Quadrant 4 System Corp
Form 10-Q
November 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from to

Commission File Number 33-42498
QUADRANT 4 SYSTEM CORPORATION
(Exact name of registrant as specified in its charter)

Illinois	65-0254624
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1501 E. Woodfield Road, Suite 205 S, Schaumburg, IL 60173
(Address of principal executive offices)

(855) 995-QFOR
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-Q or any amendment to this Form 10-Q. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 126.2 of the Exchange Act). Yes o No x

The number of shares of common stock outstanding as of November 4, 2015 was 103,361,773.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Part II. OTHER INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUADRANT 4 SYSTEM CORPORATION
Condensed Consolidated Balance Sheets

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Current Assets		
Cash	$ 155,049	$ 2,285,557
Accounts and unbilled receivables (net of allowance for doubtful accounts of $700,000 and $810,000 at September 30, 2015 and December 31, 2014, respectively)	12,490,589	10,118,816
Inventory	81,252	-
Other current assets	221,324	233,789
Total current assets	12,948,214	12,638,162
Intangible assets, customer lists and technology stacks – net	11,035,553	12,479,737
Equipment under capital lease – net	389,896	-
Equipment – net	101,577	35,931
Long-term assets		
Software development costs – net	9,930,769	5,146,047
Deferred financing costs – net	417,880	600,583
Deferred licensing and royalty fees – net	1,020,000	1,200,000
Other assets	383,381	361,464
TOTAL ASSETS	$ 36,227,270	$ 32,461,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 5,433,441	$ 4,413,094
Note payable – Revolver	7,513,420	6,750,050
Earnouts payable	400,000	-
Current obligation under capital lease	150,411	-
Current maturities – long term debt, net of debt discount of $276,833	2,207,962	650,810
Total current liabilities	15,705,234	11,813,954
Non-current obligation under capital lease	201,155	-
Long-term debt, less current maturities, net of debt discount of $41,528	5,022,327	5,834,688
Total liabilities	20,928,716	17,648,642
Commitments and contingencies		
Stockholders' Equity		

Common stock - $0.001 par value; authorized: 200,000,000 shares: issued and outstanding 103,011,773 and 102,661,774 at September 30, 2015 and December 31, 2014, respectively	103,012	102,662
Additional paid-in capital	33,452,452	33,231,980
Accumulated deficit	(18,256,910)	(18,521,360)
Total stockholders' equity	15,298,554	14,813,282
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 36,227,270	$ 32,461,924

See notes to the condensed consolidated financial statements

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ending September 30, 2015	Three Months Ending September 30, 2014	Nine Months Ending September 30, 2015	Nine Months Ending September 30, 2014
Revenue	$ 12,690,876	$ 13,235,883	$ 39,399,276	$ 35,437,197
Cost of revenue	7,389,377	8,550,265	23,419,976	23,268,530
Gross Margin	5,301,499	4,685,618	15,979,300	12,168,667
Operating expenses:				
General and administrative expenses	(2,966,097)	(1,959,431)	(9,011,955)	(5,474,057)
Research & Development	(417,997)	(802,245)	(1,458,020)	(1,853,735)
Amortization, impairment and depreciation expense	(1,349,401)	(1,437,395)	(3,691,017)	(4,159,650)
Interest expense	(516,439)	(314,447)	(1,553,858)	(989,901)
Total	(5,249,934)	(4,513,518)	(15,714,850)	(12,477,343)
Net Income / (loss) before income taxes	51,565	172,100	264,450	(308,676)
Provision for Income taxes	-	-	-	-
Net Income/(loss)	$ 51,565	$ 172,100	$ 264,450	$ (308,676)
Net Income/ (loss) per common share				
- Basic	$ *	$ *	$ *	$ (0.01)
- Fully diluted	$ *	$ *	$ *	$ (0.01)
Weighted average common shares				
- Basic	103,011,774	99,160,719	102,877,891	95,359,781
- Fully diluted	107,150,955	104,336,235	107,017,072	95,359,781

*Less than $0.01, per share

See notes to the condensed consolidated financial statements

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ending September 30, 2015	2014
Cash flows from operating activities:		
Net Income/(loss)	$ 264,450	$ (308,676)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Amortization, impairment and depreciation expense	3,691,017	4,159,650
Provision for doubtful accounts	163,057	-
Issuance of Stock for services and interest	52,500	75,000
Issuance of Warrants for services	25,823	-
Changes in assets and liabilities, net of the effect of the acquisitions		
Accounts and unbilled receivables	(2,413,115)	(2,240,406)
Inventory	(81,252)	-
Other current assets	(142,399)	(228,559)
Software development costs	(5,013,781)	(1,305,000)
Deferred finance costs	182,703	-
Deferred license cost	120,000	-
Other assets	285,389	24,194
Obligation under capital lease	351,566	-
Accounts payable and accrued expenses	868,572	303,191
Net cash provided by/(used in) operating activities	(1,645,470)	479,394
Cash flows from investing activities:		
Purchase of equipment	(523,471)	(16,225)
Acquisition of assets (net of assets assumed of $104,700, notes payable assumed of $1,000,000, contingent payments of $400,000 and issuance of common stock of $142,500)	(469,728)	-
Net cash used in investing activities	(993,199)	(16,225)
Cash flows from financing activities:		
Proceeds from sales of common stock	-	1,124,750
Borrowings on revolver	36,596,477	12,570,688
Repayments of revolver	(35,833,107)	(13,824,700)
Payments of long-term debt	(255,209)	(271,683)
Net cash provided by/(used in) financing activities	508,161	(400,945)
Net increase/(decrease) in cash	(2,130,508)	62,224
Cash - beginning of year	2,285,557	897,215
Cash - end of year	$ 155,049	$ 959,439
Supplemental disclosure of cash flow information		
Cash paid for:		

Interest	$	961,299	$	989,901
Income taxes	$	-	$	-
Noncash transactions				
Acquisition of technology platform utilizing common stock & warrants	$	142,500	$	3,075,649

See notes to the condensed consolidated financial statements

QUADRANT 4 SYSTEM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – ORGANIZATION AND OPERATIONS

Organization

Quadrant 4 System Corporation (sometimes referred to herein as "Quadrant 4" or the "Company") was incorporated by the Florida Department of State on May 9, 1990 as Sun Express Group, Inc. and changed its name on March 31, 2011. The Company changed its domicile to Illinois on April 25, 2014. The Company generates revenue from clients located mostly in North America and operates out of six different office locations throughout the United States.

