

Quadrant 4 Systems Corp  
Form 10-Q  
August 13, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

(Mark One)

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2013
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 33-42498

Q4 SYSTEMS CORPORATION  
(Exact name of registrant as specified in its charter)

Illinois  
(State or other jurisdiction of  
incorporation or organization)

65-0254624  
(IRS Employer  
Identification No.)

2850 Golf Road, Suite 405, Rolling Meadows, IL 60008  
(Address of principal executive offices)

(847) 871-9450  
(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  No

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  No

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

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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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of common stock outstanding as of August 12, 2013 was 66,815,071.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Q4 SYSTEMS CORPORATION  
CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>ASSETS</b>		
Current Assets		
Cash	\$ 68,471	\$ 86,770
Accounts Receivables (net of allowance for doubtful accounts of \$ 782,966 and \$ 603,442 for June 30, 2013 and December 31, 2012 respectively)	6,572,856	4,267,766
Other current assets	736,193	1,199,907
Total current assets	7,377,520	5,554,443
Property and equipment - net	11,239	3,500
Other assets	2,839,022	2,566,470
Intangible assets, net	19,165,837	9,785,019
<b>TOTAL ASSETS</b>	<b>\$ 29,393,618</b>	<b>\$ 17,909,432</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,563,299	\$ 2,962,421
Note payable - Revolver	4,400,600	2,857,396
Current maturities - long term debts, less debt discount	1,889,458	688,891
Total current liabilities	12,853,357	6,508,708
Long term debt less current maturities	9,047,026	7,536,781
Common stock payable	1,304,423	1,163,673
Contingent Earn Outs	2,900,000	-
Derivative liability	134,152	249,164
Total liabilities	26,238,958	15,458,326
Stockholders' Equity		
Common stock - \$0.001 par value; authorized: 200,000,000 shares: issued and outstanding 63,065,071 and 54,609,615 at June 30, 2013 and December 31, 2012, respectively	63,065	54,609
Additional paid-in capital	14,175,648	11,631,644
Accumulated Deficit	(11,084,053)	(9,235,147)
Total stockholders' equity	3,154,660	2,451,106
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 29,393,618</b>	<b>\$ 17,909,432</b>

See notes to the consolidated financial statements



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Q4 SYSTEMS CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ending June 30,		Six Months Ending June 30,	
	2013	2012	2013	2012
Revenue	\$ 9,097,604	\$ 6,656,920	\$ 19,005,059	\$ 13,384,559
Cost of revenue	6,681,494	5,369,565	14,225,345	10,685,688
Gross Margin	2,416,110	1,287,355	4,779,714	2,698,871
General and administrative expenses	(1,264,312)	(793,019)	(2,340,831)	(1,524,935)
Amortization and depreciation expense	(1,342,605)	(1,011,559)	(2,499,677)	(2,023,121)
Legal Judgment -Financing	(692,000)	-	(692,000)	-
Interest expense	(638,148)	(407,903)	(1,211,124)	(840,039)
Derivative gain	57,508	93,336	115,012	6
Net loss before income taxes	(1,463,447)	(831,790)	(1,848,906)	(1,689,218)
Income taxes	-	-	-	-
Net loss	\$ (1,463,447)	\$ (831,790)	\$ (1,848,906)	\$ (1,689,218)
Net loss per common share - basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.03)
Weighted average common shares - basic and diluted	60,010,126	51,740,448	58,358,431	51,740,448

See notes to the consolidated financial statements

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Q4 SYSTEMS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Six Months Ending June 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (1,848,906)	\$ (1,689,219)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Derivative gain	(115,012)	(6)
Accretion of interest	134,443	111,110
Amortization and depreciation	2,499,677	2,023,631
Doubtful accounts	179,524	136,867
Issuance of Stock for services	27,550	-
Changes in assets and liabilities		
Accounts receivable	(2,484,614)	224,331
Other current assets	463,714	(925,460)
Other assets	(272,552)	128,524
Accounts payable and accrued expenses	1,768,878	419,753
Net cash provided by operating activities	352,702	429,531
Cash flows from investing activities:		
Purchase of fixed assets	(8,239)	-
Acquisition of assets (net of liabilities assumed of \$1,832,000, notes payable assumed of \$3,268,000, contingent payments of \$2,900,000 and accrual/issuance of common stock of \$2,330,000)	(1,550,000)	-
Net cash used in investing activities	(1,558,239)	-
Cash flows from financing activities:		
Proceeds from sales of common stock	300,000	-
Proceeds from Long Term Debt	840,000	-
(Decrease) increase in note payable - revolver	1,543,204	(811,415)
Payments of long-term debt	(1,495,966)	(436,189)
Payments of notes payable	-	(140,000)
Net cash (used in) provided by financing activities	1,187,238	(1,387,604)
Net decrease in cash	(18,299)	(958,073)
Cash - Beginning of year	86,770	1,079,248
Cash - End of year	\$ 68,471	\$ 121,175

