

Quadrant 4 System Corp
Form 10-K
March 17, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2013

TRANSITION REPORT PURSUANT TO 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
(State or other jurisdiction of incorporation or
organization)

65-0254624
(IRS Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

(None)
Title of each class

(None)
Name of each exchange on which registered

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in
Rule 405 of the Securities Act.

Yes No

Yes No

Edgar Filing: Quadrant 4 System Corp - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Indicate by check mark 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 information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Securities Exchange Act of 1934.

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 Securities Exchange Act of 1934).

Yes No

The aggregate market value of common stock held by non-affiliates of the Registrant on June 30, 2013 based on the closing price on that date of \$0.07 on the OTC was \$ 6,019,068. For the purposes of calculating this amount only, all directors, executive officers and shareholders owning in excess of five percent (5%) of the Registrant's outstanding common stock have been treated as affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of common stock outstanding as of March 17, 2014 was 92,466,690.

Documents incorporated by reference. There are no annual reports to security holders, proxy information statements, or any prospectus filed pursuant to Rule 424 of the Securities Act of 1933 incorporated herein by reference.

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
TABLE OF CONTENTS

		Page
PART I		
Item 1	<u>Business</u>	3
Item 1A	<u>Risk</u>	10
Item 1B	<u>Unresolved Staff Comments</u>	18
Item 2	<u>Properties</u>	18
Item 3	<u>Legal Proceedings</u>	18
Item 4	<u>Mine Safety Disclosures</u>	18
PART II		
Item 5	<u>Market for Registrant's Common Equity, Related Stockholder matters and Issuer Purchases of Equity Securities</u>	19
Item 6	<u>Selected Financial Data</u>	20
Item 7	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 7A	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 8	<u>Financial Statements and Supplementary Data</u>	25
Item 9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	26
Item 9A	<u>Controls and Procedures</u>	26
Item 9B	<u>Other Information</u>	26
PART III		
Item 10	<u>Directors and Executive Officers and Corporate Governance</u>	27
Item 11	<u>Executive Compensation</u>	29
Item 12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	29
Item 13	<u>Certain Relationships and Related Transactions</u>	30
Item 14	<u>Principal Accountant Fees and Services</u>	30
PART IV		
Item 15	<u>Exhibits and Financial Statement Schedules</u>	31
	<u>SIGNATURES</u>	32
EX-31.1	<u>Certification</u>	
EX-31.2	<u>Certification</u>	
EX-32.1	<u>Certification</u>	

Table of Contents

Special Note Regarding Forward Looking Statements

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as “believe,” “expect,” “anticipate,” “project,” “target,” “plan,” “optimistic,” “intend,” “aim” or similar which are intended to identify forward-looking statements. Such statements include, among others, those concerning market and industry segment growth and demand and acceptance of new and existing products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; uncertainties related to conducting business in China, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, including those identified in Item 1A, “Risk Factors” included herein, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this report to conform our prior statements to actual results or revised expectations.

PART I

ITEM 1. BUSINESS

Overview

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 products include QHIX, a cloud based health insurance exchange platform and RetailSphere, a cloud based retail platform that incorporates all of our proprietary technologies of SMAC stack. Our core services include IT Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications, Business Analytics and QA/QC. We blend these services with our technology platforms to offer client specific and industry specific solutions to Healthcare, Retail, Financial Services, Media and Manufacturing industry segments. We deliver the solutions utilizing a seamless global delivery organization located in North America and in India.

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.

Quadrant 4 currently offers software products, platforms, consulting services and solutions involving proprietary technologies in Social Media, Mobility, Analytics and Cloud (SMAC) applications to small, medium and large

enterprise customers. The Company's revenue model consists of a healthy mix of long term recurring revenue based on its platforms and proprietary technology as well as consulting and project based services.

Principal Business

The Company is engaged in the IT sector as a provider of Software as a Service (SaaS) based technology products to enterprise customers in addition to Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications, Business Analytics and QA/QC. Cloud based IT product platforms such as QHIX and RetailSphere are now the primary focus of the Company's business model. Since its first acquisition of IT related assets, the company has continued to acquire and integrate additional assets to improve its products and services offering while gaining significant market access.

Table of Contents

Industry Background

Today, many companies are dealing with their IT infrastructure which has been in many ways in need of modernization as their businesses face intense competitive pressure and rapidly changing market dynamics, driven by such factors as changes in the economy, new set of government regulations, changing business models and competition and globalization - both in their markets as well as supply-chains. At the same time, companies must evaluate the effect of emerging technologies such as social networks, mobile devices, advanced analytics and cloud computing, or SMAC, on their business operations and how they can not only respond to these technological changes but also in many ways embrace these technologies to improve their businesses and expand their markets. These technologies represent a new IT technology stack that will profoundly change the way companies relate to their customers, engage with employees, and bring innovative products and services to market. In response to these challenges, many companies are focused on improving efficiencies, enhancing effectiveness and driving innovation through technology to favorably impact both the bottom-line and the top-line. Companies need to build agility into both the cost and revenue sides of their models. In this context, they increasingly view the global sourcing model as a key to their efforts to operate more cost-effectively and productively. Separately, to confront secular industry shifts, changing demographics and new technologies, companies are looking to innovate and build new and different capabilities with emerging technologies to ensure their business models stay relevant.

Companies increasingly seek to meet the dual mandate of more efficient and effective operations, including cost reduction, along with technology-based innovation and business transformation in a comprehensive, integrated manner. Achieving these objectives presents major challenges and requires companies to have highly skilled professionals trained in many diverse and new technologies and specialized industries. Increasingly, companies are relying on service providers, like us, operating with global delivery models, to help them meet these ever-changing objectives.

SMAC technology based solutions when offered and deployed as SaaS based model has given businesses a real opportunity to develop innovative solutions that ultimately leads to leveraging public IT infrastructure, lowering cost of ownership and deploy innovative applications that not only improves enterprise decision making capabilities but also allows them to roll out new business models with unprecedented business models and ability to reach customers.

Key Offerings

Portfolio of Services: We offer a broad range of services designed to help clients address business challenges and enhance their ability to pursue growth opportunities. Our key service areas, Consulting and Technology Services and Outsourcing Services, are delivered to our clients across various markets in a standardized, high-quality manner through our global delivery model. We continually invest in the expansion of our service portfolio to anticipate and meet clients' evolving needs. In recent years, in addition to our traditional offerings, we have begun to provide services that enable clients to harness emerging SMAC technologies. Our current service areas include:

§ SMAC Stack

We help clients leverage SMAC technology, with the combination of social, mobile, analytics and cloud giving way for the new IT model. SMAC has transformed the way companies engage with customers, interact with employees, and introduce products and services to market.

Our SMAC-enabled solutions take root from our strength in extracting value from emerging technologies. While our solutions mobilize enterprises to adapt to the dynamic environment, our social media analytics and sentiment services help clients gain insights to improve customer relationships. Our end-to-end cloud services ranging from consulting and implementation to ongoing support activities help enterprises to take control over their business from a single

solid platform. Our SMAC solutions help clients drive top line growth and enhance efficiencies to improve the bottom line.

§ IT Consulting

We provide IT consulting services to ensure that clients are well positioned to adapt to changing business needs, effectively and quickly. We work closely with our clients to define, design as well as execute robust IT processes and strategies to fuel business growth and bring down operational costs.

Striking a rich mix out of deep industry knowledge and a thorough understanding of business processes, we provide consulting services with a prescriptive approach to unearth business problems and recommend solutions for clients to enhance their business operations. With our IT consulting services, clients reap rewards from rich insights to strengthen their decision-making forte and find solutions to the most crucial business challenges.

Table of Contents

§ Application Life Cycle Management

Our Application Maintenance service offering supports some or all of a client's applications, ensuring that systems remain operational and responsive to changing user requirements and provide on-going enhancements as required by the client. Beyond the traditional view of IT outsourcing as a cost-saving measure, our Application Maintenance services enable clients to improve the overall agility, responsiveness, productivity and efficiency of their IT infrastructure. Increasingly, we also are assisting clients in adapting their IT systems to SMAC technologies.

By supporting some or all of a client's applications, our services help ensure that a user's core operational systems are free of defects and responsive to changing needs. As part of this process, we are often able to introduce product and process enhancements and improve service levels to customers requesting modifications and on-going support. We also provide Application Value Management Solutions that can help balance cost, complexity and capacity and can help clients reduce cost of ownership, improve service levels and create new operational efficiencies.

Our global delivery business model enables us to provide a range of rapid response and cost-effective support services to our clients. Our on-site team members often provide help-desk services at the client's facility. These team members typically are available in the event of an emergency service request and are able to quickly resolve customer problems from remote locations. In the case of more complex maintenance services, including modifications, enhancements and documentation, which typically have longer turnaround times, we take full advantage of our offshore resources to develop solutions more cost-effectively than would be possible relying on higher cost local professionals.

As part of our Application Maintenance services, we assist clients in renovating their core systems to meet the requirements imposed by new regulations, new standards or other external events. We seek to anticipate the operational environment of our clients' IT systems as we design and develop such systems. We also offer diagnostic services to clients to assist them in identifying shortcomings in their IT systems and optimizing the performance of their systems.

§ Enterprise Applications & Data Management

We provide a whole range of enterprise applications services across Oracle and SAP technologies. Bringing the rich blend of domain expertise and industry experience to the forefront, the wide range of enterprise applications services extends from ERP, application maintenance and support, business intelligence and enterprise performance management services catering to the varied needs of our clients.

Our global delivery model that is built out of the optimal blend of near shore, onshore and offshore resources comprising experienced consultants gives us the edge to integrate and align our client's applications with their business processes to pave way for a robust IT foundation.

Leveraging comprehensive consulting, implementation, development, maintenance, integration and upgrades and emerging technologies like mobile, SOA and cloud, we ensure delivery excellence to reduce risks and costs while adding value to our client's business.

We provide data management services to help our clients manage their databases effectively to improve productivity and business performance. Our data management experts help clients surmount challenges by ensuring that they establish and maintain high-quality data, make the shift from descriptive to predictive analytics and realize significant benefits from a robust data management strategy.

Providing support to the most business-critical applications of our clients, experienced teams well versed in managing huge databases like Oracle and Microsoft SQL server provide services ranging from designing, planning, setting up

and installing to database administration, restoration and upgrades to ensure that our clients gain value from their enterprise data.

§ Enterprise Mobility

We help customers use mobile technology as a strategic business differentiator. We offer custom and pre-built platforms for mobile applications, with an array of features including database integration, mobile payments, NFC, QR code and mobile marketing. The spectrum of services extends from business consulting and mobile technology services to industry-focused mobility solutions.

As a reliable technology partner, we provide the most complete mobile design and development services from concept to launch across platforms to ensure that clients realize maximum value from their mobile investments. With rich experience in developing mobile apps for clients falling under various sectors, the mobile team builds robust apps to help clients realize their business potentials.

Table of Contents

Designed and developed with the end user in mind, our mobile solutions pave way for an enriching user experience. Our robust frameworks and service delivery accelerators serve us well to bring down costs reduce risks and time involved in implementing mobile solutions.

§ Business Analytics

Our business analytics services help clients to extract value from information, use insights to optimize decisions, improve operations and achieve business excellence. With extended capabilities to design the right strategy to enhance in-house analytics capabilities, build analytical models, support current models and analytical operations, our business analytics services ensure that clients gain true insights into business operations, processes and customers.

The nimble-footed team comes with rich experience in analytics delivery, providing the whole gamut of analytics services from predictive analytics and segmentation analytics to text analytics. The analytics practitioners also bring their expertise in working with CRM recommendation systems, data warehouses and business intelligence systems to the fore to deliver results well within clients' budget and right on time.

§ QA/QC

Our QA services have served clients well to enhance quality of applications, reduce risks to get rid of system outages that can affect operations. The business driven QA and testing services make use of industry recognized methodologies to mitigate technical and business risks, reduce time to market improve quality and bring down testing costs.

Experienced testing professionals spearhead our QA practice, with proven methods and innovating tools coming to our aid to ensure that our clients achieve good results from their QA initiatives.

By providing top notch quality assurance and testing services, we make sure that our clients achieve business transformation by way of test consulting and strategy, quality management, mobile application testing, performance and automation engineering and specialized testing in the area of business intelligence.

§ Managed Services

Our managed service offerings empower enterprises to shift their focus from day-to-day operations to core business activities. We provide a range of cloud infrastructure services including cloud hosting, colocation services, IT infrastructure and managed hosting services to ensure that our clients take advantage of emerging market opportunities through the right mix of programs and services.