Operations

The Company is engaged in the Information Technology sector as a provider of Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) systems to the health insurance (QBIX/QHIX), media (QBLITZ) and education (QEDX) verticals. Along with these platforms, we also provide relevant services that leverage on our proprietary Social Media, Mobility, Analytics and Cloud (SMAC) technology stack. Our core services include Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications and Business Analytics (collectively "Consulting"). We blend these services with our technology platforms to offer client specific and industry specific solutions to Healthcare, Media, Education, Retail and Manufacturing industry segments (collectively "Solutions").

The Company generates revenues principally from two broad segments, namely Services and Platforms (PaaS/SaaS). The Services component includes consulting services that bills on a time & material basis; projects that bill on a predominantly time & material basis with a small mile-stone component; and managed services that bill fixed fees that provide pre-determined SLA based services. The Platform segment bills on transaction basis such as per member per month enrolled for the QHIX; per bandwidth consumed for the QBLITZ; and per student per month for the QEDX platforms. The Company anticipates to start delivering Platform based revenues in 2016 for QHIX, QBLITZ and QEDX. The Company started earning revenue for QBIX in 2015.

NOTE 2 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with the United States generally accepted accounting principles ("GAAP") and with the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements presentation. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position, results of operations and cash flows for interim financial statements have been included. This form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Interim results are not necessarily indicative of the results for the fiscal year ending December 31, 2015.

Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include all the accounts of the Company. As of January 1, 2015, all subsidiaries have been merged with Quadrant 4 System Corporation and all intercompany transactions have been eliminated.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications

Certain amounts for the prior period have been revised or reclassified to conform to 2015 presentation.

Estimates

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ('U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include the allowance for uncollectible accounts receivable, depreciation and amortization, intangible assets, including customer lists and technology stacks, capitalization, fair value and useful lives, accruals, contingencies, impairment and valuation of stock warrants and options. These estimates may be adjusted as more current information becomes available, and any adjustment could have a significant impact on recorded amounts. Accordingly, actual results could defer from those estimates.

Table of Contents

Fair Value of Financial Instruments

The Company considers the carrying amounts of financial instruments, including cash, accounts receivable, accounts payable, accrued expenses and notes payable to approximate their fair values because of their relatively short maturities.

Accounts and Unbilled Receivables

Accounts and unbilled receivables consist of amounts due from customers which are presented net of the allowance for doubtful accounts at the amount the Company expects to collect. The Company records a provision for doubtful receivables, if necessary, to allow for any amounts which may be unrecoverable, which is based upon an analysis of the Company's prior collection experience, customer creditworthiness, past transaction history with the customers, current economic trends, and changes in customer repayment terms.

Unbilled receivables are established when revenue is deemed to be recognized based on the Company's revenue recognition policy, but due to contractual restraints over the timing of invoicing, the Company does not have the right to invoice the customer by the balance sheet date.

Inventory

Inventory consists primarily of manufactured and preassembled units ready for distribution. Inventory is stated at the lower of cost (first-in, first-out) or market. In evaluating whether inventory is stated lower of cost or market, management considers such factors as the amount of inventory on hand and the distribution channel, the estimated time to sell such inventory, and the current market conditions. Adjustments to reduce inventory to its net realizable value are charged to cost of goods sold.

Vendors and Contractors

The Company outsources portions of its work to third party service providers. These providers can be captive suppliers that undertake software development, research & development and custom platform development. Some vendors may provide specific consultants or resources (often called Corp to Corp) or independent contractors (often designated as 1099) to satisfy agreed upon deliverables to its clients.

Equipment

Equipment is recorded at cost and depreciated for financial statement purpose using the straight line method over estimated useful lives of five to fifteen years. Maintenance and repairs are charged to operating expenses as they are incurred. Improvements and betterments, which extend the lives of the assets, are capitalized. The cost and accumulated depreciation of assets retired or otherwise disposed of are removed from the appropriate amounts and any profit or loss on the sale or disposition of each assets is credited or charged to income.

Intangible Assets

Intangible assets, consisting of customer lists and technology stacks, are recorded at fair value and amortized on the straight-line method over the estimated useful lives of the related assets.

The carrying value of intangible assets are reviewed for impairment by management of the Company at least annually or upon the occurrence of an event which may indicate that the carrying amount may be greater than its fair value. Management of the Company has decided to perform its impairment testing on a quarterly basis starting in fiscal year

2015. If impaired, the Company will write-down such impairment. In addition, the useful life of the intangible assets will be evaluated by management at least annually or upon the occurrence of an event which may indicate that the useful life may have changed.

Customer lists are valued based on management's forecast of expected future net cash flows, with revenues based on projected revenues from customers acquired and are being amortized over five years.

Technology stacks are valued based on management's forecast of expected future net cash flows, with revenues based on projected sales of these technologies and are amortized over five to seven years.

Table of Contents

Software Development Costs

Costs that are related to the conceptual formulation and design of licensed software programs are expensed as incurred to research, development engineering and other administrative support expenses; costs that are incurred to produce the finished product after technological feasibility has been established and after all research and development activities for any other component of the product or process have been completed are capitalized as software development costs. Capitalized amounts are amortized on a straight-line basis over periods ranging from three to five years which is recorded as amortization expense. Amortization of the software development costs commences when the platforms first become offered for sale and ready for market release. The Company performs periodic reviews to ensure that unamortized software development costs remain recoverable from future revenue. Cost to support or service licensed program are charged to cost of revenue as incurred.

Pre-paid Expenses

The Company incurs certain costs that are deemed as prepaid expenses. The fees that are paid to the Department of Homeland Security for processing H1 visa fees for its international employees are amortized over 36 months, typically the life of the visa. One third of these pre-paid expenses are included in other current assets and two thirds in other assets.

Deferred Financing Costs

Financing costs incurred in connection with the Company’s notes payable and revolving credit facilities are capitalized and amortized into expense using the straight-line method over the life of the respective facility.

Deferred Licensing and Royalty Fees

The Company licenses software, platforms and/or content on a needed basis and enters into market driven licensing and royalty fee arrangements. If no consumption or usage of such licenses happen during the reporting period, the Company has no obligation for any minimum fees or royalties and no accruals are posted. The deferred licensing fee is being amortized over five years.