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Supplemental disclosure of noncash information

Cash paid for:

Interest	\$	750,962	\$	871,632
Income taxes	\$	-	\$	-

Noncash transactions

Increase in common stock payable	\$	140,750	\$	-
Noncash considerations for acquisitions	\$	5,230,000	\$	-

See notes to the consolidated financial statements



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Q4 SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

Organization

Quadrant 4 Systems Corporation (the “Company” or “Q4”) was incorporated in Florida on May 9, 1990, as Sun Express Group, Inc. and changed its business model and name on March 31, 2011. Q4 operated its business through its two wholly owned subsidiaries, Q4 Solutions, Inc. and Q4 Consulting, Inc. until December 2012. During the first quarter of 2013, Q4 formed two additional subsidiaries, namely Q4 Cloud, Inc. and Q4 Mobility, Inc. to launch its cloud and mobile businesses as part of its SMAC (Social – Mobile – Analytics – Cloud) business strategy. On April 25, 2013, the Florida Company did a statutory merger with its Illinois Company, Q4 Systems Corporation with the Illinois Company being the surviving entity. On May 1, 2013, Quadrant 4 Solutions, Inc. did a statutory merger with its Illinois Company, Q4 Solutions, Inc. with the Illinois Company as the surviving entity. These actions were taken to reduce the compliance requirements and also to build the Q4 brand. The surviving Illinois parent has 200,000,000 authorized shares of common stock with a par value of \$0.001 per share.

Operations

The primary business model of the Company is to provide SMAC and IT related technology, products and services. Q4 is building an integrated platform that provides its clients a unified SMAC solution specific to the Healthcare, Retail and Financial Services verticals. Q4 Health, a business unit of Q4 has launched QHIX, its health insurance exchange platform to assist private and public exchanges as mandated by the Affordable Care Act.

NOTE 2 – BASIS OF PRESENTATION

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules and regulations under Regulation S-X of the U.S. Securities and Exchange Commission for Form 10-Q, and should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for Quadrant 4 Systems Corporation (the “Registrant” or the “Company”) for the year ended December 31, 2012. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements presentation. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented have been included. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year ended December 31, 2012, as reported in the Form 10-K, have been omitted.

In preparing the interim unaudited consolidated financial statements, management was required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the financial reporting date and throughout the periods being reported upon. Certain of the estimates result from judgments that can be subjective and complex and consequently actual results may differ from these estimates. These financial statements should be read in conjunction with the financial statements of the Company together with the Company’s management discussion and analysis in Item 2 of this report and in the Company’s Form 10-K for the year ended December 31, 2012. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Q4 Consulting, Inc., Q4 Solutions, Inc., Q4 Cloud, Inc., and Q4 Mobility, Inc.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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Loss per Common Share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during each period. Diluted income per share includes potentially dilutive securities such as outstanding options and warrants, using various methods such as the treasury stock or modified treasury stock method in the determination of dilutive shares outstanding during each period.

For the quarters ending June 30, 2013 and 2012, there were 12,026,678 and 10,983,614, respectively, potentially dilutive securities 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. All derivative instruments are recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. We record 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 earnings.

Recent Accounting Pronouncements

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

NOTE 4 – ACQUISITIONS

Teledata Technology Solutions, Inc.

Effective February 1, 2013, the Company acquired the assets of Teledata Technology Solutions, Inc. and its subsidiaries, Abaris, Inc., Alphasoft Services Corporation and TTS Consulting, Inc. (collectively “TTS”). Upon consummation of the transaction, whereby the Company acquired certain assets including but not limited to client contracts, trademarks, software technology, employees and other resources in exchange for: (i) the assumption of certain liabilities of \$5,100,000; (ii) cash of \$900,000; (iii) earn-out payments equal to \$1,500,000 as defined in the Agreement; (iv) 3,000,000 common shares valued at \$1,000,000.

TTS had revenues of approximately \$20 million for the calendar year 2012.

Acquisition of Momentum Mobile, LLC

On February 26, 2013, effective February 1, 2013, the Company completed acquisition of certain the assets of Momentum Mobile, LLC. The assets including client contracts and employees were transferred in exchange for: (i) cash of \$400,000; (ii) earn-out payments up to \$800,000 as defined in the Agreement; (iii) 1,000,000 common shares valued at \$330,000.