With our own datacenters that are designed to meet the most demanding IT environment and with rich experience in working with other leading providers, we make sure that our clients take full advantage of cloud hosting to earn tremendous savings.

We also serve clients as their remote IT department from our state-of-the-art facilities, with our professional consultants offering a breadth of services including support for all major platforms like SAP Windows, UNIX/Linux, robust systems management and help desk ticketing systems. Extracting the potential of our experienced managed services team and global network of data center partners, we provide complete solutions to ensure that our clients meet specific business needs

Proprietary Technology Platforms: Q4 offers cloud based multi-tenant software platforms that serve the health insurance markets and retailers:

§ QHIX©

While the Affordable Care Act (ACA) mandates establishment of government facilitated health insurance exchanges in every state, there are several market dynamics driving businesses, organizations and brokers to implement their own private health exchanges such as:

- Need for more healthcare choices by employees
- Employers' increasing need for choice between defined contribution and defined benefits for their employees
- Payers' need to support Employer sponsored health insurance and avoid product commoditization
- Opportunity to adapt new business model for other industry stakeholders, such as benefits consultants, Third Party Administrators and Brokers to emerge stronger and enhance their relationship with the consumers

Table of Contents

QHIX, our health insurance solution supports various models:

- Insurer operated model for insurers or group of insurers to operate the exchange offering plans to individuals and customizing plan choices in partnership with employers
- Third party operated model for large Brokers and Benefit Administrators with multiple carriers to offer products to individuals and employers
 - Retailer operated model to sell their products along with other health and wellness products

QHIX offers a robust and personalized end-to-end member management experience for all the stakeholders of the exchange:

- Individuals and employees - Complete retail centric experience from shopping to enrollment to billing and manage their dependents
- Employers – Offer employees various plans through defined contribution or defined benefits approach, manage enrollment period, manage employee and their dependents enrollment and life change events & billing
 - Carriers – Flexible plan configuration capabilities with rider and benefits details along with plan summary
- Brokers – Manage the banquet of offerings to their clients; employers or individuals and their billing and commission details
- Exchange users – complete back office administration of all the functions of the exchange to support manage jobs, invoicing, reconciliation and manage payments

QHIX fully supports the entire employee benefits administration function:

- Benefits Enrollment
- Employee Portal
- Data Exchange
- Real Value Statement
- Consolidated Invoice & Reconciliation
- QHIX is highly secured and is HIPAA compliant and is designed for scale

§ RetailSphere©

Quadrant's RetailSphere reinvents retail technology through a comprehensive set of in-store retail, e-commerce, mobile and social technologies. RetailSphere enables retailers to engage and connect with consumers in a variety of ways never imagined before, thereby revolutionizing the shopping experience. RetailSphere is a multichannel platform and supports several critical functions such as:

- Mobile Commerce

Our secure wallet technology consisting of mobile payment, location aware coupons and virtualized rewards/loyalty cards.

- Store Check-in

Store Check-In is an important tool for the retailers. It notifies retailers of the presence of consumers in their store, and this in turn offers retailers a unique opportunity to engage consumers through 1-on-1 marketing. The shopping experience that unfolds in the retail store can be customized to the consumer.

- Location Aware Couponing

Our location aware coupons provide retailers an effective means of reaching consumers. These coupons can be context sensitive, easy to redeem while on the go, and comes with multiple redemption options including QR Codes,

bar codes, manual entry and more.

- IQZone

Our IQZone technology can carve up the retail shop floor into segments. Each segment is infused with sensors e.g. motion, force, etc. to gauge foot traffic to draw heat maps. We also can embed sound based marketing technology in the shop floor to seamlessly embed bits in audio frequencies – both music and/or imperceptible sound waves to send offers to mobile devices, shopping carts and more.

7

Table of Contents

- IQCart

IQCart is another revolutionary concept in Retail. We embed the IQCart technology in shopping carts with embedded tablets. Information can be exchanged between IQShelf, IQZone and IQCart bringing a new dimension to the in-store retail experience.

- IQTags

IQTags covers a gamut of tag technologies including RFID, NFC, QR Codes, UPC codes, EAN codes, Datamatrix code and more. We support a cloud platform to encode and decode these tags and track the analytics using a feature rich dashboard.

- Augmented Reality

Augmented Reality augurs in a new era in retail. It is particularly suitable for products demonstrations, apparel, eyewear, cosmetics, and any other merchandise requiring the consumer to try things on before purchase. Augmented reality can make the shopping process fun and enjoyable while enabling retailers to offer unprecedented level of customer service and engagement.

- Tablet Catalogs

Many retailers utilize catalogs to engage consumers. Printed catalogs are generally bulky, expensive to produce and expensive to mail. With Tablet catalogs, retail catalogs can be updated over the Internet. They remain forever up to date, product and pricing changes can be easily synchronized. It is easy to distribute, involves no shipping or mailing charges, and eco-friendly.

- Daily Deal

This platform offer retailers to offer deals and move slow moving or perishable inventory through unique promotions. This platform also enables retailers to attract new customers, increase loyalty and promote awareness.

- Social Commerce

Social Media offers retailers a different method of engaging users. Social media is thought of as electronic ‘word of mouth’ advertising and has the potential to spread our client’s brand awareness in a viral manner. Our platforms in the social media space do just that – they spread the word. And retailers benefit. Get the word out via a Facebook store, or tweets on Twitter. How about finding out what audiences are saying about your new ad campaign, and listening the whispers on the competition? These are powerful new strategies and techniques that retailers can leverage today with the RetailSphere platform.

- Quick ResponseTV

We provide retailers with the power to create their own channels. What used to be the domain of media companies is now open to retailers to promote and create their own television channels. These channels can promote, and help sell goods and services and reach out to consumers in their living rooms. Our solutions in the ConnectedTV space has far reaching potential for retailers and combined with our ecosystem of retail technologies such as Deal of the Day, Location Aware Couponing or NFC/QR Codes — the connected TV experience can extend well beyond the big screen to smartphones and tablets.

- Marketing and CRM

RetailSphere offers a broad suite of tools and technologies that enable retailers to create a bond with customers and prospects over digital channels such as email, SMS, Facebook, Twitter, RSS, IVR and a lot more. Each channel has unique characteristics and our tools enable retailers to leverage these pathways for building customer rapport. They also enable retailers to create unique 1-on-1 marketing opportunities with consumers.

Global Delivery Model: Our geographic reach extends across the globe, with delivery centers located in USA and India. We have a three-tiered global architecture for service delivery and operations, consisting of employees co-located at clients' sites, local or in-country delivery centers in CA, MI, NJ and CA, and global delivery centers located in Chennai, Mumbai and Hyderabad, India. Our delivery model and organization is mature with highest level of quality certifications including ISO 90027 and CMM level 5. Our facilities, technology and communications infrastructure facilitate the seamless integration of our global workforces.

Table of Contents

Domain Expertise: Our business is organized and managed primarily around our five industry-oriented business segments:

- § Healthcare (primarily Payers)
- § Financial Services
- § Media
- § Retail
- § Manufacturing and Logistics

This industry focus has been central to our revenue growth and high client satisfaction. As the IT services industry continues to mature, clients are looking for service providers who understand their businesses, industry initiatives, customers, markets and cultures, and can create solutions tailored to meet their individual business needs. To strengthen our industry practices, we hire professionals who are deeply experienced in the industries we serve, thus establishing a broad base of business analysts and consultants. We continually invest in industry training for our staff and build out industry-specific services and solutions. This approach is central to our high levels of on-time delivery and client satisfaction, as we understand the full context of our clients' challenges and have deep experience in addressing them.

Sales and Marketing

We market and sell our services directly through our professional staff, senior management and direct sales personnel operating out of our offices in Illinois, New Jersey and our business development offices which are strategically near our client bases. The sales and marketing group works with our client delivery team as the sales process moves closer to the customer's selection of a services provider. The duration of the sales process varies depending on the type of service, ranging from approximately two months to over one year.

Customers

The number of customers served by us has increased significantly in recent years. As of December 31, 2013, we were providing services to approximately 288 clients, as compared to approximately 230 clients as of December 31, 2012. As of December 31, 2013, we increased the number of strategic clients to 25. We define a strategic client as one offering the potential to generate at least \$250,000 or more in annual revenues at maturity. Accordingly, we provide a significant volume of services to many customers. Therefore, a loss of a significant customer or a few significant customers could materially reduce revenues and profitability. We generated 28.64% of our revenues from top 5 clients; 38.57% of our revenues from top 10 clients; and 48.96% of our revenues from top 20 clients. In addition, the services we provide to our larger customers are often critical to the operations of such customers and a termination of our services generally would require careful consideration and transition planning. For the years ended December 31, 2013 and 2012 most all of our revenues were generated from clients located in North America.

The Company's largest customer represented 12% of consolidated revenues for the year ended December 31, 2013. No individual customer exceeded 10% of our revenues for 2012.

We generally provide our services on a time-and-material, fixed price, or per-transaction basis. The volume of work performed for specific customers is likely to vary from year to year, and a significant customer in one year may not use our services in a subsequent year.

Competition

The intensely competitive IT services market includes a large number of participants and is subject to rapid change. This market includes participants from a variety of market segments, including:

- § systems integration firms
- § contract programming companies
- § application software companies
- § traditional large consulting firms
- § professional services groups of computer equipment companies and
- § facilities management and outsourcing companies

Our direct competitors include, among others, Cognizant, Accenture, Capgemini, Computer Sciences Corporation, HCL Technologies, HP Enterprise (formerly Electronic Data Systems), IBM Global Services, Infosys Technologies, Tata Consultancy Services and Wipro. In addition, we compete with numerous smaller local companies offering specific technologies and services in specific industry segments we operate.

Table of Contents

Employees and dedicated exclusive delivery resources

As of the December 31, 2013 Company had approximately 275 full time employees in North America and approximately 500 dedicated offshore delivery resources. We are not party to any significant collective bargaining agreements. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

Inclusion of this section is not required of smaller reporting companies. An investment in our common stock is highly speculative, involves a high degree of risk, and should be considered only by those persons who are able to bear the economic risk of their investment for an indefinite period. In addition to other information in this Annual Report on Form 10-K, you should carefully consider the risks described below before investing in our publicly-traded securities. The risks described below are not the only ones facing us. Our business is also subject to the risks that affect many other companies, such as competition, technological obsolescence, labor relations, general economic conditions and geopolitical changes. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business operations and our liquidity.

Risks Associated with Our Business and Industry

Our global operations are subject to complex risks, some of which might be beyond our control.

Our operations rely on global delivery model and have significant arrangements in India for delivery and support. If we are unable to manage the risks of our global affiliates, including regulatory, economic, political and other uncertainties in India, fluctuations in foreign exchange and inflation rates, international hostilities, terrorism, natural disasters, and multiple legal and regulatory systems, our results of operations could be adversely affected.

Our growth may be hindered by immigration restrictions.

Our future success continues to depend on our ability to attract and retain employees with technical and project management skills, including those from developing countries, especially India. The ability of foreign nationals to work in the United States and Europe depends on their ability and our ability to obtain the necessary visas and work permits. Work permit laws and regulations or the administration or enforcement of such laws or regulations impair our ability to staff projects with professionals who are not citizens of the country where the work is to be performed.

Our revenues are highly dependent on clients primarily located in the United States, as well as on clients concentrated in certain industries. Continuing or worsening economic conditions or factors that negatively affect the economic health of the United States or these industries may adversely affect our business.

Almost 100% of our revenues during the year ended December 31, 2013 were derived from customers located in North America. If the United States economy continues to weaken or slow and conditions in the financial markets continue to deteriorate, pricing for our services may be depressed and our customers may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. We earned significant portion of our revenues from the healthcare, insurance, retail and financial services industries. Deterioration in these industry segments may reduce the demand for our services and negatively affect our revenues and profitability. In addition, if we are unable to successfully anticipate changing economic and political conditions affecting the industries and markets in which we operate, we may be unable to effectively plan for or respond to those changes, and our business could be negatively affected.

We face intense competition from other service providers.

