved, the extent of the issuer’s efforts to remedy past violations and ensure future compliance and the credibility of the Issuer’s assurances against further violations.” Each of these factors must be examined in the specific context of this proceeding based upon the operative facts that have been presented to the Trier of Fact.

### **Seriousness of Violation**

QSGI acknowledges that its failure to meet its SEC reporting obligations is a serious matter. It fully recognizes that current information concerning a public company is of critical importance to shareholders and the public.

### **Whether Violation is Isolated or Recurrent**

QSGI’s failure to meet its SEC reporting requirements has continued over an approximate period of three years. Prior to its financial difficulties and bankruptcy, QSGI had been current in its reporting requirements (Sardinia Affidavit, Paragraph 13, second sentence).

### **Degree of Culpability**

The concept of culpability exists on a sliding scale. Some acts bear more culpability than others. Culpability must be considered minimal when an actor does not have the ability to perform an act that it was obligated to perform. Certainly, failing to report was a breach of

QSGI's obligation to report. But, its culpability for such breach is far less than it would have been if it had the financial ability to keep current and failed to do so.

QSGI lost the financial ability to retain the legal, accounting and auditing assistance it needed to meet its reporting obligations prior to its bankruptcy and did not regain such financial ability until the second quarter of 2014. The Affidavit of Carlos Sardinia, President, Chief Operating Officer and a member of QSGI's Board of Directors sets forth a summary of QSGI's circumstances over the past three years. QSGI emerged from bankruptcy in August of 2011 after having suffered serious business reversals aggravated by the recession that began in 2008 (Sardinia Affidavit, Paragraph 2). As part of its Bankruptcy Reorganization Plan, QSGI merged as of June 30, 2011 with Krusecom LLC, a Florida Limited Liability Company, and began to re-engage in various business activities relating to data security. QSGI had five employees after that merger (Sardinia Affidavit, Paragraph 3). As of June 30, 2011, QSGI had cash on hand of approximately \$242,000 and then current liabilities of \$881,339. QSGI secured operating funds from sales, a bank line of credit and private loans over the next three years (Sardinia Affidavit, Paragraph 4). In September of 2011 QSGI entered into a business combination with The Gasket Guy, Inc. a Florida corporation that engaged in the business of manufacturing, selling and installing refrigerator gaskets. The transaction was financed by assumption of debt, the giving of a promissory note and deferred earn-out compensation. The aim of the acquisition was to diversify QSGI operations and secure an additional line of business with a more predictable and steady revenue stream than that offered by the data security business. (Sardinia Affidavit, Paragraph 5)

Notwithstanding these efforts, QSGI suffered approximate (unaudited) losses of \$1,300,000 in 2011, \$262,000 in 2012 and \$188,000 in 2013 (Sardinia Affidavit, Paragraph 6). In the first

quarter of 2014, QSGI suffered an approximate loss of \$90,000 by reason of its best customer's decision to end its preventive maintenance program. That business had been the source of about \$80,000 per month in revenue for QSGI and was a serious blow to QSGI's financial well-being. Yet, in the second quarter of 2014, QSGI's business began to improve (Sardinia Affidavit, Paragraph 7). For the first time since exiting bankruptcy, QSGI had funds available to engage accounting, audit and legal professionals to do the work necessary for QSGI to bring and keep its SEC reporting obligations current (Sardinia Affidavit, Paragraph 8).

Simply put, QSGI has had to focus on survival as a business since exiting bankruptcy and did not have funds available to retain professional accountants, auditors and attorneys to meet its reporting obligations. Until the spring of 2014, QSGI management could not even estimate in good faith when it could bring its SEC reporting current (Sardinia Affidavit, Paragraph 14). In no way has QSGI ever "thumbed its nose" at the SEC or its reporting requirements (Sardinia Affidavit, Paragraph 15).

QSGI's failure to keep current in its reporting requirements was by reason of its financial inability to do so and not for any other reason. The conclusion advanced by the Division of Enforcement that ascribes "high culpability" to QSGI is based upon a one-sided interpretation of an incomplete set of facts from which it cannot be concluded logically that a finding of high culpability on the part of QSGI is warranted.