Momentum Mobile had revenues of approximately \$1,100,000 for the calendar year 2012.

Acquisition of BlazerFish, LLC

On February 26, 2013, effective February 1, 2013, the Company completed acquisition of certain assets of BlazerFish, LLC. The assets including client contracts, intellectual property and employees were transferred in exchange for: (i)

cash of \$250,000; (ii) earn-out payments equal to \$600,000 as defined in the Agreement; (iii) 3,000,000 common shares valued at \$1,000,000.

BlazerFish had revenues of approximately \$1,500,000 for the calendar year 2012.

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The following table summarizes the consideration transferred for the three acquisitions and the estimated amounts of identified assets acquired and liabilities assumed on the effective date of the acquisitions:

Fair value of consideration transferred from the acquisitions:

	TTS	Momentum	BlazerFish	Total
Cash	\$ 900,000	\$ 400,000	\$ 250,000	\$ 1,550,000
Common stock	1,000,000	330,000	1,000,000	2,330,000
Contingent payments	1,500,000	800,000	600,000	2,900,000
	\$ 3,400,000	\$ 1,530,000	\$ 1,850,000	\$ 6,780,000
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Customer lists intangibles	\$ 7,650,000	\$ 1,530,000	\$ 185,000	\$ 9,365,000
Technology stack intangibles	850,000	-	1,665,000	2,515,000
Certain accounts payable and accrued liabilities	(1,832,000)	-	-	(1,832,000)
Notes payable	(3,268,000)	-	-	(3,268,000)
	\$ 3,400,000	\$ 1,530,000	\$ 1,850,000	\$ 6,780,000

Each of the acquisitions include certain contingent consideration arrangements that require quarterly cash payments beginning June 30, 2013 through March 31, 2015 if the respective entity's revenue run rate (as defined in the agreements) is 75% or more of its defined base. The range of undiscounted amounts the Company could owe under these arrangements is between \$0 and \$2,900,000. The fair value of contingent consideration on the acquisition date(s) of approximately \$2,900,000 was estimated based on the projected revenues of each asset purchase through 2015. The calculations and projections are based on significant inputs not observable in the market, which ASC 820 refers to as level 3 inputs. Key assumptions include the maintenance of certain customers as well as utilizing certain technology across the Company's existing client base. For the quarter ended June 30, 2013 each entity achieved their specific contingent consideration arrangements.

The following unaudited proforma summary presents consolidated information of the company as if these business combinations occurred on January 1, 2013 and includes the amortization of acquired intangibles:

Gross Sales:	\$ 20,562,012
Net Loss:	\$ (1,955,536)

## NOTE 5 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	June 30, 2013	December 31, 2012
Customer list – Q4 Consulting	\$ 7,131,196	\$ 7,131,196
Customer list – Q4 Solutions	5,561,000	5,561,000
Technology stack – Q4 Solutions	5,600,000	5,600,000
Technology stack – Empower HR	175,000	175,000
Customer list – Q4 Cloud	7,650,000	-
Technology stack – Q4 Cloud	850,000	-
Customer list – Q4 Mobility	1,715,000	-
Technology stack – Q4 Mobility	1,665,000	-
	30,347,196	18,467,196
Accumulated amortization	(11,181,359)	(8,682,177)

\$ 19,165,837 \$ 9,785,019

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For the six months ending June 30, 2013, the change in intangible assets was as follows:

Beginning of the Year	\$ 9,785,019
Additions	11,880,000
Amortization	(2,499,182)
End of the quarter	\$ 19,165,837

For the quarters ending June 30, 2013 and 2012, amortization expense was \$1,342,605 and \$ 1,011,559, respectively.

## NOTE 6 – NOTE PAYABLE - REVOLVER

As amended in February 2013, the Company entered into an agreement with a financing company providing a revolving line of credit. Under the agreement, the Company assigned certain accounts receivable, including purchased accounts receivable, to the financing company in return for a maximum line of credit of \$6,500,000. The agreement is automatically renewable on the anniversary unless cancelled by the parties. Fees under the agreement consist of a commitment fee of \$65,000, a service fee of 0.65% per month, and interest at prime (at minimum of 5%) plus 2% per annum.