We operate in intensely competitive industries that experience rapid technological developments, changes in industry standards, and changes in customer requirements. The intensely competitive information technology, consulting and business process outsourcing professional services markets include a large number of participants and are subject to rapid change. These markets include participants from a variety of market segments, including:

- § systems integration firms
- § contract programming companies
- § application software companies
- § internet solutions providers
- § large or traditional consulting companies
- § professional services groups of computer equipment companies and
- § infrastructure management and outsourcing companies

Table of Contents

These markets also include numerous smaller local competitors in the various geographic markets in which we operate which may be able to provide services and solutions at lower costs or on terms more attractive to clients than we can. Our direct competitors include, among others, Accenture, Capgemini, Computer Sciences Corporation, HCL Technologies, HP Enterprise (formerly Electronic Data Systems), IBM Global Services, Infosys Technologies, Tata Consultancy Services and Wipro. Many of our competitors have significantly greater financial, technical and marketing resources and greater name recognition and, therefore, may be better able to compete for new work and skilled professionals. There is a risk that increased competition could put downward pressure on the prices we can charge for our services and on our operating margins. Similarly, if our competitors develop and implement methodologies that yield greater efficiency and productivity, they may be able to offer services similar to ours at lower prices without adversely affecting their profit margins. Even if our offerings address industry and client needs, our competitors may be more successful at selling their services. If we are unable to provide our clients with superior services and solutions at competitive prices or successfully market those services to current and prospective clients, our results of operations may suffer. Further, a client may choose to use its own internal resources rather than engage an outside firm to perform the types of services we provide. We cannot be certain that we will be able to sustain our current levels of profitability or growth in the face of competitive pressures, including competition for skilled technology professionals and pricing pressure from competitors employing an on-site/offshore business model.

In addition, we may face competition from companies that increase in size or scope as the result of strategic mergers or acquisitions. These transactions may include consolidation activity among hardware manufacturers, software companies and vendors, and service providers. The result of any such vertical integration may be greater integration of products and services that were once offered separately by independent vendors. Our access to such products and services may be reduced as a result of such an industry trend, which could adversely affect our competitive position. These types of events could have a variety of negative effects on our competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, and requiring us to recognize impairments on our assets.

Our profitability could suffer if we are not able to control our costs or improve our efficiency.

Our ability to control our costs and improve our efficiency affects our profitability. If we are unable to control our costs or improve our efficiency, our profitability could be negatively affected.

Our business will suffer if we fail to develop new services and enhance our existing services in order to keep pace with the rapidly evolving technological environment.

The information technology, consulting and business process outsourcing professional services markets are characterized by rapid technological change, evolving industry standards, changing customer preferences and new product and service introductions. Our future success will depend on our ability to develop solutions that keep pace with changes in the markets in which we provide services. We cannot be sure that we will be successful in developing new services addressing evolving technologies in a timely or cost-effective manner or, if these services are developed, that we will be successful in the marketplace. In addition, we cannot be sure that products, services or technologies developed by others will not render our services non-competitive or obsolete. Our failure to address the demands of the rapidly evolving technological environment could have a material adverse effect on our business, results of operations and financial condition.

Our ability to remain competitive will also depend on our ability to design and implement, in a timely and cost-effective manner, solutions for customers that both leverage their legacy systems and appropriately utilize newer technologies such as cloud-based services, Web 2.0 models, and software-as-a-service. Our failure to design and implement solutions in a timely and cost-effective manner could have a material adverse effect on our business, results of operations and financial condition.

If our clients are not satisfied with our services, our business could be adversely affected.

Our business model depends in large part on our ability to attract additional work from our base of existing clients. Our business model also depends on our account teams' ability to develop relationships with our clients that enable us to understand our clients' needs and deliver solutions and services that are tailored to those needs. If a client is not satisfied with the quality of work performed by us, or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired, and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to our competitors. In addition, negative publicity related to our client services or relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.

Table of Contents

We rely on a few customers for a large portion of our revenues.

Our top five and top ten customers generated approximately 28% and 39%, respectively, of our revenues for the year ended December 31, 2013. The volume of work performed for specific customers is likely to vary from year to year, and a major customer in one year may not use our services in a subsequent year. The loss of one of our large customers could have a material adverse effect on our business, results of operations and financial condition.

We generally do not have long-term contracts with our customers and our results of operations could be adversely affected if our clients terminate their contracts with us on short notice.

Consistent with industry practice, we generally do not enter into long-term contracts with our customers. A majority of our contracts can be terminated by our clients with short notice and without significant early termination cost. Terminations may result from factors that are beyond our control and unrelated to our work product or the progress of the project, including the business or financial conditions of the client, changes in ownership or management at our clients, changes in client strategies or the economy or markets generally. When contracts are terminated, we lose the anticipated revenues and might not be able to eliminate our associated costs in a timely manner. Consequently, our profit margins in subsequent periods could be lower than expected. If we are unable to replace the lost revenue with other work on terms we find acceptable or effectively eliminate costs, we may not be able to maintain our level of profitability.

Our results of operations may be affected by the rate of growth in the use of technology in business and the type and level of technology spending by our clients.

Our business depends, in part, upon continued growth in the use of technology in business by our clients and prospective clients as well as their customers and suppliers. In challenging economic environments, our clients may reduce or defer their spending on new technologies in order to focus on other priorities. At the same time, many companies have already invested substantial resources in their current means of conducting commerce and exchanging information, and they may be reluctant or slow to adopt new approaches that could disrupt existing personnel, processes and infrastructures. If the growth of technology usage in business, or our clients' spending on technology in business, declines, or if we cannot convince our clients or potential clients to embrace new technological solutions, our results of operations could be adversely affected.

If we are unable to collect our receivables from, or bill our unbilled services to, our clients, our results of operations and cash flows could be adversely affected.

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against receivables and unbilled services. Actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. There is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions, such as the continued credit crisis and related turmoil in the global financial system, could also result in financial difficulties, including limited access to the credit markets, insolvency or bankruptcy, for our clients, and, as a result, could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

We are investing substantial cash in new technology platform to service Health Exchanges and evolve SMAC solutions, and our profitability could be reduced if our business does not grow proportionately.

We have made and continue to make significant contractual commitments related to capital expenditures on construction or expansion of our development and delivery centers. We may encounter cost overruns or project delays in connection with new facilities. These expansions will likely increase our fixed costs and if we are unable to grow our business and revenues proportionately, our profitability may be reduced.

Table of Contents

Competition for highly-skilled technical personnel is intense and the success of our business depends on our ability to attract and retain highly-skilled professionals.

Our future success will depend to a significant extent on our ability to attract, train and retain highly-skilled professionals so as to keep our supply of skills and resources in balance with client demand. In particular, we must attract, train and retain appropriate numbers of talented people, including project managers, IT engineers and other senior technical personnel, with diverse skills in order to serve client needs and grow our business. We are particularly dependent on retaining our senior executives and other experienced managers with the skill sets required by our business, and if we are unable to do so, our ability to develop new business and effectively lead our current projects could be jeopardized. Similarly, the profitability of our business model depends on our ability to effectively utilize personnel with the right mix of skills and experience to support our projects. The processes and costs associated with recruiting, training and retaining employees place significant demands on our resources.

We believe there is a shortage of, and significant competition for, professionals with the advanced technological skills necessary to perform the services we offer. We have subcontracted to a limited extent in the past, and may do so in the future, with other service providers in order to meet our obligations to our customers. Our ability to maintain and renew existing engagements and obtain new business will depend, in large part, on our ability to attract, train and retain technical personnel with the skills that keep pace with continuing changes in information technology, evolving industry standards and changing customer preferences. Further, we must train and manage our growing work force, requiring an increase in the level of responsibility for both existing and new management personnel. We cannot guarantee that the management skills and systems currently in place will be adequate or that we will be able to train and assimilate new employees successfully. Our profits and ability to compete for and manage client engagements could be adversely affected if we cannot manage employee hiring and attrition to achieve a stable and efficient workforce structure.

Our ability to operate and compete effectively could be impaired if we lose key personnel or if we cannot attract additional qualified personnel.

Our future performance depends to a significant degree upon the continued service of the key members of our management team, as well as marketing, sales and technical personnel, and our ability to attract and retain new management and other personnel. We do not maintain key man life insurance on any of our executive officers or significant employees. Competition for personnel is intense, and there can be no assurance that we will be able to retain our key employees or that we will be successful in attracting and retaining new personnel in the future. The loss of any one or more of our key personnel or the failure to attract and retain key personnel could have a material adverse effect on our business, results of operations and financial condition.

Restrictions in non-competition agreements with our executive officers and key personnel of acquired businesses may not be enforceable.

Currently we have entered into non-competition agreements with the majority of our executive officers and key personnel of assets we have acquired in past. We cannot be certain, however, that the restrictions in these agreements prohibiting such executive officers from engaging in competitive activities are enforceable. Further, substantially all of our professional non-executive staff are not covered by agreements that would prohibit them from working for our competitors. If any of our key professional personnel leaves our employment and joins one of our competitors, our business could be adversely affected.

Our profitability could suffer if we are not able to maintain favorable pricing rates.

Our profit margin, and therefore our profitability, is dependent on the rates we are able to recover for our services. If we are not able to maintain favorable pricing for our services, our profit margin and our profitability could suffer. The rates we are able to recover for our services are affected by a number of factors, including:

- § our clients' perceptions of our ability to add value through our services
 - § competition
- § introduction of new services or products by us or our competitors
 - § our competitors' pricing policies
- § our ability to accurately estimate, attain and sustain contract revenues, margins and cash flows over increasingly longer contract periods
 - § bid practices of clients and their use of third-party advisors
- § the use by our competitors and our clients of offshore resources to provide lower-cost service delivery capabilities
 - § our ability to charge premium prices when justified by market demand or the type of service and
 - § general economic and political conditions

Table of Contents

Our profitability could suffer if we are not able to maintain favorable utilization rates.

The cost of providing our services, including the utilization rate of our professionals, affects our profitability. If we are not able to maintain an appropriate utilization rate for our professionals, our profit margin and our profitability may suffer. Our utilization rates are affected by a number of factors, including:

- § our ability to efficiently transition employees from completed projects to new assignments
 - § our ability to hire and assimilate new employees
- § our ability to accurately forecast demand for our services and thereby maintain an appropriate headcount in each of our geographies and workforces
 - § our ability to effectively manage attrition and
- § our need to devote time and resources to training, professional development and other non-chargeable activities

If we do not continue to improve our operational, financial and other internal controls and systems to manage our rapid growth and size or if we are unable to enter, operate and compete effectively in new geographic markets, our business may suffer and the value of our stockholders' investment in our Company may be harmed.

Our anticipated growth will continue to place significant demands on our management and other resources. Our growth will require us to continue to develop and improve our operational, financial and other internal controls in the United States, Europe, India and elsewhere. In particular, our continued growth will increase the challenges involved in:

- § recruiting, training and retaining technical, finance, marketing and management personnel with the knowledge, skills and experience that our business model requires
 - § maintaining high levels of client satisfaction
- § developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems
 - § preserving our culture, values and entrepreneurial environment and
- § effectively managing our personnel and operations and effectively communicating to our personnel worldwide our core values, strategies and goals

In addition, the increasing size and scope of our operations increase the possibility that a member of our personnel will engage in unlawful or fraudulent activity, breach our contractual obligations, or otherwise expose us to unacceptable business risks, despite our efforts to train our people and maintain internal controls to prevent such instances. If we do not continue to develop and implement the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

Our operating results may experience significant quarterly fluctuations.

Historically, we have experienced significant quarterly fluctuations in our revenues and results of operations and expect these fluctuations to continue. Among the factors causing these variations have been:

- § the nature, number, timing, scope and contractual terms of the projects in which we are engaged
 - § delays incurred in the performance of those projects
- § the accuracy of estimates of resources and time required to complete ongoing projects and
 - § general economic conditions

In addition, our future revenues, operating margins and profitability may fluctuate as a result of:

Edgar Filing: Quadrant 4 System Corp - Form 10-K

- § changes in pricing in response to customer demand and competitive pressures
 - § changes to the financial condition of our clients
 - § the mix of on-site and offshore staffing
- § the ratio of fixed-price contracts versus time-and-materials contracts
 - § employee wage levels and utilization rates
- § changes in foreign exchange rates, including the Indian rupee versus the U.S. dollar
 - § the timing of collection of accounts receivable
 - § enactment of new taxes
- § changes in domestic and international income tax rates and regulations and
- § changes to levels and types of stock-based compensation awards and assumptions used to determine the fair value of such awards

Table of Contents

A high percentage of our operating expenses, particularly personnel and health benefits are relatively fixed in advance of any particular period. As a result, unanticipated variations in the number and timing of our projects or in employee wage levels and utilization rates may cause significant variations in our operating results in any particular period, and could result in losses. Any significant shortfall of revenues in relation to our expectations, any material reduction in utilization rates for our professional staff or variance in the on-site/offshore staffing mix, an unanticipated termination of a major project, a customer's decision not to pursue a new project or proceed to succeeding stages of a current project or the completion of several major customer projects during a quarter could require us to pay underutilized employees and could therefore have a material adverse effect on our business, results of operations and financial condition.