Leases

The Company has operating lease agreements for its offices some of which contain provisions for future rent increases or periods in which rent payments are abated. Operating leases which provide for lease payments that vary materially from the straight-line basis are adjusted for financial accounting purposes to reflect rental income or expense on the straight-line basis in accordance with the authoritative guidance issued by the Financial Accounting Standards Board (“FASB”). No such material difference existed as of September 30, 2015.

Capitalized Lease

Capital leases are measured and recorded at present value as an asset and obligation. The asset is depreciated on a straight line over its estimated useful life and the obligation is paid using an effective interest rate.

Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks.

The Company reviews the terms of convertible debt and equity instruments it issues to determine whether there are embedded derivative instruments, including the embedded conversion option, that are required to be bifurcated and accounted for separately as a derivative financial instrument. In connection with the sale of convertible debt and equity instruments, the Company may issue freestanding warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

Bifurcated embedded derivatives are initially recorded at fair value and are then revalued at each reporting date with changes in the fair value reported as non-operating income or expense. When the convertible debt or equity instruments contain embedded derivative instruments that are to be bifurcated and accounted for as liabilities, the total proceeds allocated to the convertible host instruments are first allocated to the fair value of all the bifurcated derivative instruments. The remaining proceeds, if any, are then allocated to the convertible instruments themselves, usually resulting in those instruments being recorded at a discount from their face amount.

The discount from the face value of the convertible debt, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to interest expense, using the effective interest method.

Table of Contents

Revenue Recognition

Revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed and determinable, performance of service has occurred and collection is reasonably assured. Revenue is recognized in the period the services are provided on which service ranges from approximately 2 months to over 1 year.

For time & material engagements, the Company recognizes revenues when the client signs and approves the time sheet of a consultant(s) assigned to the engagement. For projects, the Company recognizes the revenues when the client acknowledges or accepts the delivery of the defined deliverables. For managed services engagements, the Company bills the contracted amount per billing period with no further acknowledgement from the client since such contracts have service level agreements and any service deficiencies are addressed within the normal course of engagement. The hosting revenues are recognized in the beginning of the period and are amortized over the term of the engagement since the client has no recourse and such fees are non-refundable. Platform revenues are recognized at the end of the period using the starting and ending average of the billing period and is generated by the platform with no further statement of work or purchase orders or approvals.

Income Taxes

Deferred income taxes have been provided for temporary differences between financial statement and income tax reporting under the liability method, using expected tax rates and laws that are expected to be in effect when the differences are expected to reverse. A valuation allowance is provided when realization is not considered more likely than not.

The Company’s policy is to classify income tax assessments, if any, for interest expense and for penalties in general and administrative expenses. The Company’s income tax returns for the years 2012, 2013 and 2014 are subject to examination by the IRS and corresponding states.

As of September 30, 2015, management has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company’s condensed consolidated financial statements.

Income (Loss) per Common Share

Basic income (loss) per share is calculated using the weighted-average number of common shares outstanding. Diluted income per share includes potentially dilutive securities such as outstanding options and warrants outstanding during each period.

For the nine months ended September 30, 2015 there were 4,139,181 potentially dilutive securities that were included in the calculation of weighted-average common shares outstanding. For the nine months ended September 30, 2014, there were 5,175,516 potentially dilutive securities that were not included in the calculation of weighted-average common shares outstanding since they would be anti-dilutive.

Derivatives

We account for derivatives pursuant to ASC 815, Accounting for Derivative Instruments and Hedging Activities. All derivative instruments are recognized in the consolidated financial statements and measured at fair value regardless of the purpose or intent for holding them. We record our interest rate and foreign currency swaps at fair value based on discounted cash flow analysis and for warrants and other option type instruments based on option pricing models. The changes in fair value of these instruments are recorded in income or expense.

Share based compensation

The Company recognizes compensation expense for all share-based payment awards made to employees, directors and others based on the estimated fair values on the date of the grant. Common stock equivalents are valued using the Black-Scholes model using the market price of our common stock on the date of valuation, an expected dividend yield of zero, the remaining period or maturity date of the common stock equivalent and the expected volatility of our common stock.

The Company determines the fair value of the share-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either the date at which a commitment for performance to earn the equity instrument is reached or the date the performance is complete.

The Company recognizes compensation expense for stock awards with service conditions on a straight-line basis over the requisite service period, which is included in operations.

Table of Contents

Concentrations of Credit Risk

The Company maintains cash at various financial institutions, which at times, may be in excess of insured limits. The Company has not experienced any losses to date as a result of this policy and, in assessing its risk, the Companies' policy is to maintain cash only with reputable financial institutions.

The Company currently banks at two national institutions with one being the primary and the other for petty cash purposes. The Company does not maintain large balances in its lockbox account due to the daily automatic sweeping arrangement with its lenders that credits its debts on a daily basis. As of September 30, 2015 no operating accounts had cash value that exceeded the FDIC insurance limit of $250,000.

The Company's two largest customers represented 15.3% and 10.1% of consolidated revenues for the nine months ended September 30, 2015 and 13.7% and 10.6% of consolidated revenues for the three months ended September 30, 2015. The Company had two customers that represented 24.03% and 14.54% of the total accounts receivable as of September 30, 2015 compared to 12.3% and 11.5% of the total accounts receivable as of September 30, 2014. The Company's two largest vendors represented 27.2% and 11.6% of total vendor payments for the nine months ended September 30, 2015. The Company's largest vendor represented 25.8% of total vendor payments for the nine months ended September 30, 2014.

Advertising costs

Advertising costs are expensed as incurred. Total advertising was $12,736 and $16,523 for the nine months ended September 30, 2015 and 2014 respectively; $3,621 and $3,702 for the three months ended September 30, 2015 and 2014, respectively.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance creating Accounting Standards Codification ("ASC") Section 606, "Revenue from Contracts with Customers". The new section will replace Section 605, "Revenue Recognition" and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with a concurrently issued International financial Reporting Standards with previously differing treatment between United States practice and those of much of the rest of the world, as well as, to enhance disclosures related to disaggregated revenue information The updated guidance is effective for annual reporting periods beginning on or after December 15, 2016, and interim periods within those annual periods. The Company will adopt the new provisions of this accounting standard at the beginning of fiscal year 2017, given that early adoption is not an option. The Company will further study the implications of this statement in order to evaluate the expected impact on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15 "Presentation of Financial Statements-Going Concern." The provisions of ASU No.2014-15 require management to assess an entity's liability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. audit standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require evaluation of every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt in not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is currently assessing the impact of ASU No. 2014-15 on the Company's consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

NOTE 4 – ACQUISITIONS

On January 1, 2015, the Company completed the acquisition of 100% of the outstanding stock of Brainchild Corporation ("Brainchild"). Brainchild based in Naples, Florida is a leading provider of web-based and mobile learning solutions for kindergarten through high school, grades K-12. The acquisition of Brainchild includes technology, staffing and software solutions developed for providing its educational solutions.