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

## NOTE 7 – LONG-TERM DEBT

Long-term debt consisted of the following:

	June 30, 2013	December 31, 2012
Note payable due December 31, 2014, as extended, plus interest at 5% per annum	\$ 1,160,825	\$ 1,153,658
Seller note payable due December 31, 2014, as extended, plus interest at 5% per annum	5,110,807	5,850,807
Convertible debenture payable to a finance company due April 1, 2014, plus interest at 16% per annum	350,000	350,000
Convertible Debenture payable to a finance company due July 1, 2013, plus interest at 16% per annum (c)	679,867	679,867
Note payable due December 31, 2014 plus interest at 15% per annum	283,207	364,671
Note payable due February 6, 2015 plus interest at 10% per annum (a)	1,000,000	-
Note payable due May 6, 2014 plus interest at 16% per annum (a)	1,585,500	-
Note payable due May 9, 2013 plus interest at 16% per annum (a)(c)	558,471	-
Note payable due June 30, 2013 plus interest at 12% per annum (b)(c)	246,695	-
Less Discount	(38,888)	(173,331)
Total debts	10,936,484	8,225,672
Less: Current maturities	(1,889,458)	(688,891)
Total long-term debt	\$ 9,047,026	\$ 7,536,781

(a) On February 8th, 2013, the Company issued three separate notes of varying maturity and varying amounts for the purchase of Teledata Technology Solutions' assets.

(b) During the first quarter, the Company borrowed short term funds of \$314,833 at the interest rate of 12% per annum to be retired in full on or before June 30th, 2013.

(c) For these notes, management is working with noteholders to extend these notes based on their current terms.

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## NOTE 8 - DERIVATIVE LIABILITY/FAIR VALUE

The derivative liability consists of the following:

	June 30, 2013	December 31, 2012
Warrants	\$ 134,152	\$ 249,164
Conversion feature	-	-
Derivative liability	\$ 134,152	\$ 249,164

The derivative liability related to the outstanding warrants was valued using the Black-Scholes option valuation model and the following assumptions at June 30, 2013:

	June 30, 2013	December 31, 2012
Risk free interest rate	.41% - .72 %	.72 %
Expected volatility	433 %	449 %
Expected dividend yield	0	0

The derivative liability associated with the convertible debt conversion feature was reviewed by management and the fair value of the conversion price exceeded the trading value (fair value) of the common stock into which it converts.

## NOTE 9 – STOCKHOLDERS' EQUITY

## Preferred Stock

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.

## Reserved Shares

As of June 30, 2013, the Company has reserved the following shares of common stock:

Warrants – financing and stock subscription	9,966,944
Conversion – financing	2,059,734
Warrants – Proposed, but unissued, for directors, management and consultants	2,500,000
	14,526,678

## NOTE 10 – CONTINGENCIES

In July 2012, a claim was made against the Company seeking payment of an "exclusivity fee" and other expenses arising from a proposed financing term sheet that company had entered into in early 2012. On July 13, 2013, the presiding court ordered the Company to pay a judgment in the approximate amount of \$692,000, which has been accrued at June 30, 2013. Management is currently strategizing with its legal counsel the merits of appealing the judgment or proposing, a practical payment plan.

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

NOTE 11 – FOREIGN OPERATIONS

The Company's headquarters and operations are located in the United States. However, the Company does have some key suppliers and subcontractors located in India. The Company and its management team have no ownership, directly or indirectly, in these key suppliers and subcontractors. Payments made to India suppliers and subcontractors were \$975,000 and \$1,200,000 for the three months ending June 30, 2013 and June 30, 2012, respectively and \$1,840,000 and \$1,610,000 for the six months ending June 30, 2013 and June 30, 2012, respectively.

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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 June 30, 2013 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 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

Q4 Systems Corporation ("Q4", "we", "us", "our", or the "Company") is a publicly held company engaged in the information technology sector focusing on the SMAC offerings. The Company was incorporated by the Florida Department of State on May 9, 1990 as Sun Express Group, Inc. and changed its business model and name in June 2010. Q4 operates four wholly owned subsidiaries, namely Q4 Consulting, Inc., Q4 Solutions, Inc., Q4 Cloud, Inc., and Q4 Mobility, Inc.

The Company is actively pursuing a business model to position itself as a leader in the SMAC segment of the IT business. Q4 Health, a business unit of Q4 has launched QHIX, its health insurance exchange platform to assist private and public exchanges as mandated by the Affordable Care Act.

Business Strategy

Our objectives are to maximize stockholder value and enhance our position as a leading provider of information technology, consulting and business process outsourcing services. We implement the following core strategies to achieve these objectives:

**Growth through Reinvestment:** Historically, we have invested significant portion of our profit back into our business. This investment is primarily focused in the areas of: strengthening and expanding our portfolio of services; developing new technology platforms and software applications, continuing to expand both sales and delivery organizations; training our technical staff in a broader range of service offerings; recognizing and rewarding exceptional performance by our employees; and maintaining a level of resources, trained in a broad range of service offerings, to be well positioned to respond to our client requests, as described below.