As a result of these factors, it is possible that in some future periods, our revenues and operating results may be significantly below the expectations of public market analysts and investors. In such an event, the price of our common stock would likely be materially and adversely affected.

Our business could be negatively affected if we incur legal liability, including with respect to our contractual obligations, in connection with providing our solutions and services.

If we fail to meet our contractual obligations or otherwise breach obligations to our clients, we could be subject to legal liability. We may enter into non-standard agreements because we perceive an important economic opportunity by doing so or because our personnel did not adequately adhere to our guidelines. In addition, the contracting practices of our competitors may cause contract terms and conditions that are unfavorable to us to become standard in the marketplace. If we cannot or do not perform our obligations, we could face legal liability and our contracts might not always protect us adequately through limitations on the scope and/or amount of our potential liability. If we cannot, or do not, meet our contractual obligations to provide solutions and services, and if our exposure is not adequately limited through the enforceable terms of our agreements, we might face significant legal liability and our business could be adversely affected.

In the normal course of business and in conjunction with certain client engagements, we have entered into contractual arrangements through which we may be obligated to indemnify clients or other parties with whom we conduct business with respect to certain matters. These arrangements can include provisions whereby we agree to hold the indemnified party and certain of their affiliated entities harmless with respect to third-party claims related to such matters as our breach of certain representations or covenants, or out of our intellectual property infringement, our gross negligence or willful misconduct or certain other claims made against certain parties. Payments by us under any of these arrangements are generally conditioned on the client making a claim and providing us with full control over the defense and settlement of such claim. It is not possible to determine the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Historically, we have not made payments under these indemnification agreements so they have not had any impact on our operating results, financial position, or cash flows. However, if events arise requiring us to make payment for indemnification claims under our indemnification obligations in contracts we have entered, such payments could have a material impact on our operating results, financial position, and cash flows.

We may not be able to enforce or protect our intellectual property rights, which may harm our ability to compete and harm our business.

Our future success will depend, in part, on our ability to protect our proprietary methodologies and other valuable intellectual property. We presently hold no issued patents, but intend to file patent applications. There is no guarantee that any patents will be granted in the United States or in any other country we may seek protection or that they will serve as a barrier from competition from other organizations. Additionally, the protection afforded by international patent laws as well as the enforcement actions differ from country to country. There is no guarantee that we will be

able to maintain adequate protection or enforcement of our intellectual property rights.

Unauthorized use of our intellectual property may result in development of technology, products or services that compete with our products and services and unauthorized parties may infringe upon or misappropriate our products, services or proprietary information. If we are unable to protect our intellectual property, our business may be adversely affected and our ability to compete may be impaired.

Depending on the circumstances, we might need to grant a specific client greater rights in intellectual property developed or used in connection with a contract than we normally do. In certain situations, we might forego all rights to the use of intellectual property we create and intend to reuse across multiple client engagements, which would limit our ability to reuse that intellectual property for other clients. Any limitation on our ability to provide a service or solution could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future projects.

Table of Contents

Our ability to enforce our software license agreements, service agreements, and other intellectual property rights is subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights in various countries. To the extent that we seek to enforce our rights, we could be subject to claims that an intellectual property right is invalid, otherwise not enforceable, or is licensed to the party against whom we are pursuing a claim. In addition, our assertion of intellectual property rights may result in the other party seeking to assert alleged intellectual property rights or assert other claims against us, which could harm our business. If we are not successful in defending such claims in litigation, we may not be able to sell or license a particular service or solution due to an injunction, or we may have to pay damages that could, in turn, harm our results of operations. In addition, governments may adopt regulations, or courts may render decisions, requiring compulsory licensing of intellectual property to others, or governments may require that products meet specified standards that serve to favor local companies. Our inability to enforce our intellectual property rights under these circumstances may harm our competitive position and our business.

Our services or solutions could infringe upon the intellectual property rights of others and we may be subject to claims of infringement of third-party intellectual property rights.

We cannot be sure that our services and solutions, or the solutions of others that we offer to our clients, do not infringe on the intellectual property rights of others. Third parties may assert against us or our customers claims alleging infringement of patent, copyright, trademark, or other intellectual property rights to technologies or services that are important to our business. Infringement claims could harm our reputation, cost us money and prevent us from offering some services or solutions. In our contracts, we generally agree to indemnify our clients for certain expenses or liabilities resulting from potential infringement of the intellectual property rights of third parties. In some instances, the amount of our liability under these indemnities could be substantial. Any claims that our products, services or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, may result in significant costs in defending and resolving such claims, and may divert the efforts and attention of our management and technical personnel from our business. In addition, as a result of such intellectual property infringement claims, we could be required or otherwise decide that it is appropriate to:

- § pay third-party infringement claims
- § discontinue using, licensing, or selling particular products subject to infringement claims
 - § discontinue using the technology or processes subject to infringement claims
- § develop other technology not subject to infringement claims, which could be costly or may not be possible and/or
- § license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms

The occurrence of any of the foregoing could result in unexpected expenses or require us to recognize an impairment of our assets, which would reduce the value of our assets and increase expenses. In addition, if we alter or discontinue our offering of affected items or services, our revenue could be affected. If a claim of infringement were successful against us or our clients, an injunction might be ordered against our client or our own services or operations, causing further damages.

We expect that the risk of infringement claims against us will increase if our competitors are able to obtain patents and other intellectual property rights for software products and methods, technological solutions, and processes. We may be subject to intellectual property infringement claims from certain individuals and companies who have acquired patent portfolios for the primary purpose of asserting such claims against other companies. The risk of infringement claims against us may also increase as we continue to develop and license our intellectual property to our clients and other third parties. Any infringement claim or litigation against us could have a material adverse effect on our business, results of operations and financial condition.

We might lose our ability to utilize the intellectual property of others, which could harm our business.

We could lose our ability, or be unable to secure the right, to utilize the intellectual property of others. Third-party suppliers of software, hardware or other intellectual property assets could be unwilling to permit us to use their intellectual property and this could impede or disrupt use of their products or services by us and our clients. If our ability to provide services and solutions to our clients is impaired as a result of any such denial, our operating results could be adversely affected.

Table of Contents

We may not be able to successfully acquire target companies or integrate acquired companies or technologies into our company, and we may become subject to certain liabilities assumed or incurred in connection with our acquisitions that could harm our operating results.

If we are unable to complete the number and kind of acquisitions for which we plan, or if we are inefficient or unsuccessful at integrating any acquired businesses into our operations, we may not be able to achieve our planned rates of growth or improve our market share, profitability or competitive position in specific markets or services. We expect to continue pursuing strategic acquisition and joint venture opportunities designed to enhance our capabilities, expand our capacity and geographic presence and/or enter new technology areas. We cannot predict or guarantee that we will successfully identify suitable acquisition candidates or consummate any acquisition or joint venture. We may need to divert and/or dedicate management and other resources to complete the transactions. Once we have consummated an acquisition transaction or entered into a joint venture transaction, we may not be able to integrate the acquired business or joint venture (and personnel) into our operations, recognize anticipated efficiencies and/or benefits, realize our strategic objectives or achieve the desired financial and operating results, in each case, both generally and as a result of our unique organizational structure. Acquisitions and joint ventures involve a number of special risks, including diversion of management's attention, failure to retain key personnel and the potential assumption or incurrence of liabilities and/or obligations.

Although we conduct due diligence in connection with each of our acquisitions, there may be liabilities that we fail to discover, that we inadequately assess in our due diligence efforts or that are not properly disclosed to us. In particular, to the extent that any acquired business (or any properties thereof) (i) failed to comply with or otherwise violated applicable laws or regulations, (ii) failed to fulfill contractual obligations to customers or (iii) incurred material liabilities or obligations to customers that are not identified during the diligence process, we, as the successor owner, may be financially responsible for these violations, failures and liabilities and may suffer financial and/or reputational harm or otherwise be adversely affected. In addition, as part of an acquisition, we may assume responsibilities and obligations of the acquired business pursuant to the terms and conditions of services agreements entered by the acquired entity that are not consistent with the terms and conditions that we typically accept and require. Although we attempt to structure acquisitions in such a manner as to minimize our exposure to, among other things, the factors and conditions contemplated by the foregoing two sentences (including through indemnification protection), we cannot predict or guarantee that our efforts will be effective or will protect us from liability. The discovery of any material liabilities associated with our acquisitions for which we are unable to recover indemnification amounts could harm our operating results.

System failure or disruptions in communications could disrupt our business and result in lost customers and curtailed operations which would reduce our revenue and profitability.

To deliver our services to our customers, we must maintain a network for voice and data communications twenty-four hours a day between our development and delivery centers and the offices of our customers worldwide. Although we maintain redundancy facilities, any systems failure or a significant lapse in our ability to transmit voice and data could result in lost customers and curtailed operations which would reduce our revenue and profitability.

Consolidation in the industries that we serve could adversely affect our business.

Companies in the industries that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If two or more of our current clients merge or consolidate and combine their operations, it may decrease the amount of work that we perform for these clients. If one of our current clients merges or consolidates with a company that relies on another provider for its consulting, systems integration and technology, or outsourcing services, we may lose work from that client or lose the opportunity to gain additional work. The increased market power of larger companies could also increase pricing and competitive pressures on us. Any of these

possible results of industry consolidation could adversely affect our business.

Our ability to attract and retain business may depend on our reputation in the marketplace.

Our services are marketed to clients and prospective clients based on a number of factors. Since many of our specific client engagements involve unique services and solutions, our corporate reputation is a significant factor in our clients' evaluation of whether to engage our services. We believe the Quadrant 4 brand name and our reputation are important corporate assets that help distinguish our services from those of our competitors and also contribute to our efforts to recruit and retain talented employees. However, our corporate reputation is potentially susceptible to damage by actions or statements made by current or former clients, competitors, vendors, adversaries in legal proceedings, government regulators, former and current employees and personnel as well as members of the investment community and the media. There is a risk that negative information about our company could adversely affect our business. In particular, damage to our reputation could be difficult and time-consuming to repair, could make potential or existing clients reluctant to select us for new engagements, resulting in a loss of business, and could adversely affect our recruitment and retention efforts. Damage to our reputation could also reduce the value and effectiveness of our brand name and could reduce investor confidence in us, adversely affecting our share price.

Table of Contents

Our share price could be adversely affected if we are unable to maintain effective internal controls.

The accuracy of our financial reporting is dependent on the effectiveness of our internal controls. We are required to provide a report from management to our stockholders on our internal control over financial reporting that includes an assessment of the effectiveness of these controls. Internal control over financial reporting has inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, and fraud. Because of these inherent limitations, internal control over financial reporting might not prevent or detect all misstatements or fraud. If we cannot maintain and execute adequate internal control over financial reporting or implement required new or improved controls to ensure the reliability of the financial reporting and preparation of our financial statements for external use, we could suffer harm to our reputation, fail to meet our public reporting requirements on a timely basis, or be unable to properly report on our business and the results of our operations, and the market price of our securities could be materially adversely affected.

We are exposed to credit risk and fluctuations in the market values of our investment portfolio.

Recent turmoil in the financial markets has adversely affected economic activity in the United States, Europe and other regions of the world in which we do business. We believe that based on our current cash, cash equivalents and investment balances and expected operating cash flows, the current lack of liquidity in the credit markets will not have a material impact on our liquidity, cash flow or financial flexibility. Continued deterioration of the credit and capital markets could result in volatility of our investment earnings and impairments to our investment portfolio, which could negatively impact our financial condition and reported income. The continued decline in economic activity could adversely affect the ability of counterparties to certain financial instruments such as marketable securities and derivatives to meet their obligations to us.

Our stock price continues to be volatile.