This acquisition represents the Company's entry into its newest vertical. This will not change the Company's business model since the Company intends to leverage its experience in building and operating cloud-based exchanges for healthcare and media to the education market. The Company believes there is a growing demand for platforms that will bring together the delivery of digital instructional content, assessments and analysis of student information and performance data by educators in K-12 schools throughout the US.

Table of Contents

The Company paid; $500,000 in cash, less certain loan balances at closing; 250,000 shares of the Company's common stock with a buy back at thirty-six months at a guaranteed valuation of $2.00, per share, and a note for $1,000,000 for thirty-six months with interest at 8%, per annum. In addition, the Agreement calls for a performance based earn-out of up to $400,000, as defined, to be paid on a semi-annual basis on January 1 and July 1 each year based on actual cash received from the sale of units during the period. The Seller has the option to receive any or all of the earn-out payment in common stock of the Company priced at a five trading day average price, as defined.

The following table summarizes the allocation of the purchase price of the acquisition over the estimated fair values of the assets acquired and liabilities assumed.

Fair value of consideration transferred:

Cash	$ 500,000
Subordinated debt	1,000,000
Common stock, 250,000 shares (at $0.57, per share)	142,500
Contingent earn-out payments	400,000
Total consideration	$ 2,042,500
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	$ 30,272
Customer lists/Technology intangibles, net	649,265
Inventory	90,442
Deposits	2,000
Accounts receivable	121,715
Fixed assets	12,045
Accounts payable and accrued liabilities	(151,774)
Sub-Total	753,965
Excess of purchase price allocated to intangible assets	1,288,535
Total	$ 2,042,500

The following unaudited proforma summary presents consolidated information of the Company as if this business combination occurred on January 1, 2014 and includes the amortization of acquired intangibles.

	2014
Gross Sales:	$ 50,482,572
Net Loss:	$ (2,119,398)

On January 20, 2015, the Company merged Brainchild with its parent.

NOTE 5 – INTANGIBLE ASSETS OF CUSTOMER LISTS AND TECHNOLOGY STACKS

On May 1, 2014, the Company acquired certain technology assets specific to media platforms for a total consideration of 4,444,445 shares priced at $0.45/share aggregating to $2,000,000 which was capitalized in 2014 as part of the technology stacks, and 2 million warrants exercisable over 3 years, with an exercise prices of $0.50 and $0.10, per share. The value of the warrants, using Black Scholes model is $977,171 which was capitalized in 2014 as part of the technology stacks. These assets are critical to executing the long-term sales contract that the Company signed effective May 1, 2014 to provide media platform services valued up to $50,000,000 over five years to an existing client.

Table of Contents

As of September 30, 2015 and December 31, 2014, intangible assets consisted of the following:

	September 30, 2015			December 31, 2014		
	Gross	Accumulated amortization	Balance	Gross	Accumulated amortization	Balance
Customer list						
Consulting	$ 7,131,196	(7,131,196)	-	$ 7,131,196	$ (6,831,295)	$ 299,900
Solutions	8,500,000	(8,322,615)	177,385	8,500,000	(8,003,313)	496,688
Cloud	7,650,000	(5,122,855)	2,527,145	7,650,000	(4,310,560)	3,339,440
Media	1,639,750	(1,101,208)	538,542	1,639,750	(797,808)	841,942
	24,920,946	(21,677,874)	3,243,072	24,920,946	(19,942,976)	4,977,970
Technology stack						
Solutions	$ 5,775,000	(4,345,780)	1,429,220	$ 5,775,000	$ (3,614,665)	$ 2,160,335
Cloud	850,000	(323,809)	526,191	850,000	(232,737)	617,263
Media	5,642,171	(1,522,524)	4,119,647	5,642,171	(918,002)	4,724,169
Education	1,937,800	(220,377)	1,717,423	-	-	-
	14,204,971	(6,412,490)	7,792,481	12,267,171	(4,765,404)	7,501,767
Total	$ 39,125,917	(28,090,364)	11,035,553	$ 37,188,117	$ (24,708,380)	$ 12,479,737

For the Nine months ending September 30, 2015, the change in intangible assets was as follows:

Balance, January 1,	$ 12,479,737
Additions	1,937,800
Impairment of assets	(100,000)
Amortization	(3,281,984)
Balance, September 30,	$ 11,035,553

Amortization expenses was $3,281,984 and $4,155,150 for the nine months ending September 30, 2015 and 2014, respectively; $1,094,027 and $1,395,963 for the three months ending September 30, 2015 and 2014, respectively.

NOTE 6 – SOFTWARE DEVELOPMENT COSTS

The Company specifically recognizes capitalized software costs by its product platforms as follows:

	September 30, 2015			December 31, 2014		
	Gross	Accumulated amortization	Balance	Gross	Accumulated amortization	Balance
QBIX	$ 1,527,060	(229,059)	1,298,001	$ 1,427,485	$ -	$ 1,427,485
QHIX	4,378,104	-	4,378,104	3,121,313	-	3,121,313
QBLITZ	3,148,335	-	3,148,335	597,249	-	597,249
QEDX	1,106,329	-	1,106,329	-	-	-
	10,159,828	(229,059)	9,930,769	5,146,047	-	5,146,047

For the Nine months ending September 30, 2015, the change in Software Development costs was as follows:

Balance, January 1,	$ 5,146,047
Additions	5,013,781

Impairment of assets	-
Amortization	(229,059)
Balance, September 30,	$ 9,930,769

Amortization expenses on software development cost was $229,059 and nil for the nine months ending September 30, 2015 and 2014, respectively; $76,353 and nil for the three months ending September 30, 2015 and 2014, respectively.