**Expand Service Offerings and Solutions:** We have several teams dedicated to creating technology-based innovative solutions and developing new, high value services. The teams collaborate with customers to develop these services. For example, we are currently developing new offerings in Business and IT Consulting and industry-oriented IT solutions atop innovative technologies. We invest in internal research and development and promote knowledge building and sharing across the organization to advance the development of new services and solutions. Furthermore, we continue to enhance our capabilities and service offerings in the areas of CRM, ERP, EIM, Software Testing, Infrastructure Management, industry-oriented BPO services and SMAC technologies.

We believe that the continued expansion of our service offerings will provide new sources of revenue, reduce our reliance on any one technology initiative and help foster long-term relationships with our customers by allowing us to better serve their needs. Additionally, as part of our vision to continue our growth and anticipate our clients' and the markets' rapidly changing demands in the near-term, mid-term and long-term, we are investing in emerging opportunities which seek to transform client and user platforms to internet, cloud and mobile-based experiences.

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**Research and Development and Competency Centers:** We have project experience and expertise across multiple architectures and technologies, and have made significant investments in our competency centers and in research and development to keep abreast of the latest technology developments. Most of our technical staff is trained in multiple technologies and architectures. As a result, we are able to react to clients' needs quickly and efficiently redeploy our technical staff to different technologies. Also, to develop and maintain this flexibility, we have made a substantial investment in our competency centers so that the experience gained from particular projects and research and development efforts is leveraged across our entire organization. Through our investment in research and development activities and the continuing education of our technical personnel, we enlarge our knowledge base and develop the necessary skills to keep pace with emerging technologies. We believe that our ability to work in new technologies allows us to foster long-term relationships by having the capacity to continually address the needs of both existing and new clients.

**Growth through synergistic and Accretive acquisitions:** We believe that opportunities continue to exist in the fragmented market in which we operate to expand our business through selective strategic acquisitions, joint ventures and strategic alliances. We believe that acquisition and joint venture candidates may enable us to expand our geographic presence, service offering and capabilities more rapidly. For example, in 2012 we completed the acquisition of empowHR Inc., a provider of SaaS based solution for Healthcare Benefits Administration solutions. This acquisition allowed us to accelerate development of our Healthcare Information Exchange (HIX) product platform by integrating acquired technologies into our platform. The Company will continue to carefully evaluate such opportunities available to enter into transactions that will help Q4 accelerate both technology development and client acquisition to complement its organic growth strategies.

**Global Delivery Model:** We have a global architecture for service delivery and operations, consisting of employees co-located at clients' sites, local or in-country delivery centers, regional delivery centers and global delivery centers. Our extensive facilities, technology and communications infrastructure facilitate the seamless integration of our global workforces. This is accomplished by permitting team members in different locations to access common project information and to work directly on client projects. This infrastructure allows for rapid completion of projects, highest level of quality, efficient use of clients' technological resources and real-time access to project information by the on-site account manager or the client. In addition, for large projects with short time frames, our offshore facilities allow for parallel processing of various development phases to accelerate delivery time.

**Highly-Skilled Workforce:** Our managers and senior technical personnel provide in-depth project management expertise to clients. To maintain this level of expertise, we place significant emphasis on recruiting and training our workforce of highly-skilled professionals. We have built a global delivery organization that include over 1000 technology personnel (both employees and dedicated/exclusive Q4 consultants), project management personnel and service delivery staff around the world. We also maintain programs and personnel to hire and train the best available technical professionals. We provide extensive combined classroom and on-the-job training to newly-hired technical staff, as well as additional annual training programs designed to enhance the business practices, tools, technology and consulting skills of our professional staff.

**Continue to be an Employer of Choice in the Industry:** As a rapidly growing professional services firm, a key attribute of our continued success is the ability to continually hire, assimilate, motivate and retain the best talent possible in the industry. We have developed strong relationships with key universities around the world, particularly in India, to provide a continual pipeline of talented staff from Tier One schools. We continue to expand our presence and brand in our key supply markets, further enhancing our ability to hire experienced professionals from competing IT services firms and industry to support our client needs and growth. We invest heavily in training programs, motivational programs and career development to ensure personal professional growth for each of our employees.

**Further Develop Long-Term Client Relationships:** We have strong long-term strategic relationships with our clients and business partners. We seek to establish long-term relationships that present recurring revenue opportunities, frequently trying to establish relationships with our clients' chief information officers, or other IT and business decision makers, by offering a wide array of cost-effective high quality services. Approximately 65% of our revenues for the year ended December 31, 2012 were derived from clients who had been using our services at the end of 2011. We also seek to leverage our experience with a client's IT systems into new business opportunities. Knowledge of a client's processes and IT systems gained during the performance of application maintenance services, for example, may provide us with a competitive advantage in securing additional maintenance, development and other projects from that client.