Our stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results, announcements by us and our competitors, projections or speculation about our business or that of our competitors by the media or investment analysts or uncertainty about current global economic conditions. The stock market, as a whole, also has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that may have been unrelated to these companies' operating performance. Furthermore, we believe our stock price should reflect future growth and profitability expectations and, if we fail to meet these expectations, our stock price may significantly decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2. PROPERTIES

We do not own any real estate or other physical properties. The Company and its wholly owned subsidiaries operate from leased space. The company leases office spaces in California, Illinois, Michigan and New Jersey where the Company has its sales and general administrative staff as well as certain engineering resources. Most of the Company's personnel work from client sites.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

18

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Price Range of Common Stock

Our common stock is quoted by Over the Counter Bulletin Board under the symbol "QFOR". The Over-The-Counter Bulletin Board which is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange.

The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by Over the Counter Bulletin Board. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commissions, and may not necessarily represent actual transactions.

	High	Low
Year Ended December 31, 2013:		
Fourth Quarter	\$ 1.38	\$ 0.29
Third Quarter	\$ 0.45	\$ 0.06
Second Quarter	\$ 0.10	\$ 0.05
First Quarter	\$ 0.13	\$ 0.06
Year Ended December 31, 2012:		
Fourth Quarter	\$ 0.20	\$ 0.02
Third Quarter	\$ 0.25	\$ 0.05
Second Quarter	\$ 0.35	\$ 0.05
First Quarter	\$ 0.60	\$ 0.12

Dividends

We have not declared or paid any cash dividends on our common stock during our two most recent fiscal years. We do not anticipate paying cash dividends in the foreseeable future. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on our earnings, capital requirements, restrictions imposed by lenders and financial condition and other relevant factors.

Recent Sale of Unregistered Securities

During 2013, the Company issued 10,700,000 shares of restricted stock as part consideration to acquire various operating assets for a total cost of \$3,230,000 at the average cost of \$0.30/share.

During 2013, the Company issued 16,209,257 per stockholder's equity shares of restricted stock to convert \$5,708,621 per stockholder's equity of long term debt at the average cost of \$0.35/share.

During 2013, the Company issued 1,187,419 shares of restricted stock as consideration for financing charges and earn-out liabilities for a total expense of \$376,411 at the average cost of \$0.32/share.

During 2013, the company issued 1,253,461 restricted shares to various non-affiliated and independent contractors and consultants providing various services including marketing, accounting, legal and branding related matters on various projects for a total cost of \$111,715 at the average cost of \$0.09/share.

During 2013, the Company entered into various stock subscription agreements with independent and accredited investors and sold 4,066,667 shares of restricted stock for a total consideration of \$1,632,000 per stockholder's equity at an average price of \$0.40/share.

During 2013, the Company also sold 1,700,000 shares of restricted stock as a part of warrant exercise for a consideration of \$1,020,000 at the price of \$0.60/share.

Repurchases of Equity Securities

No repurchases of our common stock were made during the fiscal year of 2013.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

In accordance with Rule 229.10(f)(1) this Registrant qualifies as a smaller reporting company and is not required to provide selected financial data in accordance with Items 301 and 302.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the risks set forth in Item 1A hereof and our financial statements and notes thereto appearing elsewhere in this report.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Form 10-K for the year ended December 31, 2013 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, variations of 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 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, 2012. The company changed its domicile to Illinois on April 25, 2014.

Core Business

The Company is engaged in the IT sector as a provider of Software as a Service (SaaS) based technology products to enterprise customers in addition to Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications, Business Analytics and QA/QC. Cloud based IT product platforms such as QHIX and RetailSphere are now the primary focus of the Company's business model. Since its first acquisition of IT related assets, the company has continued to acquire and integrate additional assets to improve its products and services offering while gaining significant market access.

Competition

The intensely competitive IT services and outsourcing market includes a large number of participants and is subject to rapid change. This market includes participants from a variety of market segments, including:

- § systems integration firms
- § contract programming companies
- § application software companies
- § traditional large consulting firms
- § the professional services groups of computer equipment companies and
- § facilities management and outsourcing companies

Our direct competitors include, among others, Cognizant, IBM, Accenture, Capgemini, Computer Sciences Corporation, HCL Technologies, HP Enterprise (formerly Electronic Data Systems), IBM Global Services, Infosys Technologies, Tata Consultancy Services and Wipro. In addition, we compete with numerous smaller local companies offering specific technologies and services in specific industry segments we operate.

Table of Contents

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.

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 Board of Directors who serve as our audit committee.

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 2 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. The Company has acquired several intellectual property that deals with its SMAC offerings.

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.

Table of Contents

Results of Operations

For a discussion of factors that could impact operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

The Company acquired new assets in transactions which materially affected the amount of reported income from continuing operations. The revenues, expenses and income reflect the new assets. Acquisition of these new assets resulted in material increases in revenues, expenses and income but these increases are not attributed to changes in pricing or profitability of such business underlying the assets compared to prior periods of such businesses but rather the acquisition, in toto, of such assets and businesses. To that extent, a reliance on comparison data from the period prior to acquisition of such businesses compared with the period following such acquisitions may not be a reliable predictor of future performance. The data does not indicate any material effect of inflation or price increases or decreases.

	Year Ended December 31,		Increase/ (Decrease)	Percent
	2013	2012		
Revenue	\$ 37,343,676	\$ 26,561,723	\$ 10,781,953	41 %
Cost of Revenue	27,709,310	20,185,244	(7,524,066)	37 %
Gross Margin	9,634,366	6,376,479	3,257,887	51 %
General and administrative expenses	(5,271,369)	(3,389,246)	(1,882,123)	56 %
Amortization and impairment of intangible assets	(5,962,761)	(6,985,242)	1,022,481	-15 %
Settlement of earn-outs	1,007,313	-	1,007,313	100 %
Financing related expenses	(692,000)	-	(692,000)	100 %
Interest expense	(2,571,311)	(1,833,018)	(738,293)	40 %
Derivative gain/(Loss)	(287,429)	154,165	(441,594)	-286 %
Net loss before Income Taxes	(4,143,191)	(5,676,862)	1,533,671	27 %
Income taxes	-	-	-	
Net loss	\$ (4,143,191)	\$ (5,676,862)	\$ 1,533,671	27 %

REVENUES

Revenues for the year ended December 31, 2013 were \$37,343,676 compared to revenues for the year ended December 31, 2012 of \$26,561,723. The increase in revenues of \$10,781,953 was primarily due to organic and inorganic growth in customer base. Revenues were comprised of service-related sales of software programming, consulting and development services.

COST OF REVENUES

The increase in cost of revenues of \$7,524,066 was due to the increase in consultants' wages consequent to the increase in the revenue. Cost of revenues is comprised primarily of the direct costs of labor and related expenses.

GROSS MARGIN

The increase in gross margin was primarily due to increase in revenue. The Gross margin percentage increased from 24% to 26% due to increase in utilization and better bill rates.

GENERAL AND ADMINISTRATIVE EXPENSES

The increase in general and administrative expenses of \$1,882,123 was due to the increased staffing, management and overhead costs associated with the acquisition of businesses. General and administrative expenses are comprised primarily of management and administrative payroll and related costs, office costs, overhead, staffing and support costs of the Company.

AMORTIZATION, IMPAIRMENT AND WRITE- DOWN OF INTANGIBLE ASSETS

The amortization expenses of \$5,212,761 in 2013 increased from \$4,046,242 in 2012 due to acquisition of new assets in 2013. The impairment of assets of \$750,000 in 2013 was much lower than that in 2012 which was \$2,939,000.

Table of Contents

INTEREST

The increase of interest costs of \$738,293 was due to the additional long term debt due to acquisitions and increase in revolver balance due to increased accounts receivable.

Net loss decreased as a result of the overall increase in revenues and gross profit during the year and settlement of earn-outs.

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the year ended December 31, 2013 and December 31, 2012 is calculated as follows:

	December 31, 2013	December 31, 2012
Net Loss (GAAP Basis)	\$ (4,143,191)	\$ (5,676,862)
Interest expense	2,571,311	1,833,018
Amortization and impairment expense	5,962,761	6,985,242
Settlement of earn-outs	(1,007,313)	-
Financing related one time charge	692,000	-
Derivative Loss/(gain)	287,429	(154,165)
Income Taxes	-	-
EBITDA	\$ 4,362,997	\$ 2,987,233

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, we had an accumulated deficit of \$13,378,338 as compared to \$9,235,147 at December 31, 2012. As of December 31, 2013, we had a working capital deficit of \$1,473,337 as compared to \$954,265 at December 31, 2012.

We have no material commitments for capital expenditures.

Net cash used in operations for the year ended December 31, 2013 was \$(324,927) as compared to net cash used in operations of \$(271,735) primarily relating to a higher gross margin on certain projects.

Net cash used in investing activities for the year ended December 31, 2013 was \$(1,573,991) as compared net cash used in investing activities of \$Nil primarily relating to acquire assets during the period.

Net cash provided by financing activities was \$2,709,363 during for 2013 as compared to cash used in financing activities of \$(720,743) in 2012. The increase in borrowings in 2013 compared to 2012 was primarily due to increased borrowing during 2013 to provide the cash to acquire business.

The Company was reliant on proceeds from borrowings and the sale of stock in both 2013 and 2012 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 operations for the next 12 months.

Table of Contents

As of December 31, 2013, Contractual Obligations were as follows:

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations (1)	\$ 6,090,267	\$ 442,717	\$ 5,647,550	\$ -0-	\$ -0-
Capital lease obligations	-0-	-0-	-0-	-0-	-0-
Operating lease obligations	557,719	187,679	306,684	57,356	-0-
Notes payable - other	-0-	-0-	-0-	-0-	-0-
Notes payable – revolver	4, 330,575	-0-			
Other long-term liabilities reflected on the Registrant's Balance Sheet	-0-	-0-	-0-	-0-	-0-
Total	\$ 10,978,561	\$ 630,396	\$ 5,954,234	57,356	-0-

(1) This includes the obligations to the sellers of certain assets.

Impact of Inflation

The services provided by the Company are generally comprised of consulting services provided by our employees and consultants for whom we incur payroll and other expenses. These expenses can increase with overall inflation which will generally impact all segments of the economy and result in increased revenue from an increase in the rate at which the services of our employees and consultants are billed. This minimizes the impact of inflation. However, inflation may cause companies to cut back on the purchase of consulting services. The Company does not acquire or maintain inventories that present a risk due to inflation.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company is not required to provide disclosure pursuant to this Item.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES

Index to Consolidated Financial Statements

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	F-2
<u>Consolidated Statements of Operations for the years ended December 31, 2013 and 2012</u>	F-3
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013 and 2012</u>	F-4
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-6

Table of Contents

Board of Directors
Quadrant 4 System Corporation

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of Quadrant 4 System Corporation and Subsidiaries as of December 31, 2013 and 2012 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Quadrant 4 System Corporation and Subsidiaries as of December 31, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Sasseti, LLC
Sasseti, LLC

Oak Park, Illinois
March 17, 2014

F-1

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
ASSETS		
Current Assets		
Cash	\$ 897,215	\$ 86,770
Accounts and unbilled receivables (net of allowance for doubtful accounts of \$808,497 and \$603,442 at December 31, 2013 and December 31, 2012, respectively)	5,766,010	4,267,766
Other current assets	465,798	1,199,907
Total current assets	7,129,023	5,554,443
Intangible Assets		
Property and equipment – net	21,491	3,500
Other assets	3,409,834	2,566,470
TOTAL ASSETS	\$ 27,168,601	\$ 17,909,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 4,271,785	\$ 2,962,421
Note payable – Revolver	4,330,575	2,857,396
Earnouts payable	1,222,312	-
Current maturities - long term debts, less debt discount	442,717	688,891
Total current liabilities	10,267,389	6,508,708
Long-term debt, less current maturities	5,647,550	7,536,781
Common stock payable	-	1,163,673
Derivative liability	-	249,164
Total liabilities	15,914,939	15,458,326
Stockholders' Equity		
Common stock - \$0.001 par value; authorized: 200,000,000 shares: issued and outstanding 92,466,689 and 55,479,615 at December 31, 2013 and December 31, 2012, respectively	92,467	55,479
Additional paid-in capital	24,539,533	11,630,774
Accumulated deficit	(13,378,338)	(9,235,147)

Total stockholders' equity	11,253,662	2,451,106
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 27,168,601	\$ 17,909,432

See notes to the consolidated financial statements.