Table of Contents

NOTE 7 – INVENTORY

Inventory consists of the following:

Description	September 30, 2015
Hardware Assessment Devices	$ 70,066
Display Devices	7,434
Accessories – Power adaptors & Cables	3,752
	$ 81,252

NOTE 8 –EQUIPMENT

Equipment consists of the following:

Description of Cost	September 30, 2015	December 31, 2014
Furniture & fixtures	$ 32,679	$ 5,000
Leasehold Improvements	32,949	-
Computing equipment	519,319	44,431
Total	584,947	49,431
Less: Accumulated depreciation	(93,474)	(13,500)
Balance	$ 491,473	$ 35,931

Depreciation expense was $79,974 and $2,750 for the nine months ended September 30, 2015 and 2014, respectively; $26,315 and $1,250 for the three months ended September 30, 2015 and 2014, respectively.

NOTE 9 – NOTE PAYABLE - REVOLVER

In October 2014, the Company refinanced its factoring facility and replaced it with a new Asset Based Lending (ABL) revolver bank facility that has a term of 36 months and a maximum line of $10,000,000. The ABL was priced at 4.5% over 30-day LIBOR (with a minimum floor of 2%) plus an administrative fee of 0.1% per month on the outstanding balance and 0.084% per month on the unused portion of the revolver. As of September 30, 2015 and December 31, 2014, the Company has borrowed the maximum based on the borrowing base calculations and has borrowings of $7,513,420 and $6,750,050, respectively, on the Revolver.

In addition, the Company entered into a term loan commitment with the lender for $3,000,000 (Note 10).

All borrowings under this revolving line of credit are collateralized by the accounts receivable and substantially all other assets of the Company.

In connection with the financing, the Company incurred legal, loan origination and advisory expenses totaling $600,583 which has been recorded as deferred financing costs and are being amortized over three years as interest expense. Amortization on the deferred finance cost was $106,037 and nil for the nine months ended September 30, 2015 and 2014, respectively; $35,345 and nil for the three months ended September 30, 2015 and 2014, respectively.

NOTE 10 – LONG-TERM DEBT

Long-term debt consisted of the following:

	September 30, 2015	December 31, 2014
Note payable due December 31, 2017, as extended, plus interest at 6.5% per annum (a)	$ 3,117,538	$ 3,117,538
Note payable due October 1, 2017, plus interest at approximately 10% per annum (b)	2,098,214	2,853,571
Note payable due July 1, 2016, plus interest at 8% per annum (c)	1,100,000	1,100,000
Note payable due January 1, 2018, plus interest at 8% per annum (d)	1,000,000	-
Note payable due October 16, 2015, plus interest at 12% per annum (e)	200,000	-
Note payable due September 23, 2018, plus interest at 6.7% per annum (f)	32,898	-
Less: Discounts	(318,361)	(585,611)
Total	7,230,289	6,485,498
Less: Current maturities net of debt discount of $276,833	(2,207,962)	(650,810)
Total long-term debt	$ 5,022,327	$ 5,834,688

Table of Contents

(a) In December 2013, $2,000,000 of the original $5,000,000 Promissory note was converted to 3,333,334 shares of common stock (at $0.60/share) with 1,666,667 warrants exercisable at $1/share through December 31, 2018. The warrant was valued using the Black Scholes Option Pricing model and the Company recorded additional interest related to the conversion of debt and grant of warrants of $1,350,000. In March 2014, the note was extended to December 31, 2015 without any further considerations. On October 1, 2014, the note was extended to December 31, 2017 with the new interest rate at 6.5%. Additionally, 350,000 shares of common stock was granted as consideration for the extension valued at $140,000.

(b) In October 2014, the Company entered into a term loan for $3,000,000. The term loan was priced at 8% over 30-day LIBOR (with a minimum floor of 2%) with a term of 36 months. The term loan, as amended, is payable over three years, $83,928.57/month from January 1, 2015 through and including December 1, 2015, and $104,910.71/month from January 1, 2016 through maturity. The Company also issued 250,000 warrants, exercisable at $0.60/share for five years.

The Company calculated the fair value of the warrant as $119,991, based on a Black-Scholes Option Pricing Model using the market price of the Company's stock on the date of grant of $0.48, per share; volatility of 355%; a risk-free interest rate of 1.64%; a term of five years and zero dividend and has allocated the value of the warrant over the term note. The allocated value of the warrant of $115,000 has been recorded as a discount on the term note payable and will be amortized over three years as interest expense.

(c) In December 2014, the Company entered into a securities purchase agreement for a senior debenture in the amount of $1,100,000 at 8%. Interest is payable on October 1, 2015 with principal payments of 25% on 1/1/2016, 25% on 4/1/2016 and the remaining 50% on 7/1/2016. The Company issued 2,053,333 warrants priced at $0.60/share. The Company is obligated to issue additional 2,053,333 warrants priced at $0.60/share in the event of a default.

The Company calculated the fair value of the warrant as $841,771, based on a Black-Scholes Option Pricing Model using the market price of the Company's stock on the date of grant of $0.41, per share; volatility of 349%; a risk-free interest rate of 1.64%; a term of five years and zero dividend and has allocated the value of the warrant over the note payable. The allocated value of the warrant of $477,000 has been recorded as a discount on the note payable and will be amortized over eighteen months as interest expense.

(d) In January 2015, the Company issued a seller note for $1,000,000 in connection with the Brainchild acquisition at an interest rate of 8% per annum, payable over 36 months beginning the third quarter of 2016.

(e) On April 17, 2015, the Company issued a short term note for $200,000 at an interest rate of 12%, the note was repaid in full on October 23, 2015.

(f) On September 23, 2015, the Company issued an unsecured note for $32,898 at an interest rate of 6.7%, payable over 36 months.

NOTE 11 – STOCKHOLDERS' EQUITY

The Company's board of directors may designate preferred stock with preferences, participations, rights, qualifications, limitations, restrictions, etc., as required. No preferred shares are presently designated.

In January 2015, the Company issued a warrant to purchase 50,000 of its common stock to one of its Directors valued at $25,823 using the Black-Scholes Option Pricing Model.

On April 28, 2015, the Company issued 50,000 shares of its common stock for services related to investor relations valued at $24,500.

On April 28, 2015, the Company issued 50,000 shares of its common stock for services to a Board member for consulting services valued at $28,000.

On August 19, 2015, the Company reserved 1,000,000 shares of its common stock for its employees as performance bonus. The Company has not allocated or issued any shares yet to any employees pending performance appraisals.