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Core Business

We are a leading provider of information technology (IT) products and services, targeted to helping the world's leading companies build stronger businesses by leveraging benefits of 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 sale and licensing of proprietary technology and Software as a Service (SaaS) Platforms as well as from a wide range of IT services. Our core competencies include: Business, Process, Operations and IT Consulting, Application Development and Systems Integration, Enterprise Information Management, Application Migration, Testing and Maintenance, IT Infrastructure Services, or IT IS, and Business and Knowledge Process Outsourcing, or BPO and KPO. We blend these services with our technology platforms to offer client specific and industry specific solutions. Our technology platforms and consulting services are tailored for Healthcare, Retail, Financial Services, Logistics and Manufacturing industry segments. We deliver the solutions utilizing a seamless global delivery organization of over 800 people located in North America and in India.

Competition

While the Company currently operates in a highly competitive industry, we believe the Company will be able to compete effectively against well-capitalized competitors that have extensive experience, established distribution channels and facilities by building a scalable yet robust platform that allows the Company to be responsive to the needs of its customers with quality services with competitive pricing, a well-developed recruiting and retention model that ultimately provides a successful delivery to the customers.

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

The Company is actively executing on its business model which consists of delivery of consulting services in the targeted market segments. 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 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 process 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. Our financial statements reflect primarily income from billing for our consulting services and expenses incurred to pay employees and consultants, including financing to meet payroll in anticipation of receipt of billing income from customers as well as general administration expenses to manage the Company.

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## Results of Operations

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

	Three months ending June 30,			Percent
	2013	2012	Increase/ (Decrease)	
Revenue	\$ 9,097,604	6,656,920	2,440,684	37%
Cost of Revenue	(6,681,494)	(5,369,565)	(1,311,929)	24%
Gross Margin	2,416,110	1,287,355	1,128,755	88%
General and administrative expenses	(1,264,312)	(793,019)	(471,293)	59%
Amortization of intangible assets	(1,342,605)	(1,011,559)	(331,046)	33%
Interest, Legal Judgment –Financing and derivative gain	(1,272,640)	(314,567)	(958,073)	305%
Net loss	\$ (1,463,447)	\$ (831,790)	\$ (631,657)	76%

	Six months ending June 30,			Percent
	2013	2012	Increase/ (Decrease)	
Revenue	\$ 19,005,059	\$ 13,384,559	\$ 5,620,500	42%
Cost of Revenue	(14,225,345)	(10,685,688)	(3,539,657)	33%
Gross Margin	4,779,714	2,698,871	2,080,843	77%
General and administrative expenses	(2,340,831)	(1,524,935)	(815,896)	54%
Amortization of intangible assets	(2,499,677)	(2,023,121)	(476,556)	24%
Interest, Legal Judgment –Financing and derivative gain	(1,788,112)	(840,033)	(948,079)	113%
Net loss	\$ (1,848,906)	\$ (1,689,218)	\$ (159,688)	9%

## Comparison of Three Months and Six Months Ending June 30, 2013 and 2012

## REVENUES

Revenues for the second quarter ending June 30, 2013 totaled \$9,097,604 compared to \$6,656,920 of revenue during the same period in 2012. There is an increase in revenues of \$2,440,684, or 37% over the previous second quarter. Revenues were comprised of service-related sales of software programming, consulting and development services.

Revenues for the six months ending June 30, 2013 totaled \$19,005,059 compared to \$13,384,559 of revenue during the same period in 2012. There is an increase in revenues of \$ 5,620,500, or 42% over the previous six month period in 2012.



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Revenues were comprised of service-related sales of software programming, consulting and development services.

**COST OF REVENUES**

Cost of revenue for the second quarter ending June 30, 2013 totaled \$6,681,494 compared to cost of revenue of \$5,369,565 during the same period in 2012. The increase in cost of revenue of \$1,311,929, or 24% over the previous second quarter, was due primarily to the increase in revenues in 2013. Cost of revenue is comprised primarily of the direct costs of employee and contract labor and related expenses.

Cost of revenue for the six months ending June 30, 2013 totaled \$14,225,345 compared to cost of revenue of \$10,685,688 during the same period in 2012. The increase in cost of revenue of \$3,539,657, or 33% over the previous second quarter, was due primarily to the increase in revenues in the second quarter of 2013. 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 \$1,128,755, or 88% over the previous second quarter, resulted primarily from increased revenues, the gross margin percentage increased from approximately 19% in the second quarter of 2012 to 27% in the second quarter of 2013.