F-2

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,	
	2013	2012
Revenue	\$ 37,343,676	\$ 26,561,723
Cost of revenue	27,709,310	20,185,244
Gross Margin	9,634,366	6,376,479
General and administrative expenses	(5,271,369)	(3,389,246)
Amortization and impairment expense	(5,962,761)	(6,985,242)
Settlement of earn-outs	1,007,313	-
Legal Settlement	(692,000)	-
Interest expense	(2,571,311)	(1,833,018)
Derivative (loss)/gain	(287,429)	154,165
Net loss before income taxes	(4,143,191)	(5,676,862)
Income Taxes	-	-
Net Loss	\$ (4,143,191)	\$ (5,676,862)
Net loss per common share	\$ (0.06)	\$ (0.11)
Weighted average common shares - basic and diluted	68,168,266	52,498,492

See notes to the consolidated financial statements.

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2013 and 2012

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance, December 31, 2011, Originally stated	51,740,448	\$ 51,740	\$ 11,179,746	\$ (3,558,285)	\$ 7,673,201
Correction of error - issuance of shares previously subscribed	870,000	870	(870)	-	-
Balance, December 31, 2011	52,610,448	\$ 52,610	\$ 11,178,876	\$ (3,558,285)	\$ 7,673,201
Shares issued for services	470,000	470	92,930	-	93,400
Shares issued for finance charges	1,149,167	1,149	185,218	-	186,367
Shares issued for acquisition of assets	1,250,000	1,250	173,750	-	175,000
Net loss – 2012	-	-	-	(5,676,862)	(5,676,862)
Balance, December 31, 2012	55,479,615	\$ 55,479	\$ 11,630,774	\$ (9,235,147)	\$ 2,451,106
Sale of common stock	4,066,667	4,067	1,627,933	-	1,632,000
Shares issued for legal settlement	1,870,270	1,870	690,130	-	692,000
Shares issued for conversion of debts	16,209,257	16,210	5,692,411	-	5,708,621
Shares issued for interest and other liabilities	1,187,419	1,188	375,223	-	376,411
Shares issued for acquisition of assets	10,700,000	10,700	3,219,300	-	3,230,000
Share issued for warrant conversions	1,700,000	1,700	1,018,300	-	1,020,000
Shares issued for services	1,253,461	1,253	110,462	-	111,715
Stock warrant expense	-	-	175,000	-	175,000

Edgar Filing: Quadrant 4 System Corp - Form 10-K

Net loss – 2013	-	-	-	(4,143,191)	(4,143,191)				
Balance, December 31, 2013	92,466,689	\$	92,467	\$	24,539,533	\$	(13,378,338)	\$	11,253,662

See notes to the consolidated financial statements.

F-4

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (4,143,191)	\$ (5,676,862)
Adjustments to reconcile net loss to net cash used in operating activities:		
Settlement of earn-outs	(1,007,313)	-
Accretion of interest	134,443	-
Derivative (loss)/gain	287,429	(154,165)
Amortization, impairment and depreciation	5,962,761	6,986,242
Provision for doubtful accounts	205,055	363,672
Issuance of stock for services and interest	286,710	237,267
Changes in assets and liabilities		
Accounts receivable	(1,703,299)	664,675
Other current assets	734,109	(784,808)
Other assets	(843,359)	(1,526,838)
Accounts payable and accrued expenses	(238,272)	(380,918)
Net cash used in operating activities	(324,927)	(271,735)
Cash flows from investing activities:		
Purchase of fixed assets	(23,991)	-
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 issuance of common stock of \$2,330,000)	(1,550,000)	-
Net cash used in investing activities	(1,573,991)	-
Cash flows from financing activities:		
Proceeds from sales of common stock (net of expense of \$41,250 in 2012)	1,902,000	550,000
Proceeds from convertible note payable (net of expenses of \$52,000 in 2012)	-	298,000
Proceeds from notes payable – other	840,000	350,000
(Decrease) increase in note payable – revolver	1,473,179	(1,451,921)
Payments of long-term debt	(1,505,816)	(326,822)
Payments of notes payable – other	-	(140,000)
Net cash provided by/(used in) financing activities	2,709,363	(720,743)
Net increase/(decrease) in cash	810,445	(992,478)
Cash - beginning of year	86,770	1,079,248
Cash - end of year	\$ 897,215	\$ 86,770
Supplemental disclosure of noncash information		
Cash paid for interest	\$ 1,403,465	\$ 868,496
Income Taxes	\$ -	\$ -

Noncash transactions

Shares issued for accrued interest	\$	16,989	\$	42,500
Shares issued for acquisition of assets	\$	3,230,000	\$	175,000
Debt converted into equity per agreement in 2012 but shares not issued until 2013	\$	-	\$	500,000
Debt discount recorded as a derivative liability	\$	-	\$	70,000
Decrease in common stock payable issuance of shares	\$	1,163,673	\$	-
Payment of debt with equity	\$	5,774,117	\$	-
Noncash consideration for acquisition	\$	6,130,000	\$	-

See notes to the consolidated financial statements.

F-5

Table of Contents

QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

Organization

Quadrant 4 System 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. 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. The surviving Illinois parent has 200,000,000 authorized shares of common stock with a par value of \$0.001 per share. Q4 operated its business through its wholly owned subsidiaries and is transforming itself to a SMAC (Social – Mobile – Analytics – Cloud) company.

Operations

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

The consolidated financial statements include all the accounts of the Company and its wholly-owned subsidiaries. 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.

Fair Value of Financial Instruments

The Company considers the carrying amounts of financial instruments, including cash, accounts receivable, accounts payable and 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. 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.

Property and Equipment

Property and equipment are recorded at cost and depreciated for financial statement purpose using the straight line method over estimated useful lives of three to seven years.

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 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.

F-6

Table of Contents

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.

Acquired intellectual property is valued based on management's forecast of expected future net cash flows, with revenue based on projected sales of these technologies and are amortized over five to seven years.

Software Costs

Costs that are related to the conceptual formulation and design of licensed software programs are expensed as incurred to research, development and engineering expenses; costs that are incurred to produce the finished product after technological feasibility has been established are capitalized as an intangible asset. Capitalized amounts are amortized on a straight-line basis over periods ranging up to five years and are recorded in amortization expense. The Company performs periodic reviews to ensure that unamortized program cost remain recoverable from future revenue. Cost to support or service licensed program are charged to cost of revenue as incurred.

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.

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.

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 are subject to examination by the IRS and corresponding states, generally for three years after they are filed.

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 outstanding during each period.

For the years ended December 31, 2013 and 2012, there were 15,160,012 and 12,026,678 respectively, potentially dilutive securities not included in the calculation of weighted-average common shares outstanding since they would be anti-dilutive.

F-7

Table of Contents

Derivatives

We account for derivatives pursuant to ASC 815, Accounting for Derivative Instruments and Hedging Activities. 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 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 earnings.

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's largest customer represented 12% of consolidated revenues and 11% of accounts receivable for the year ended December 31, 2013. No individual customer exceeded 10% of consolidated revenues for the year ended December 31, 2012.

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 3 – ACQUISITIONS

EmpowHR, LLC.

Effective July 1, 2012, the Company acquired certain of the assets of empowHR, LLC. which primarily consisted of intellectual property and software application in exchange for 1,250,000 shares of the Company common stock valued at \$175,000.

The proforma effect of including the financial information of EmpowHR for periods prior to July 1, 2012 would not be material to the Company.

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 (and as amended in September 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) 6,700,000 common shares valued at \$1,900,000.

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

Table of Contents

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	1,900,000	3,230,000
Contingent payments	1,500,000	800,000	600,000	2,900,000
	\$ 3,400,000	\$ 1,530,000	\$ 2,750,000	\$ 7,680,000
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Customer lists intangibles	\$ 7,650,000	\$ 1,530,000	\$ 85,000	\$ 9,265,000
Technology stack intangibles	850,000	-	2,665,000	3,515,000
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	\$ 2,750,000	\$ 7,680,000

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. Decrease in the contingent considerations and a settlement of earn-out liabilities during the year ended December 31, 2013 resulted in a reduction of earn-out liability by \$1,007,313.

The following unaudited proforma summary presents consolidated information of the company as if these business combinations occurred on January 1, 2013 and January 1, 2012, respectively and includes the amortization of acquired intangibles:

	2013	2012
Gross Sales:	\$ 38,900,629	\$ 49,249,000
Net Loss:	\$ (2,898,476)	\$ (10,579,000)

NOTE 4 – INTANGIBLE ASSETS

As of December 31, 2013 and 2012, intangible assets consisted of the following:

Intangible assets consisted of the following:

	December 31, 2013	December 31, 2012
Customer list – Q4 Consulting	\$ 7,131,196	\$ 7,131,196
Customer list – Q4 Solutions	5,461,000	5,561,000
Technology stack – Q4 Solutions	5,550,000	5,600,000
Technology stack – Empower HR	175,000	175,000
Customer list – Q4 Cloud	7,050,000	-

Edgar Filing: Quadrant 4 System Corp - Form 10-K

Technology stack – Q4 Cloud	850,000	-
Customer list – Q4 Mobility	1,615,000	-
Technology stack– Q4 Mobility	2,665,000	-
	30,497,196	18,467,196
Accumulated amortization	(13,888,943)	(8,682,177)
	\$ 16,608,253	\$ 9,785,019

The impairment of customer list – Q4 Solutions of \$100,000 for 2013 is due to a slight decrease in revenue on acquired customers, \$2,939,000 during 2012 was due to one of our key clients filing for bankruptcy restructuring that resulted in a reduction of revenues.

The impairment of Customer list - Q4 Cloud of \$600,000 in 2013 was due to reduction in revenue from a specific acquired customer. There is an impairment on Technology stack – Q4 Solutions of \$50,000 recorded during 2013.

F-9

Table of Contents

For the years ended December 31, 2013 and 2012, the changes in intangible assets were as follows:

	2013	2012
Beginning of the year	\$ 9,785,019	\$ 16,595,261
Additions	12,780,000	175,000
Impairment of assets	(750,000)	(2,939,000)
Amortization	(5,206,766)	(4,046,242)
End of the year	\$ 16,608,253	\$ 9,785,019

For the years ended December 31, 2013 and 2012, amortization expense was \$5,206,766 and \$4,046,242, respectively.

As of December 31, 2013, the estimated aggregated amortization expense for each of the five succeeding years is as follows:

2014	\$ 5,307,165
2015	\$ 4,280,830
2016	\$ 2,926,147
2017	\$ 2,706,119
2018	\$ 723,724
2019 and thereafter	\$ 664,268

NOTE 5 – 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 assigns 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 (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 6 – LONG-TERM DEBT

As of December 31, 2013 and 2012, long-term debt consisted of the following:

	December 31, 2013	December 31, 2012
Note payable due December 31, 2014, as extended, plus interest at 5% per annum (a)	\$ -	\$ 1,153,658
Note payable due March 31, 2015, as extended, plus interest at 5% per annum (b)	3,117,558	5,850,807
Convertible Debenture payable to a finance company due July 1, 2013, extended to October 1, 2013, plus interest at 16% per annum (c)	-	679,867
Convertible debenture payable to a finance company due April 1, 2014, plus interest at 16% per annum (c)	-	350,000
Note payable due December 31, 2014, plus interest at 15% per annum (d)	-	364,671

Edgar Filing: Quadrant 4 System Corp - Form 10-K

Note 1 payable due February 6, 2015, as extended, plus interest at 16% per annum (e)	682,500	-
Note 2 payable due February 6, 2015, plus interest at 10% per annum (e)	704,709	-
Note 3 payable due February 6, 2015, as extended, plus interest at 16% per annum (e)	1,585,500	-
Less Discount		(173,331)
Total	6,090,267	8,225,672
Less: Current maturities	(442,717)	(688,891)
Total long-term debt	\$ 5,647,550	\$ 7,536,781

F-10

Table of Contents

- (a) In September 2013, the Company issued 4,590,689 shares of common stock to convert the debt at the price of \$0.25/share
- (b) In December 2013, \$2 million of this debt was converted to 3,333,334 shares of common stock at \$0.60/share with 1,666,667 warrants exercisable at \$1/share till December 31, 2018. In March, 2014, the note was extended to March 31, 2015 without any further considerations.
- (c) In December 2011 and again in October 2012, the Company sold an aggregate of \$1,150,000 of debentures at 16% per annum. In September 2013, the conversion price was reset to \$0.25/share and converted to 4,572,594 shares of common stock.
- (d) On September 1, 2012, the Company borrowed \$364,471 from an individual at 15% to be paid back on a monthly basis ending December 2014. In September 2013, the note was converted to 1,188,898 shares of common stock at the price of \$0.25/share.
- (e) On February 6th, 2013, in conjunction with the purchase of Teledata Technology Solutions, the Company issued the following notes:

Note 1: \$682,500 note, requiring monthly interest payments at an annual rate of 16% on the unpaid principal balance, with a maturity date of May 9, 2013.

