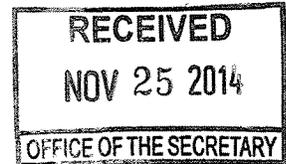


UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION



ADMINISTRATIVE PROCEEDING
File No. 3-16044

In the Matter of

QSGI Inc.,

Respondent.

**DIVISION OF ENFORCEMENT'S
REPLY IN FURTHER SUPPORT OF ITS MOTION FOR SUMMARY DISPOSITION**

The Commission views the “recurrent failure to file periodic reports as so serious that only a strongly compelling showing with respect to the other factors we consider would justify a lesser sanction than revocation.” *Impax Laboratories, Inc.*, Admin. Proc. File No. 3-12519, 2008 WL 2167956, at *8 (May 23, 2008). QSGI has failed to make such a strongly compelling showing here, and revocation of its securities registration is therefore the appropriate remedy.

1. QSGI's Delinquency Evidences a High Degree of Culpability

QSGI argues that its level of culpability is mitigated by the fact that it has been on shaky financial footing since its emergence from bankruptcy and did not regain the “financial ability to retain the legal, accounting and auditing assistance it needed to meet its reporting obligations” until the second quarter of 2014. Respondent’s Opposition to the Division of Enforcement’s Motion for Summary Disposition (“Opposition”), at p. 4. Respondent’s contention that culpability somehow hinges on an issuer’s ability to pay for professional services misses the mark.

Simply put, financial instability does not absolve an issuer of its reporting obligations. *See Diatect International Corporation*, Admin. Proc. File No. 3-12843, 2008 WL 247231, at *4 (Jan. 30, 2008) (delinquent issuer's claim that it lacked resources and was defending against an involuntary bankruptcy petition did not mitigate its reporting obligations); *Absolute Potential, Inc.*, Admin. Proc. File No. 3-14587, 2014 WL 1338256, at *4-5 (April 4, 2014) (delinquent issuer who argued that it failed to meet its reporting obligations in part due to "disarray" in connection with a merger and a "lack of reliable accounting and auditing relationships" held to exhibit a high degree of culpability; issuer's ability to fund filing of future reports did not mitigate past violations). Here, QSGI knew of its obligations but effectively chose to suspend its periodic disclosures, including financial reporting, to conserve scarce resources. *Cf. Citizens Capital Corp.*, Admin. Proc. File No. 3-14401, 2012 WL 2499350, at *5 (June 29, 2012) (even though showing of scienter not required for violations of Securities Exchange Act Section 13(a), delinquent issuer's violations were "intentional" when it issued a Form 8-K announcing that it had "made the decision to temporarily suspend its periodic financial reporting... in favor of reallocating its time and financial resources").

In its Opposition, QSGI offers a glimpse of its financial condition during its prior three years of delinquency, including purported losses recorded in unaudited financial statements for fiscal years 2011, 2012, 2013 and in financial statements not subject to auditor review for the first quarter of 2014. Opposition pp. 4-5. These figures are precisely the kind of information QSGI's investors were entitled to know during the Company's delinquency period and that Exchange Act Section 13(a) was designed to make publicly available. Indeed, investors' need for current financial information about the Company would have been particularly acute immediately after QSGI's emergence from bankruptcy in 2011 and again in 2014 with the

Company's auditor turnover. *Cf. China Integrated Energy, Inc.*, Initial Decision Rel. No. 703, 2014 WL 5513849, at *5 (Nov. 3, 2014) (issuer's delinquencies were serious because they denied investors information during a "turbulent" time for the company, including the resignation of its auditor and its chief financial officer); *Citizens Capital Corp.*, 2012 WL 2499350 at *9 ("This lack of information is especially troubling because it occurred during a period when the Company admittedly engaged in various and significant changes in its business"). Yet the figures in the Opposition were not made available to investors in any periodic filings, and as noted in the Division's Motion for Summary Disposition, QSGI never even filed a single Form 12b-25 seeking an extension to make its required filings. This evidences a high level of culpability. *See Gateway Int'l Holdings, Inc.*, Admin. Proc. File No. 3-11894, 2006 WL 1506286, at *5 (May 31, 2006) (issuer who knew of its reporting obligations yet failed to file seven periodic reports and only filed two Forms 12b-25 evidenced "high degree of culpability").