### **QSGI's Efforts to Remedy Past Violations and Ensure Future Compliance**

QSGI has made substantial efforts to remedy past violations and ensure future compliance. As set forth in the Sardinia Affidavit, upon receipt of a April 30, 2014 letter from the SEC detailing the necessity of bringing QSGI current in its reporting obligations, QSGI took steps to do so. QSGI filed a Form 10Q for the period ending June 30, 2011, initiated a change of

accountants to find representation that would be a closer fit to its available financial resources and started to collate the financial data and other information needed for preparing subsequent filings. Unfortunately, a series of unforeseen events slowed QSGI's plan to come current with its filings, a plan that it had estimated might take as much as six months to complete. On July 16, 2014, QSGI's Chief Financial Officer unexpectedly resigned to take a position with another company. Then, on July 31, 2014, D'Arelli, Pruzansky, P.A., the accounting firm retained to replace QSGI's original accounting firm, abruptly resigned just hours after the issuance of an SEC Press Release announcing that an administrative proceeding had been brought against QSGI's Chief Executive Officer pertaining to pre-bankruptcy reporting activities. Immediately after these resignations QSGI sought new accounting and audit professionals to do the necessary and extensive work to bring it current with its SEC reporting requirements (Sardinia Affidavit, Paragraph 9).

On July 23, 2014 QSGI retained, via written agreement, the accounting firm of Boisseau, Felicione & Associates to perform all necessary work for the preparation of financial statements and SEC reports and to counsel QSGI on SEC compliance matters. To date, QSGI has paid the Boisseau firm \$20,000 for services provided toward the accounting work needed to come current in its SEC reporting, including extensive work related to "Fresh Start Accounting" since QSGI's bankruptcy (Sardinia Affidavit, Paragraph 10).

On August 6, 2014, QSGI retained, via written agreement, the accounting firm of RBSM LLP to provide it with audit services relating to its financial reporting from 2011 through 2014. To date, QSGI has paid RBSM \$15,000 for services and RBSM has conducted inventory inspections and reviews of both QSGI's gasket and data security lines of business and is currently engaged in the exchange of information with the Boisseau firm in order to complete the

audit work that is essential to the filing of reports with the SEC (Sardinia Affidavit, Paragraph 11).

QSGI has consulted with both the Boisseau and RBSM firms and they estimate that the work necessary for QSGI to bring its SEC filings current should be completed in approximately 90 days unless delayed by unforeseen circumstances (Sardinia Affidavit, Paragraph 12).

As to steps to ensure future compliance, while no absolute assurance can be given by any entity, it is QSGI's firm intent to become compliant and to stay compliant. That is the express direction and intent of QSGI's Board of Directors. QSGI believes that it has turned the corner toward profitability and therefore will have the resources to retain the professionals necessary to advise it and assist it to remain in compliance in the future. QSGI bases this conclusion on its revenue growth, contracts currently in place for the provision of services in the future, on its expansion in the marketplace and on its customer base. QSGI has grown from 5 employees to 43 employees. It has recently expanded into Delaware, Maryland and Virginia. Its customers represent a substantial base of established firms and include leading national fast food franchises, hospitals, colleges and universities, public school districts, major restaurant chains, major banks, computer and business machine manufacturers, data centers, brokerage firms, major hotel chains, a national sporting goods chain and museums (Sardinia Affidavit, Paragraph 13). The only reason why QSGI failed to keep current with its SEC reporting obligations was financial distress. That problem now is greatly reduced. Despite losing its largest customer at the beginning of 2014 and revenue of nearly \$1,000,000 on an annualized basis from that customer, QSGI projects revenue of approximately \$4,800,000 for 2014 and increase of approximately \$400,000 over 2013 (Sardinia Affidavit, Paragraph 7).

### **Credibility of Assurances Against Further Violations**

Credibility is for determination by the Trier of Facts. QSGI can only demonstrate credibility in this Summary Proceeding by identifying the cause of its past reporting delinquency, by pointing to concrete examples of what it has done to address its past delinquency and by demonstrating the will and means to meet its reporting requirements in the future. Each of these has been addressed in the Sardinia Affidavit and in this Opposition.

### **CONCLUSION**

For the reasons set forth above, QSGI respectfully requests that the Court deny the Division of Enforcement's Motion for Summary Disposition in this action. QSGI, instead, would petition the Court to consider suspension of the registration of QSGI's securities for a six-month period which would convert to revocation in the event that QSGI did not become current in its reporting by the end of such period. This remedy would encourage future compliance, demonstrate that the relationship between the SEC and public companies is not one that is merely adversarial, protect the interests of the more than 2,000 shareholders of QSGI that QSGI advocated to the Bankruptcy Court to be allowed to keep a stake in QSGI after it came through bankruptcy and serve the best interest of the public.

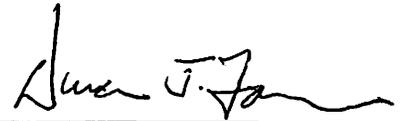
Respectfully submitted,



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Attorney for Respondent

**CERTIFICATE OF SERVICE**

I hereby certify that on the 14th day of November, 2014 a copy of the foregoing Opposition to Motion for Summary Disposition was served by email and by U.S. Mail upon Ryan Farney, Senior Counsel, United States Security and Exchange Commission, 100 F.Street, N.E., Washington, DC 20549



Duncan J. Farmer, Esq.