Note 2: \$1,000,000 note with a maturity date of February 6, 2015, requiring 24 consecutive monthly principal payments of \$10,000 plus any accrued interest at a rate of 10% on the unpaid principal balance.

Note 3: \$1,585,000 note with a maturity date of May 6, 2014, requiring 11 consecutive monthly principal payments of \$75,000, in addition to one principal payment of \$350,000 due on May 31, 2013. The note also requires monthly interest payments at a rate of 16% on the unpaid principal payments.

On March 17th, 2014, the Company entered into a forbearance agreement with the lender, which extended the maturity dates of all three of the above notes to February 6, 2015. Under the terms of the forbearance agreement, all unpaid interest and fees were added to the outstanding principal balance of Note 2. The agreement calls for monthly payments of \$75,000 to be applied first to the accrued and unpaid interest due under the terms of the Notes, on a pro rata basis, and then to the principal balance of Note 2, and then to the principal balance of Note 1 and/or Note 3, based on the discretion of the lender.

Maturities of long term debt are as follows for the years ended December,

2014	\$ 442,717
2015	5,647,550
	\$ 6,090,267

NOTE 7 – DERIVATIVE LIABILITY/FAIR VALUE

As of December 31, 2012 derivative liability consisted of the following:

	2012
Warrants	\$ 249,164
Conversion feature	-
Derivative liability	\$ 249,164

The derivative liability related to outstanding warrants which were valued using the Black-Scholes option valuation model and the following assumptions during 2013 and 2012:

2013	2012
------	------

Edgar Filing: Quadrant 4 System Corp - Form 10-K

Risk free interest rate	.41% -	.72%	.72%
Expected volatility		425%	449%
Expected dividend yield		0%	0%

The derivative liability related to outstanding warrants which were valued using the Black-Scholes option valuation model and the following assumptions during 2013 and 2012:

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. When the related loans were paid off, the number of shares and the prices were fixed. Therefore, the liability of \$536,593 was reclassified to additional paid in capital.

F-11

Table of Contents

Fair Value

The Company's financial instruments consist primarily of receivables, accounts payable, accrued expenses and short-term debt. The carrying amount of receivables, accounts payable and accrued expenses approximates its fair value because of the short-term maturity of such instruments. In addition, the Company believes that its short and long term debt terms are commensurate with market terms for similar instruments and approximate fair value.

The Company categorizes its assets and liabilities that are valued at fair value on a recurring basis into a three-level fair value hierarchy as defined by ASC 820 "Fair Value Measurements and Disclosures" ("ASC 820"). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and lowest priority to unobservable inputs (Level 3).

Assets and liabilities recorded in the consolidated balance sheet at fair value are categorized based on a hierarchy of inputs, as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or the asset or liability, either directly or indirectly through market corroboration; and

Level 3 Unobservable inputs for the asset or liability.

The Company's derivative liabilities are considered a Level 3 financial instrument.

The table below is a summary of changes in the fair value of the Company's Level 3 assets for the years ended December 31, 2013 and 2012:

	Derivative Liability
Balance as of December 31, 2011	\$ 333,329
Additions	70,000
Gain/loss on derivative	(154,165)
Balance as of December 31, 2012	249,164
Loss on derivative	287,429
Reclass to equity	(536,593)
Balance as of December 31, 2013	\$ -

NOTE 8 – STOCKHOLDERS' EQUITY

Correction of error in November 2013, management and certain investors identified that 870,000 shares for a 2010 series of subscriptions received by the company were never issued. The adjustments identifies these shares as if issued.

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.

Sales of Common Stock

During 2013, the Company issued 10,700,000 shares of restricted stock as part consideration to acquire various operating assets for a total cost of \$3,230,000 at the average cost of \$0.35/share.

During 2013, the Company issued 16,209,257 per stockholder's equity shares of restricted stock to convert \$5,708,621 per stockholder's equity of long term debt at the average cost of \$0.32/share.

During 2013, the Company issued 1,187,419 shares of restricted stock as consideration for financing charges and earn-out liabilities for a total expense of \$376,411 at the average cost of \$0.32/share.

F-12

Table of Contents

During 2013, the company issued 1,253,461 restricted shares to various non-affiliated and independent contractors and consultants providing various services including marketing, accounting, legal and branding related matters on various projects for a total cost of \$111,715 at the average cost of \$0.09/share.

During 2013, the Company entered into various stock subscription agreements with independent and accredited investors and sold 4,066,667 shares of restricted stock for a total consideration of \$1,632,000 per stockholder's equity at an average price of \$0.40/share.

During 2013, the Company also sold 1,700,000 shares of restricted stock as a part of warrant exercise for a consideration of \$1,020,000 at the price of \$0.60/share.

Warrants

The Company has issued the following warrants for common stock as of December 31,

	2013	2012
Financing and stock subscriptions	8,150,281	9,183,614
Note Extensions	2,843,064	2,843,064
Management	2,500,000	-
Debt conversion	1,666,667	-
Total Reserved	15,160,012	12,026,678

A summary of warrant issuances based on common stock equivalents is as follows:

	Number of Shares	Exercise Price	Weighted Average Exercise Price
Balance at December 31, 2011	9,383,611	\$ 0.36 – 0.60	\$ 0.57
Warrants issued with convertible debt	583,333	\$ 0.36	\$ 0.36
Warrants issued for note extensions	2,059,734	\$ 0.36	\$ 0.36
Balance at December 31, 2012	12,026,678	\$ 0.36 – 0.60	\$ 0.52
Warrants exercised	(1,700,000)		
Warrants expired	-		
Warrants issued to management	2,500,000	\$ 0.10	\$ 0.10
Warrants issued for debt conversion	1,666,667	\$ 1.00	\$ 1.00
Warrants issued with stock subscription	666,667	\$ 1.00	\$ 1.00
Balance at December 31, 2013	15,160,012	\$ 0.36 – 1.00	\$ 0.67

All outstanding warrants are currently exercisable. A summary of outstanding common stock warrants at December 31, 2013 follows:

Number of Common Stock Equivalents	Expiration Date	Remaining Contractual Life (Years)	Exercise price
---------------------------------------	--------------------	--	----------------

Edgar Filing: Quadrant 4 System Corp - Form 10-K

1,666,667	1/17/2016	2.0	\$	0.60
3,900,281	10/25/2016	2.8	\$	0.60
1,333,333	12/26/2016	3.0	\$	0.60
783,330	10/25/2017	3.8	\$	0.60
583,333	12/31/2017	4.0	\$	0.70
2,059,734	12/31/2017	4.0	\$	0.36
2,500,000	07/01/2018	4.5	\$	0.10
1,666,667	12/31/2018	5.0	\$	1.00
666,667	12/31/2018	5.0	\$	1.00
15,160,012				

F-13

Table of Contents

NOTE 9 – COMMITMENTS AND CONTINGENCIES

In September 2012, the Company entered into a five year lease agreement for its New Jersey facility, which expires on August 31, 2016. In June 2013, the Company entered into a five year lease agreement for its Michigan facility, which expires on October 31, 2018. In February 2013 the Company took over the lease agreement of its California facility, which expires on April 12, 2015. As of December 31, 2013 the company's future minimum lease payments are as follows:

Year Ending December 31,	
2014	\$ 187,679
2015	\$151,725
2016	\$87,952
2017	\$67,007
2018	57,356
	\$551,719

Rent Expense for the years ended December 31, 2013 and 2012 was \$206,272 and \$83,535, respectively.

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 was accrued during 2013 and satisfied by issuing 1,870,270 shares of common stock to a third party on an assignment.

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 10 – INCOME TAXES

The Company and its subsidiaries file consolidated Federal and state income tax returns. Certain tax years are subject to examination by the Internal Revenue service and certain state taxing authorities. The Company does not believe there would be any material adjustments upon such examination.

As of December 31, 2013, management has determined that there are no significant uncertain tax positions requiring recognition in the Company's consolidated financial statements.

As of December 31, 2013, the Company had net operating loss carryforwards of approximately \$1,894,000 to reduce future Federal income tax liabilities through 2035, which under regulations of the Internal Revenue Service related to ownership changes are limited under IRC Section 382 to approximately \$669,000 per year. In addition, there are net operating loss carryforwards of approximately \$ 969,000 which are not subject to the limitation.

As of December 31, 2013 and 2012, realization of the Company's deferred tax assets were not considered more likely than not and, accordingly, a valuation allowance has been provided.

The net change in the valuation allowance during the years ended December 31, 2013 and 2012 increased by \$3,700,000 and \$1,739,000, respectively.

	2013	2012
Amortization of intangibles	\$ 6,831,000	\$ 3,365,000

Edgar Filing: Quadrant 4 System Corp - Form 10-K

Allowance for doubtful accounts	323,000	241,000
Net operating losses	1,145,000	993,000
	8,299,000	4,599,000
Valuation allowance	(8,299,000)	(4,599,000)
Net deferred tax asset	\$ -	\$ -

F-14

Table of Contents

For the years ended December 31, 2013 and 2012, the actual tax expense differs from the effective tax expense (benefit) based on the U. S. Federal Rate of 34%, as follows:

	2013	2012
Expected Federal tax rate	(34.0%)	(34.0%)
Expected state tax rate, net of Federal effect	(6.0%)	(6.0%)
Change in valuation allowance	40.0%	40.0%
	- %	- %

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 has no ownership, directly or indirectly, in these key suppliers and subcontractors. Payments made to India suppliers and subcontractors were \$4,562,000 and \$4,070,000 for the years ended December 31, 2013 and 2012, respectively. There was also an advance of \$450,000 given to Quadrant 4 Software Solutions Private Limited, India (unrelated) during 2012 and the same is repaid during 2013. Additionally, the Company paid Quadrant 4 India \$1,630,000 to assist them with software development. These costs are shown in other assets but they will be transferred to intangible assets and will be amortized over five years upon completion.

NOTE 12 – SUBSEQUENT EVENTS

In January and February, 2014, the Company issued 1,207,917 shares of common stock to exercise warrants at \$0.60/share for a total consideration of \$724,750.20.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Item 9 of Form 10-K requires the disclosure of changes in the context of a disagreement with the outbound auditor (Item 304(b) only).

ITEM 9A. 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. 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 are effective.

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

During November 2013, management and certain investors identified that 870,000 shares for a series of subscriptions received by the company were never issued. Because the subscriptions received were not reconciled to the stock transfer agent/issuance records, this constitutes a significant deficiency. Management has taken steps in 2013 to account for and match equity transactions on a timely basis.

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

Based on this evaluation, our management concluded that our internal controls over financial reporting were operating effectively as of December 31, 2013.

This annual report does not include an attestation report of the Company's registered accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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 in its accounting and finance departments and instituted additional procedures to review its interim financial statements and significant transactions with 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 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 year ending December 31, 2013.

ITEM 9B. OTHER INFORMATION

Not applicable.

Table of Contents

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Directors and Officers of the Company are as follows:

Name	Age	Position	Period Held
Dhru Desai	52	Director/ CFO	2010 – Current
Nandu			2010 –
Thondavadi	59	Director / CEO	Current
Thomas E.			2010 –
Sawyer	75	Director	Current
			2013 –
Eric Gurr	58	Director	Current

Biographical information regarding the Directors and Officers are as follows:

Dhru Desai is Chairman of the Board and Chief Financial Officer. Mr. Desai has successfully built both private and public companies in the IT and Telecommunications field over the past 25 years. Early in his career, Mr. Desai was employed by ATT Bell Labs and Teradyne. Mr. Desai was the founder and CEO of Cronus Technologies, Inc. He successfully built the industry's first IP signaling gateway business generating over \$25 million in revenues prior to divesting it to Cisco, FastCom and Advanced Fiber. In April of 2005 Mr. Desai served as Chairman of the Board of eNucleus Inc., and served in several executive capacities until he resigned on July 16, 2006. Between July 2006 and June 2009 Mr. Desai acted in the capacity of an advisor to a number of companies in the real estate and Information Technology sectors. Mr. Desai has an MS in Computer Science from the Illinois Institute of Technology.