Table of Contents

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases:

In September 2012, the Company entered into a five year lease agreement for its Cranbury, New Jersey facility, which expires on September 8, 2016. In June 2013, the Company entered into a five year lease agreement for its Southfield, Michigan facility, which expires on October 31, 2018. In February 2013 the Company took over the lease agreement of its Irvine, California facility, which expires on April 12, 2015. In July 2014, the Company entered into a three year sub-lease agreement for its Alpharetta, Georgia facility, which expires on September 8, 2017. In December 2014, the Company entered into a one year lease agreement for its El Segundo, California facility, which expires on December 31, 2015. The Company also added certain facilities as a month to month basis. In December 2014, the Company entered into a four year sub-lease agreement for its Irvine, California facility, which expires on April 30, 2019.

Capital Lease:

Effective February 1, 2015, the Company entered into a business lease agreement for computer hardware equipment with monthly payments of $13,926 for a term of three years with a $1.00 end-of–term purchase option.

In accordance with FASB ASC 840, Leases, the Company has recorded this capital lease asset and capital lease obligation initially at an amount equal to the present value at the beginning of the lease term of minimum lease payments. As of September 30, 2015, the equipment of $458,701 less accumulated depreciation of $68,715 had a net book value of $389,986.

The following is a schedule of future minimum lease payments as of June 30, 2015.

Year ending September 30,	
2016	$ 167,114
2017	$ 167,114
2018	$ 42,034
Total minimum lease payments	$ 376,262
Less: amount representing interest	$ (24,696)
Present value of net minimum lease payments, presented as current and non-current obligations under capital leases of $150,411 and $201,155, respectively.	$ 351,566

Rent Expense for the nine months ended September 30, 2015 and 2014 were $301,915 and $181,283, respectively, and for three months ending September 30, 2015 and 2014 were $127,979 and $114,076, respectively.

Legal:

On May 13, 2014, a claim was filed against the Company in the Superior Court of California, County of Santa Clara arising from a collections dispute related to vendors of an acquisition target of the Company. All Plaintiffs were vendors of the target and are seeking recovery of approximately $222,000. The Company is defending their position and it is expected that the court case will remain stayed until the earliest being fall 2016. In response to the claim, as of December 31, 2014 the Company has recorded an accrual in the event of legal settlement in the amount of $123,000.

As of the date of this filing, the Plaintiff lost the case on NJ jurisdiction and has been appealed. The Company is responding to their appeal and as a result, the main case is on hold until Appellate court rules.

In the normal course of business, the Company may become subject to claims or assessments. Such matters are subject to many uncertainties, and outcomes, which are not readily predictable with assurance.

Investor relations consulting Agreement:

On January 14, 2015 Company entered into an Investor Relations Consulting Agreement (Agreement) with an investor relations firm to provide consulting services regarding markets and exchanges, competitors, business acquisitions and other aspects of or concerning the Company's business. The Agreement is for the term of twelve months in exchange for 50,000 shares of the Company's restricted stock, valued at $24,500.

As of the date of this filing, the Plaintiff lost the case on NJ jurisdiction and has been appealed. The Company is responding to their appeal and as a result, the main case is on hold until Appellate court rules.

Table of Contents

NOTE 13 – FOREIGN OPERATIONS

The Company's headquarters and operations are located in the United States. However, the Company does have a key supplier and subcontractor located in India. The Company has no ownership, directly or indirectly, in the key supplier and subcontractor. The India based supplier was owed $905,000 and $610,000 as of September 30, 2015 and 2014, respectively.

The Company has entered into a long term master services agreement with its Indian vendor that ends on December 31, 2020 with customary options for termination with a 30 day notice. The Indian vendor provides captive services to the Company and is paid on a cost plus basis. The Company paid following amounts to the Indian vendor for providing different classes of services:

	Three Months Ending		Nine Months Ending	
Description of Cost	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Client delivery and support	$859,830	$687,223	$2,395,230	$1,958,860
Platform development	585,000	585,000	1,755,000	1,305,000
Sales support	45,530	37,212	133,570	113,608
Back office support	535,650	426,249	1,520,480	1,213,585
Research & Development	73,990	94,316	270,720	282,947
	$2,100,000	$1,830,000	$6,075,000	$4,874,000

NOTE 14 – SUBSEQUENT EVENTS

On October 1, 2015, the Company issued 350,000 shares of its common stock for services related to investor relations valued at $84,000.

On October 9, 2015, the Company issued warrants to purchase 2,307,692 of its common stock to its management valued at $598,428 using the Black-Scholes Option Pricing Model.

On October 9, 2015, the Company issued warrants to purchase 150,000 of its common stock to its Directors valued at $38,898 using the Black-Scholes Option Pricing Model.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Form 10-Q for the quarter ending September 30, 2015 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amending, and Section 21E of the Securities Exchange Act of 1934, as amending. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and are considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

Overview

Quadrant 4 is a leading provider of cloud based Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) products to the health insurance, media and education verticals. In addition, the Company provides expertise and relevant services that leverage our proprietary Social Media, Mobility, Analytics and Cloud (SMAC) technology stack. Our clients engage us to help them build more efficient operations; provide solutions to critical business and technology problems, and to help them drive technology-based innovation and growth. Our revenue is primarily generated from the sale and licensing of our PaaS and SaaS systems as well as from a wide range of technology oriented services and solutions. Our core platforms include QBIX, a cloud based benefits enrollment platform; QHIX, a cloud based health insurance exchange platform; QBLITZ, a cloud based digital media platform and QEDX, a cloud based education platform for K-12 students each of which incorporates our proprietary SMAC technologies. Our core services include Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications and Business Analytics. We blend these services with our technology platforms to offer client and industry specific solutions to the Healthcare, Media and Education industries.

Corporate History

Quadrant 4 System Corporation (sometimes referred to herein as "Quadrant 4" or the "Company") was incorporated by the Florida Department of State on May 9, 1990 as Sun Express Group, Inc. and changed its name on March 31, 2011. The Company changed its domicile to Illinois on April 25, 2014.