The increase in gross margin of \$2,080,843, or 77% over the previous six month period, resulted primarily from decreased revenues, the gross margin percentage increased from approximately 20% in the six months period 2012 to 25% in the six month period 2013.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general & administrative expenses for the second quarter ending June 30, 2013 totaled \$1,264,312 compared to selling, general & administrative expenses of \$793,019 during the same period in 2012. The increase in selling, general & administrative expenses of \$471,293, or 59% over the previous second quarter, was due to the inclusion of selling, general & administrative expenses and increased costs of integrating the acquisition of three new business entities (acquired February 1, 2013).

Selling, general & administrative expenses for the six months ending June 30, 2013 totaled \$2,340,831 compared to selling, general & administrative expenses of \$1,524,935 during the same period in 2012. The increase in selling, general & administrative expenses of \$815,896, or 54% over the previous six month period, was due to the inclusion of selling, general & administrative expenses from the Company's acquisitions on February 1, 2013 and increased costs associated with integration of these new businesses during the six months ending June 30, 2013.

**AMORTIZATION AND WRITE-DOWN OF INTANGIBLE ASSETS**

Amortization expense for the second quarter ending June 30, 2013 totaled \$1,342,605 compared to \$1,011,559 during the same period in 2012. The increase in amortization expense of \$331,046 was due to the additional amortization expenses from intangible assets acquired in connection with the acquisition of Teledata, Momentum Mobile and Blazer fish during the last quarter. Amortization periods on the acquired intangibles range from 5 – 7 years.

Amortization expense for the six months ending June 30, 2013 totaled \$2,499,677 compared to \$2,023,121 during the same period in 2012. The increase in amortization expense of \$476,556 was due to the additional amortization expense from intangible assets acquired in connection with the acquisition of Teledata, Momentum Mobile and blazer fish during the last quarter. Amortization periods on the acquired intangibles range from 5 – 7 years.



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## INTEREST, LEGAL JUDGEMENT - FINANCING AND DERIVATIVE EXPENSE

Financing and interest costs and derivative expenses for the second quarter ending June 30, 2013 totaled \$1,272,640 compared to \$314,567 during the same period in 2012. The increase in financing, interest costs and derivative expenses of \$958,073 or 305% over the previous second quarter, was due to item of Legal Judgment finance, increase in long-term debt to finance the Company's acquisitions and the note payable-revolver, as well as due to the decrease in gain from derivatives associated with the prior issuance of certain warrants.

Financing and interest costs and derivative expenses for the six months ending June 30, 2013 totaled \$1,788,112 compared to \$840,033 during the same period in 2012. The increase in financing and interest costs of \$948,079 or 113% over the previous six month period, was due to item of Legal Judgment finance, increased interest on notes payable and long-term debt to finance the Company's acquisitions and the note payable-revolver, amortization of debt discount as well as the derivative expense associated with the prior issuance of certain warrants.

## NET LOSS

The Company reported a net loss of \$1,463,447 for the second quarter ending June 30, 2013 compared to net loss of \$831,790 for the same period in 2012. The increase of \$631,657, or 76% over the previous second quarter, was due to increase in revenues, an increase in gross profit margin offset by an and increase in selling, general and administrative expenses, legal settlement, interest and amortization in the current period as compared to the prior period.

The Company reported a net loss of \$1,848,906 for the six months ending June 30, 2013 compared to net loss of \$1,689,218 for the same period in 2012. The increase of \$159,688, or 9% over the previous six month period due to increase in revenues, an increase in gross profit margin offset by an increase in selling, general and administrative expenses, legal settlement, amortization and interest costs, in the current period as compared to the prior period.

## EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the second quarters ending June 30, 2013 and June 30, 2012 is calculated as follows:

	June 30, 2013	June 30, 2012
Net Loss (GAAP Basis)	\$ (1,463,447)	\$ (831,790)
Interest, Legal Judgment –Financing and derivative gain	1,272,640	314,567
Amortization expense	1,342,605	1,011,559
Income Taxes	-	-
EBITDA	\$ 1,151,798	\$ 494,336

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the six months ending June 30, 2013 and June 30, 2012 is calculated as follows:

	June 30, 2013	June 30, 2012
Net Loss (GAAP Basis)	\$ (1,848,906)	\$ (1,689,218)
Interest, Legal Judgment –Financing and derivative gain	1,788,112	840,033

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Amortization expense	2,499,677	2,023,125
Income Taxes	-	-
EBITDA	\$ 2,438,883	\$ 1,173,940

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the three months ending June 30, 2013 increased by \$657,462 or 133% over the previous six-month period.