2. QSGI's Remedial Efforts Are Insufficient

QSGI argues that it has made "substantial" efforts to remedy its past reporting violations, pointing to fees it has paid in connection with accounting and auditing services in 2014 and to Company management's "intent to become compliant and stay compliant." Opposition at pp. 5-7. It is difficult to assess the credibility of these assertions; the only support comes from a declaration of QSGI's President and Chief Operating Officer and two attached letters from accounting firms. Nonetheless, more extensive remedial efforts than QSGI's have been held to be insufficient to avoid revocation in the past. *See Absolute Potential*, 2014 WL 1338256 at *5 and n.35 (revocation appropriate where issuer became current in its filings only after administrative proceedings were instituted; Commission "not persuaded by [issuer's] vague

representations that it will take ‘all necessary steps to ensure ongoing compliance’”); *see also Imaging Diagnostic Systems, Inc.*, Initial Decision Rel. No. 646, 2014 WL 3778225 (Aug. 1, 2014) (summary disposition granted against issuer that was delinquent for just over one year and which promised to become current and claimed to have paid a \$26,000 retainer to an auditing firm for that purpose); *China Integrated Energy, Inc.*, 2014 WL 5513849 at *6 (“‘Repeated unfulfilled promises to file its periodic reports’ weighs heavily against [the issuer]”).

Even assuming that the representations made in QSGI’s Opposition are accurate, the steps purportedly taken and intended to be taken are insufficient to establish that any remedy short of revocation would adequately protect investors who were without current financial information about the Company for over three years. Furthermore, the Company’s after-the-fact efforts to become current only demonstrate its self-interest in complying with its periodic reporting obligations after the Division of Corporation of Finance sent a delinquency notice and alerted the Company to the possibility of its referring the matter to the Division of Enforcement.

3. Revocation is Needed for the Protection of QSGI’s Current and Prospective Investors

QSGI asserts that a suspension would better protect the interests of its shareholders. Opposition at p. 8. The Commission has held repeatedly, however, that “[t]he extent of any harm that may result to existing shareholders [from revocation] cannot be the determining factor in our analysis”; rather, “[i]n evaluating what is necessary or appropriate to protect investors, regard must be had not only for existing stockholders of the issuer, but also for potential investors.” *Absolute Potential*, 2014 WL 1338256 at *6, citing *Gateway Int’l Holdings, Inc.*, 2006 WL 1506286. *See also Citizens Capital Corp.*, 2012 WL 2499350 at *8 (revocation is “a prospective remedy and is imposed based on our concern about protecting *future* investors in the company”) (emphasis added).

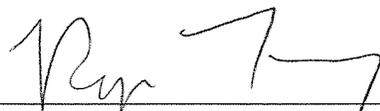
The remedy of revocation will not cause QSGI to cease being the kind of company it was prior to revocation. Moreover, following revocation of the existing registration of its shares, if the Company is sincere in its desire to become a compliant reporting issuer, once it has in hand fully audited financial statements for the requisite number of fiscal years and quarterly financial statements reviewed for the requisite number of quarters, it can file a new registration statement using Form 10, which normally becomes effective automatically within sixty days. *See Cobalis Corp.*, Initial Decision Rel. No. 407, 2010 WL 4732979, at *5 (Nov. 22, 2010) (“Further, at any time following the revocation, [Respondent] may re-register its securities under Exchange Act Section 12(g) by filing a Form 10 with the Commission, using the audited financial statements that are in the process of preparation.”).

CONCLUSION

For the reasons stated herein, the Division respectfully requests that the Court grant its motion for summary disposition of this action against Respondent QSGI pursuant to Rule 250 of the Commission’s Rules of Practice; grant the relief requested; and grant such other and further relief as this Court may deem just and proper.

Dated: November 25, 2014

Respectfully submitted,



Ryan Farney (202) 551-4543
Victor Tabak (202) 551-4433
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-5030

COUNSEL FOR
DIVISION OF ENFORCEMENT

CERTIFICATE OF SERVICE

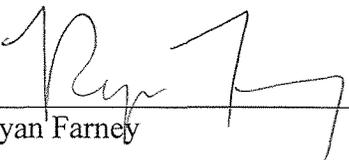
I hereby certify that true copies of the Division of Enforcement's Reply in Further Support of its Motion for Summary Disposition were served on the following on this 25th day of November, 2014, in the manner indicated below:

By Hand:

The Honorable James E. Grimes
Administrative Law Judge
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

By UPS:

Mr. Duncan J. Farmer, Esq.
5165 Woodland Lakes Drive
Palm Beach Gardens, FL 33409
Counsel for Respondent QSGI, Inc.



Ryan Farney