Principal Business

The Company is engaged in the Information Technology sector as a provider of Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) systems to the health insurance, media and education verticals. Along with these platforms, the company also provides relevant services that leverage our proprietary Social Media, Mobility, Analytics and Cloud (SMAC) technology stack. Our core services include Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications and Business Analytics. The Company blends these services with our technology platforms to offer client and industry specific solutions to the Healthcare, Media, and Education verticals.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The nature of our model involves engaging employees and consultants to provide services to our customers with billing accrued and due in normal billing cycles. We also enter into subscription contracts for our software platforms that clients pay a fixed amount every month. We incur debt to meet payroll obligations, the largest component of our expenses, and service debt with the payments received from our customers. Many of our employees and consultants are assisted in the immigration process which is an expense component. The Company utilizes few major capital items in the delivery of its services and requires no significant plant expenses beyond ordinary commercial office space for both use by the employees on a limited basis and the back-office support for those employees.

Table of Contents

Results of Operations

The revenues and expenses reflect the assets acquired and new businesses acquired during the past two years.

	Three months ending September 30, 2015	Three months ending September 30, 2014	Change	Percent
Revenue	$ 12,690,876	$ 13,235,883	$ (545,007)	(4%)
Cost of Revenue	(7,389,377)	(8,550,265)	(1,160,888)	14%
Gross Margin	5,301,499	4,685,618	615,881	13%
General and administrative expenses	(2,966,097)	(1,959,431)	(1,006,666)	(51%)
Research & Development	(417,997)	(802,245)	384,248	48%
Amortization, impairment and depreciation expense	(1,349,401)	(1,437,395)	87,994	6%
Interest expense	(516,439)	(314,447)	(201,992)	(64%)
Net Income/(loss)	$ 51,565	$ 172,100	$ (120,535)	(57%)

	Nine months ending September 30, 2015	Nine months ending September 30, 2014	Change	Percent
Revenue	$ 39,399,276	35,437,197	3,962,079	11%
Cost of Revenue	(23,419,976)	(23,268,530)	(151,446)	(1%)
Gross Margin	15,979,300	12,168,667	3,810,633	31%
General and administrative expenses	(9,011,955)	(5,474,057)	(3,537,898)	(65%)
Research & Development	(1,458,020)	(1,853,735)	395,715	21%
Amortization, impairment and depreciation expense	(3,691,017)	(4,159,650)	468,633	11%
Interest expense	(1,553,858)	(989,901)	(563,957)	(57%)
Net Income/(loss)	$ 264,450	(308,676)	573,126	186%

Comparison of Three Months and Nine Months Ending September 30, 2015 and 2014

REVENUES

Revenues for the three months ending September 30, 2015 totaled $12,690,876 compared to $13,235,883 during the same period in 2014. The decrease in revenues of $545,007 or 4% over the previous period was due to completion of certain projects. Although the Company added additional revenues due to Brainchild acquisition, the overall revenues decreased because of the net of revenue reduction from current clients and new revenue from the acquisition was smaller. Revenues were comprised of service-related sales of software programming, consulting, subscriptions and development services.

Revenues for the nine months ending September 30, 2015 totaled $39,399,276 compared to $35,437,197 during the same period in 2014. The increase in revenues of $3,962,079 or 11% over the previous period was due to increase in sales in the media group and as result of the Brainchild acquisition. Revenues were comprised of service-related sales of software programming, consulting, subscriptions and development services.

COST OF REVENUES

Cost of revenue for the three months ending September 30, 2015 totaled $7,389,377 compared to $8,550,265 during the same period in 2014. The decrease in cost of revenue of $1,160,888 or 14% over the previous period was due to increased utilization and reduction of resources. Cost of revenue is comprised primarily of the direct costs of employee and contract labor and related expenses.

Cost of revenue for the nine months ending September 30, 2015 totaled $23,419,976 compared to cost of revenue of $23,268,530 during the same period in 2014. The slight increase in cost of revenue of $151,446 or 1% over the previous period was due to corresponding increase in revenues and the impact of the Brainchild acquisition during the first quarter of 2015. Cost of revenue is comprised primarily of the direct costs of employee and contract labor and related expenses.

GROSS MARGIN

The increase in gross margin of $615,881 or 13% for the three months ending September 30, 2015 over the previous three month period ending September 30, 2014 resulted primarily from increased revenues. The gross margin percentage increased to approximately 42% in the third quarter of 2015 from 35% in the same period of 2014 as a result of increased utilization of employees and sub-contractors.

Table of Contents

The increase in gross margin of $3,810,633 or 31% over the previous nine month period ending September 30, 2014 resulted primarily from increased revenues. The gross margin percentage increased to approximately 41% in the nine months ending September 30, 2015 from 34% in the same period of 2014 as a result of increased utilization of employees and sub-contractors.

GENERAL AND ADMINISTRATIVE EXPENSES

General & administrative expenses for the three months ending September 30, 2015 totaled $2,966,097 compared to general & administrative expenses of $1,959,431 during the same period in 2014. The increase in general & administrative expenses of $1,006,666 or 51% over the previous period was due to increased costs of building new vertical sales force and additional audit fees during this period.

General & administrative expenses for the nine months ending September 30, 2015 totaled $9,011,955 compared to general & administrative expenses of $5,474,057 during the same period in 2014. The increase in general & administrative expenses of $3,537,898 or 65% over the previous nine month period, was due to increased costs of building new vertical sales force and additional audit fees during the nine months ending September 30, 2015.

RESEARCH & DEVELOPMENT

Research & Development expenses for the three months ending September 30, 2015 totaled $417,997 compared to Research & Development expenses of $802,245 during the same period in 2014. The decrease in Research & Development expenses of $384,248 or 48% over the previous second quarter was due to conversion of certain expenses to capitalized software development related to media units.

Research & Development expenses for the nine months ending September 30, 2015 totaled $1,458,020 compared to Research & Development expenses of $1,853,735 during the same period in 2014. The decrease in Research & Development expenses of $395,715 or 21% over the previous nine month period, was due to conversion of certain expenses to capitalized software development related to media units.

AMORTIZATION, IMPAIRMENT AND DEPRECIATION EXPENSE

Amortization, impairment and depreciation expense for the three months ending September 30, 2015 totaled $1,349,401 compared to $1,437,395 during the same period in 2014. The decrease in amortization expense of $87,994 was due to completion of amortization of certain customer lists in the 2014 period. Amortization periods on the acquired intangibles range from 5 – 7 years.