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Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the six months ending June 30, 2013 increased by \$1,264,947 or 108% over the previous six-month period.

### LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2013, we had an accumulated deficit of \$11,084,053 as compared to \$9,235,147 at December 31, 2012. As of June 30, 2013, we had a working capital deficit of \$5,475,837 as compared to \$954,265 at December 31, 2012.

We have no material commitments for capital expenditures.

Net cash provided by operations for the six months ending June 30, 2013 was \$352,702 as compared to net cash provided by operations of \$429,531 primarily relating to an increase in Accounts receivable and accounts payable.

Net cash used in investing activity for the six months ending June 30, 2013 was \$1,558,239 primarily relating to the Acquisitions of businesses.

Net cash received in financing activities for the six months ending June 30, 2013 was \$1,187,238. Net cash used in financing activities during the six months ending June 30, 2012 was \$1,387,604. The increase in cash received in financing activities in 2013 compared to 2012 was due primarily to increase in note payable factor and issue of shares which was partly utilized to pay down other debt.

The Company was reliant on proceeds from the sale of stock in 2013 and proceeds from borrowings to provide working capital. A tightening of capital markets can reduce or eliminate funding sources causing a decrease in our liquidity and an inability to generate revenues from new lending activities.

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. Also, the Company is exploring alternatives for its trade receivable factoring which carries a very high interest rate. Refinancing of this receivable factoring financing will reduce the Company's interest expenses thereby increasing the Company's liquidity position.

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 six months ending June 30, 2013. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

### CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is included in Note 3 to the unaudited financial statements included elsewhere in this Report and in Note 2 to the financial statements included in our Annual Report filed under Form 10-K for the year ending December 31, 2012. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition. The following are a summary of the significant accounting estimates and policies that we believe are most critical to aid in fully understanding and evaluating our reported financial results.

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### Critical Accounting Estimates and Policies

#### General

The Consolidated Financial Statements of the Company are prepared in accordance with U.S. generally accepted accounting principles, which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the audit committee of our Board of Directors.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

A summary of significant accounting policies is included in Note 3 to the consolidated financial statements included elsewhere in this Report. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition. The following are a summary of the significant accounting estimates and policies.

**Estimates** .The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. We have made estimates for doubtful accounts of accounts receivable, fair values of our customer lists and the estimated useful lives for the amortization of our customer lists. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the value of customer lists and other intangible assets, values which are not readily apparent from other sources.

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

**Accounts and Unbilled Receivables** .Accounts and unbilled receivables consist of amounts due from customers. 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 and current economic trends.

**Intangible Assets** .Intangible assets 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 at least annually or upon the occurrence of an event which may indicate that the carrying amount may be greater than its fair value. If impaired, the Company will write-down the intangible assets for 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 were 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.

Revenue Recognition .Revenue is recognized when it has 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.



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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

We carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls were not effective as of June 30, 2013, based on their evaluation of these controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have identified certain matters that constitute material weaknesses (as defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in our internal controls over financial reporting. The material weaknesses that we have identified relate to the fact that our overall financial reporting structure, internal accounting information systems and current staffing levels are not sufficient to support our financial reporting requirements. We are working to remedy our deficiency.

Changes in internal control over financial reporting. There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the second quarter of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In July 2012, a claim was made against the Company seeking payment of an "exclusivity fee" and other expenses arising from a proposed financing. On July 13, 2013, the presiding court ordered the company to pay the fees in the amount of \$691,718.93. While the company's legal team is strategizing the merits of an appeal or proposing a practical payment plan.

We are not currently subject to any other legal proceedings, nor, to our knowledge, is any other legal proceeding threatened against us. From time to time, we may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts. While the outcome of these legal proceedings, if any, cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Item 1A. Risk Factors

Not required.

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

There were no sales of unregistered equity securities in the first six months of 2013.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

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Item 6. Exhibits

Item 601 of Regulation S-K

Exhibit No.:	Exhibit
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company</u>
32.1	<u>Section 1350 Certification by Chief Executive Officer and Chief Financial Officer</u>
101	The following financial information from Quadrant 4 Systems Corporation's Quarterly Report on Form 10-Q for the quarter ending June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2013 (unaudited) and December 31, 2012; (ii) Consolidated Statements of Income (Unaudited) for the six months ending June 30, 2013 and 2012, (iii) Consolidated Statements of Cash Flows (Unaudited) for the six months ending June 30, 2013 and 2012

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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 SYSTEMS CORPORATION

August 12, 2013

By:

/s/ Dhru Desai

Dhru Desai

Chief Financial Officer and Director