Nandu Thondavadi, Ph.D. is the Chief Executive Officer of the Company and is responsible for the Company's day-to-day operations. Prior to this, Dr. Thondavadi was the founder and president of Global Technology Ventures, a consulting firm providing mergers and acquisition advisory services to companies in the information technology sectors, a position he held from January 2008 through the present. Prior to starting this firm, Dr. Thondavadi was the Chief Executive Officer of a global software company for over a decade. Earlier to that, Dr. Thondavadi was a Clinical Professor of Management in the Kellogg School of Management of Northwestern University, Evanston, IL where he taught both graduate students (Masters in Management candidates) and executive courses in the areas of Operations Management, Strategic Cost Management and Business Process Reengineering from December 1992 through February 2001. Dr. Thondavadi also previously served as Vice President – Support Operations for Coleman Cable Systems in North Chicago, IL from April 1992 to March 1995; Technical Director - Corporate Technology Center for Square D Company in Palatine, IL from March 1989 to March 1992 and Senior Engineering Consultant - Decision Technologies for Electronic Data Systems Corporation (EDS) in Troy, MI from August 1985 to March 1989. Dr. Thondavadi received his Masters in Management from Northwestern University, Kellogg School of Management, Evanston, IL in 1992; his Ph.D. in Chemical Engineering and his Master's Degree in Science in Industrial Engineering, both from the University of Cincinnati, Cincinnati, OH, in 1982; his M.Sc.(Tech) in 1977 and his B.Sc. (Tech) in 1975, both in Chemical Technology and both from the University of Bombay, Bombay, India and his B.Sc.(Tech) in Chemical Technology from Yuvaraja's College, University of Mysore, Mysore, India in 1971.

Dr. Thomas E. Sawyer, Ph.D. is presently the Chairman/CEO of Brazil Gold Corp. a position he has held since 2009 where he is responsible for the strategic planning and organization of this small publicly-traded independent gold exploration company working in Brazil's Western Amazon basin. Prior to that, he was the Chairman/CEO of Innova Enterprises, Inc. from 2007 to 2009 where he led the development of patented oil purification technology to reduce waste oil and extend useful life of diesel engines and engine components. Dr. Sawyer presently serves as a director of

Digifonica International Inc., a publicly-traded company exploiting telecommunications patents related to VoIP services. a position he has held since 2007. He is presently chair of the compensation and audit committees of Digifonica International Inc. Dr. Sawyer also presently serves as a director of Chief Consolidated Mining, Inc., a position he has held since 2007. In addition, Dr. Sawyer owns his own consulting business of which he is president and chief executive officer, under the name Sawyer Technologies, LLC, a business he has owned and operated since 2002. Dr. Sawyer has also served as a trustee of the First European Investment Foundation since 2004 and a senior director of AIM Holdings LTD, Economic Research Institute since 2004. His prior engagements were as the Chief Technology Officer of Global Light Telecommunications, Inc. from 1998 to 2002, a public company; and as the Chief Executive Officer of NACT Telecommunications, Inc. from 1988 to 1998, a public company. Dr. Sawyer served in the executive office of three presidential administrations, including serving as a director in the Office of Economic Opportunity, Executive Offices of the President in Washington, D.C. from 1973 to 1974. Dr. Sawyer has previously served on a number of boards of civic and charitable organizations and as a professor of Brigham Young University from 1974 to 1978. Dr. Sawyer received his Ph.D. in Management from Walden University and his Ph.D. in Clinical Psychology from Florida State University. He also received an M.A. in Business/Urban Affairs from Occidental College and his B.S. in Engineering from U.C.L.A.

Table of Contents

Eric F. Gurr is presently owner and sole officer of Gurr CPA, LLC, a small accounting firm based in Orem Utah, a position he has held since November 2007. This firm provides forensic accounting, business valuation, business plans, due diligence, consulting, tax planning and preparation, accounting services, wealth management, business systems support (software, hardware etc.) and other related services and has developed a niche accounting and financial services for authors. Mr. Gurr has been a licensed independent public accountant for more than 25 years. Prior to acquiring his own firm, Mr. Gurr was the CEO of NACT Holding LLC, a position he held from January 2005 through November 2007 and where he led a management-led buyout from Verso. Prior to the formation of NACT Holding LLC, Mr. Gurr was president of Verso Switching Division, a division of Verso Technologies, Inc. from February 2002 to January 2005.

Name and address of Officers and Directors *	Amount and nature of beneficial ownership	Percent of class *****
Dhru Desai	4,350,000	4.57 %
Nandu Thondavadi	4,350,000	4.57 %
Thomas Sawyer	150,000	0.11 %
Eric Gurr	205,000	0.22%
All officers and directors as a group	9,055,000	9.74%

Each director of the Company holds such position until the next annual meeting of the Company's stockholders and until his successor is duly elected and qualified. The officers hold office until the first meeting of the board of directors following the annual meeting of stockholders and until their successors are chosen and qualified, subject to early removal by the board of directors.

The Audit Committee

The Audit Committee operates pursuant to a charter approved by the Board of Directors. The charter sets forth the responsibilities of the Audit Committee. The primary function of the Audit Committee is to serve as an independent and objective party to assist the Board of Directors in fulfilling its responsibilities for overseeing and monitoring the quality and integrity of the Company's financial statements, the adequacy of the Company's system of internal controls, the review of the independence, qualifications and performance of the Company's independent registered public accounting firm, and the performance of the Company's internal audit function. The Audit Committee is chaired by Mr. Gurr since January 1, 2013 who was considered independent by the Board of Directors. The Company's Board of Directors has determined that Mr. Gurr can serve as the "audit committee financial expert" as defined under Item 407 of Regulation S-K of the 1934 Act. Mr. Gurr met the current independence and experience requirements of Rule 10a-3 of the 1934 Act.

Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the 1934 Act, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the SEC and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based on the Company's review of Forms 3, 4 and 5 filed by such persons, the Company believes that during the fiscal year ended December 31, 2012, certain Section 16(a) filing requirements applicable to such persons were not met in a timely manner but have been met once the responsible parties were able to confirm the percentage of shares outstanding held by each..

Code of Ethics

The Board has adopted a Code of Ethics applicable to the Company's principal executive officer, principal financial officer and principal accounting officer. The Company is revising its website and, while its code of ethics is not presently available during revisions, on completion, the code of ethics will be available on the Company's website at www.Quadrant4Systemcorp.com. Future amendments to the Code of Ethics and any waivers thereto will be posted on the Company's website pursuant to the option set forth in Item 5.05(c) of Form 8-K.

Table of Contents

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF DIRECTORS AND OFFICERS

The following table sets forth the remuneration of each of the Company's executive officers during each of its two most recent fiscal years:

SUMMARY COMPENSATION TABLE

Name and principal position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$) (e)	Option/Warrant Awards (\$) (f)	Non-Equity	Nonqualified	All	Total (\$) (j)
						Incentive Compensation (\$) (g)	Deferred Earnings Compensation (\$) (h)	Other Compensation (\$) (i)	
Nandu Thondavadi, CEO	2013	\$ 0	-0-	-0-	87,500	-0-	-0-	-0-	\$ 0
	2012	\$ 0	-0-	-0-	-0-	-0-	-0-	-0-	\$ 0
Dhru Desai, CFO	2013	\$ 0	-0-	-0-	87,500	-0-	-0-	-0-	\$ 0
	2012	\$ 0	-0-	-0-	-0-	-0-	-0-	-0-	\$ 0

The Company's board of directors granted 1,250,000 warrants to Nandu Thondavadi and Dhru Desai in 2013 as total executive compensation for meeting company performance goals and as incentive to stay on. Neither one of them have an employment agreement currently with the Company.

The Company has no stock option, retirement, pension, or profit-sharing programs for the benefit of directors, officers, or other employees.

The Compensation Committee, chaired by Mr. Sawyer, a director, has discussed with the two officers regarding compensation and determined that decisions regarding fair and appropriate compensation will be undertaken once the Company has achieved certain milestones and therefore no formal compensation agreements have been made with Mr. Thondavadi or Mr. Desai. The Company's compensation committee is expected to define comprehensive compensation plan for the key executives including option grants for FY 2014 later in Q2 2014.

Compensation Committee Report

The entire Board performs the functions of a compensation committee given the Company's small size. Compensation matters involving the Company's chief executive officer and chief financial officer have been made by the Board after their recusal from discussions and votes on such matter. At present, there are no employment agreements with the Company and there was no discussion regarding this matter. The Board has recommended that the compensation discussion and analysis be included in this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 10, 2014, each stockholder who owns more than 5% of our outstanding shares of common stock, each director, the chief executive officer, our executive officers and our directors and executive officers as a group.

Edgar Filing: Quadrant 4 System Corp - Form 10-K

Title of class	Name and address of beneficial owners*	Amount and nature of beneficial ownership	Percent of class*****
Common stock	Stonegate Assets, Inc.	7,000,000	7.6%
Common stock	Stonegate Holdings, Inc.	6,695,959	7.2%
Common stock & warrants	Dhru Desai (1)	4,350,000	4.7%
Common stock & warrants	Nandu Thondavadi (2)	4,350,000	4.7%
Common stock	Thomas E. Sawyer	150,000	0.11%
Common stock	Eric Gurr	205,000	0.22%
All officers and directors as a group		9,055,000	9.74%

29

Table of Contents

- (1) Mr. Dhru Desai, an officer and member of the Board of Directors, owns stock in an irrevocable trust for the benefit of his family, through a controlled entity and in his own name and includes 1,250,000 warrants.
- (2) These shares are owned by Lionsgate Irrevocable Trust and may be imputed to Mr. Nandu Thondavadi, an officer and member of the Board of Directors, as the trustee and/or certain of the beneficiaries of this family trust are members of his immediate family. This includes 1,250,000 warrants granted to Mr. Nandu Thondavadi.

For each shareholder the calculation of beneficial ownership is based on 92,466,690 shares of common stock outstanding as of March 17, 2014.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transactions

None.

Director Independence.

Although it is not strictly bound to do so, the Company currently utilizes the NASDAQ independence tests to determine whether its directors and audit committee members are independent.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Sasseti LLC served as independent auditors for the years ended December 31, 2013, 2012 and 2011, and has acted as principal auditor since June 15, 2011.

AUDIT FEES

Fees billed by Sasseti LLC totaled \$98,040 for the year ended December 31, 2013. This amount includes fees for the annual audit for the year ended December 31, 2012 and reviews of all of the company's quarterly reports filed with the SEC during the year ended December 31, 2013. Fees totaled \$73,000 for the year ended December 31, 2012. This amount includes fees for the annual audit for the year ended December 31, 2011 and reviews of the Company's quarterly reports filed with SEC during the year ended December 31, 2012. Fees billed by Schulman Wolfson and Abruzzo, LLP totaled \$90,000 for the year ended December 31, 2012 and relate to review of 2012 10-K and reissuance of 2011 opinion.

AUDIT-RELATED FEES

Sasseti LLC billed \$17,155 during 2013 relating to assistance with acquisitions, SEC filings, etc.

TAX FEES

There were no fees billed by the Company's auditors for tax services for fiscal years 2013 and 2012, respectively.

ALL OTHER FEES

There were no other fees billed by the Company's auditors for any other non-audit services rendered to the Company (such as attending meetings and other miscellaneous financial consulting), during the years ended December 31, 2013 and December 31, 2012, respectively.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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 System Corporation's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheet at December 31, 2013 and 2012, (ii) Consolidated Statement of Operations for the years ended December 31, 2013 and 2012, (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2013 and 2012, and (iv) Consolidated Statement of Cash Flows for the years ended December 31, 2013 and 2012.

Table of Contents

SIGNATURES

In accordance with section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereto duly authorized individual.

QUADRANT 4 SYSTEM CORPORATION

Date: March
17, 2014

By:/s/ Nandu Thondavadi

Name:Nandu Thondavadi
Title:President and Chief Executive Officer

Date: March
17, 2014

By:/s/Dhru Desai

Name:Dhru Desai
Title:Chief Financial Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March
17, 2014

By:/s/ Nandu Thondavadi

Name:Nandu Thondavadi
Title:President and Chief Executive Officer and Director
(Principal Executive Officer)

Date: March
17, 2014

By:/s/Dhru Desai

Name:Dhru Desai
Title:Chief Financial Officer and Director
(Principal Financial and Accounting Officer)

Date: March
17, 2014

By:/s/ Dr. Thomas E. Sawyer

Name:Dr. Thomas E. Sawyer
Title:Director

Table of Contents