Amortization, impairment and depreciation expense for the nine months ending September 30, 2015 totaled $3,691,017 compared to $4,159,650 during the same period in 2014. The decrease in amortization expense of $468,633 was due to completion of amortization of certain customer lists in the 2014 period. Amortization periods on the acquired intangibles range from 5 – 7 years.

INTEREST EXPENSE

Interest expenses for the third quarter ending September 30, 2015 totaled $516,439 compared to $314,447 during the same period in 2014. The increase in interest expenses of $201,992 or 64% over the previous second quarter was due to the increase in notes payable and financing under the Revolver.

Interest expenses for the nine months ending September 30, 2015 totaled $1,553,858 compared to $989,901 during the same period in 2014. The increase of $563,957 or 57% over the previous nine month period was due to the increase in notes payable and financing under the Revolver.

NET INCOME/ (LOSS)

The Company reported net income of $51,565 for the three months ending September 30, 2015 compared to net income of $172,100 for the same period in 2014. The decrease of $120,535 or 57% over the previous period was the result of increased expenses towards vertical sales force during the period.

The Company reported net income of $264,450 for the nine months ending September 30, 2015 compared to net loss of $308,676 for the same period in 2014. The increase in profit of $573,126 or 186% over the previous nine month period, was the result of increased revenues and increased gross margins.

Table of Contents

EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the three month periods ending September 30, 2015 and September 30, 2014 is calculated as follows:

	September 30, 2015	September 30, 2014
Net Income (GAAP Basis)	$ 51,565	$ 172,100
Interest expense	516,439	314,447
Amortization, impairment and depreciation expense	1,349,401	1,437,395
Income Taxes	-	-
EBITDA	$ 1,917,405	$ 1,923,942

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the nine months ending September 30, 2015 and September 30, 2014 is calculated as follows:

	September 30, 2015	September 30, 2014
Net Income/(Loss) (GAAP Basis)	$ 264,450	$ (308,676)
Interest expense	1,553,858	989,901
Amortization, impairment and depreciation expense	3,691,017	4,159,650
Income Taxes	-	-
EBITDA	$ 5,509,325	$ 4,840,875

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the three months ending September 30, 2015 decreased by $6,537 or 0.3% over the previous three months and EBITDA for nine months period ending September 30,2015 increased by $668,450 or 14% over the previous nine-month period.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2015, we had an accumulated deficit of $18,256,910 as compared to $18,521,360 at December 31, 2014. As of September 30, 2015, we had a working capital deficit of $2,757,020 as compared to working capital surplus of $824,208 at December 31, 2014.

Net cash used by operations for the nine months ending September 30, 2015 was $1,645,470 as compared to net cash provided by operations was $479,394 primarily relating to the increases in Accounts receivable and software development costs, offset in part of by the increase in accounts payable.

Net cash used in investing activity for the nine months ending September 30, 2015 was $993,199 as compared to $16,225 during the prior nine months ending September 30, 2014. The increase was primarily due to acquisition of assets and purchase of computer assets during the first quarter of 2015.

Net cash provided in financing activities for the nine months ending September 30, 2015 was $508,161 as compared to net cash provided by operations was $400,945 primarily due to reduction of sales of common stock in the 2015 period.

Liquidity. The Company is continuing to expand its IT business operations through acquisitions and organic internal growth. Acquisitions of target company assets will require additional financing. Currently the Company anticipates that additional financing to fund these acquisitions of assets will be provided by sales of stock or borrowings.

The Company is currently discussing with the lenders whose loans are coming due within the next year to extend their terms. The Company believes its resources are adequate to fund its current operations for the next 12 months.

Off Balance Sheet Arrangements

There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the nine months ending September 30, 2015. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, respectively, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report which is September 30, 2015. Based on such evaluation, the Company's principal executive officer and principal financial officer, respectively, have concluded that, as of the end of such period, the Company's disclosure controls and procedures specific to certain transactions were not effective. Rapid growth and inadequate staffing were the main reasons for such ineffective controls. Management has identified an action plan to remedy any ineffective controls that include additional staffing, realignment of existing staff, a search to hire a Chief Financial Officer, hiring of an outside consultant to assist with internal controls and creating a well-defined financial and accounting control matrix and procedures document which is in the process of being implemented.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the 1934 Act as a process designed by, or under the supervision of, the Company's principal executive officer and principal financial officer, respectively, and effected by the Company's management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the Company's management; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements

Management is committed to continuous improvement in all areas of controls and procedures. The Company has instituted additional procedures to review its interim financial statements and significant transactions with the audit committee on a regular basis.

Based on this evaluation, our management concluded that our internal controls over financial reporting were not operating effectively as of September 30, 2015.

Changes in Internal Control Over Financial Reporting.

In order to address certain separation of duties and governance issues the Company has added additional human resources as well as a realignment of existing staff in its accounting and finance departments and instituted additional procedures to review its interim financial statements and significant transactions with the audit committee on a regular basis in the spirit of continuing to improve internally.

These additions have improved accountability and created segregation of responsibilities across additional people which has resulted in improvement in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) subsequent to the year ending December 31, 2014.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On May 13, 2014, a claim was filed against the Company in the Superior Court of California, County of Santa Clara arising from a collections dispute related to vendors of an acquisition target of the Company. All Plaintiffs were vendors of the target and are seeking recovery of approximately $222,000. The Company is defending their position and it is expected that the court case will remain stayed until the earliest being fall 2016. In response to the claim, as of December 31, 2014 the Company has recorded an accrual in the event of legal settlement in the amount of $123,000.

As of the date of this filing, the Plaintiff lost the case on NJ jurisdiction and has been appealed. The Company is responding to their appeal and as a result, the main case is on hold until Appellate court rules.

Item 1A. Risk Factors

Not required.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

Item 601 of Regulation S-K

Exhibit No.:	Exhibit
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company
32.1	Section 1350 Certification by Chief Executive Officer and Chief Financial Officer
101	

The following financial information from Quadrant 4 System Corporation's Quarterly Report on Form 10-Q for the quarter ending September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2015 (unaudited) and December 31, 2014; (ii) Consolidated Statements of Income (Unaudited) for the three and nine months ending September 30, 2015 and 2014, (iii) Consolidated Statements of Cash Flows (Unaudited) for the nine months ending September 30, 2015 and 2014.

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUADRANT 4 SYSTEM CORPORATION

November 4, 2015	By:	/s/ Dhru Desai
		Dhru Desai Chief Financial Officer and Director