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

**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2014

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

Commission File Number 33-42498



**QUADRANT 4 SYSTEM CORPORATION**

(Exact name of registrant as specified in its charter)

Illinois  
(State or other jurisdiction of  
incorporation or organization)

65-0254624  
(IRS Employer  
Identification No.)

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

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  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-Q or any amendment to this Form 10-Q.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b.2 of the Exchange Act). Yes  No

The number of shares of common stock outstanding as of May 14, 2014 was 93,749,607.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

QUADRANT 4 SYSTEM CORPORATION  
Consolidated Balance Sheets

	<b>March 31, 2014</b>	<b>December 31,</b>
	<b>(Unaudited)</b>	<b>2013</b>
		<b>(Audited)</b>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 627,249	\$ 897,215
Accounts and unbilled receivables (net of allowance for doubtful accounts of \$806,725 and \$808,497 for March 31, 2014 and December 31, 2013, respectively)	6,435,435	5,766,010
Other current assets	459,095	465,798
<b>Total current assets</b>	<b>7,521,779</b>	<b>7,129,023</b>
Property and equipment - net	25,650	21,491
Other assets	3,775,035	3,409,834
Intangible assets, net	15,309,710	16,608,253
<b>TOTAL ASSETS</b>	<b>\$ 26,632,174</b>	<b>\$ 27,168,601</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 5,084,804	\$ 4,271,785
Note payable – Revolver	3,567,303	4,330,575
Earnouts payable	-	1,222,312
Current maturities - long term debt	2,963,673	442,717
<b>Total current liabilities</b>	<b>11,615,780</b>	<b>10,267,389</b>
Long term debt less current maturities	3,117,538	5,647,550
Common Stock Payable	400,000	-
<b>Total liabilities</b>	<b>15,133,318</b>	<b>15,914,939</b>
Stockholders' Equity		
Common stock - \$0.001 par value; authorized: 200,000,000 shares: issued and outstanding 93,749,607 and 92,466,689 at March 31, 2014 and December 31, 2013, respectively	93,750	92,467
Additional paid-in capital	25,287,750	24,539,533
Accumulated Deficit	(13,882,644)	(13,378,338)
<b>Total stockholders' equity</b>	<b>11,498,856</b>	<b>11,253,662</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 26,632,174</b>	<b>\$ 27,168,601</b>

See notes to the consolidated financial statements

**QUADRANT 4 SYSTEM CORPORATION**  
**Consolidated Statements of Operations**

	<b>Three months ending March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenue	\$ 10,284,144	\$ 9,907,455
Cost of revenue	7,753,378	7,543,851
Gross Margin	2,530,766	2,363,604
General and administrative expenses	(1,317,066)	(1,076,519)
Amortization and depreciation expense	(1,324,794)	(1,157,072)
Interest expense	(393,212)	(572,976)
Derivative gain	-	57,504
Net loss before Income taxes	(504,306)	(385,459)
Income taxes	-	-
Net loss	<u>\$ (504,306)</u>	<u>\$ (385,459)</u>
Net loss per common share- basic and diluted	\$ (0.01)	\$ (0.01)
Weighted average common shares - basic and diluted	93,330,597	56,964,893

See notes to the consolidated financial statements

**QUADRANT 4 SYSTEM CORPORATION**  
**Consolidated Statements of Cash Flows**

	For the Three Months Ending March 31,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net loss	\$ (504,306)	\$ (385,459)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Derivative Loss / (gain)	-	(57,504)
Accretion of interest	-	67,221
Amortization and depreciation	1,324,794	1,157,072
Doubtful accounts	1,772	78,610
Issuance of Stock for services and interest	-	(8,811)
Changes in assets and liabilities		
Accounts receivable	(671,197)	(2,472,002)
Other current assets	6,703	79,939
Other assets	(365,201)	(39,168)
Accounts payable and accrued expenses	(409,293)	1,538,879
Net cash used in operating activities	(616,728)	(41,223)
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(5,660)	(1,565)
Acquisition of assets (net of liabilities assumed of \$1,832,000, notes payable assumed of \$3,268,000, contingent payments of \$2,990,000 and issuance of common stock of \$2,330,000)	-	(1,550,000)
Net cash used in investing activities	(5,660)	(1,551,565)
<b>Cash flows from financing activities:</b>		
Proceeds from sales of common stock and exercise of warrants	1,124,750	300,000
(Decrease) increase in note payable - factor	(763,272)	1,315,158
Payments of long-term debt	(9,056)	(705,758)
Proceeds from long term debt	-	840,000
Net cash provided by financing activities	352,422	1,749,400
Net increase (decrease) in cash	(269,966)	156,612
Cash - Beginning of period	897,215	86,770
Cash - End of period	\$ 627,249	\$ 243,382
<b>Supplemental disclosure of cash flow information</b>		
<b>Cash paid for:</b>		
Interest	\$ 264,211	\$ 315,607
Income taxes	\$ -	\$ -
<b>Noncash transactions</b>		
Noncash considerations for acquisitions	\$ 24,750	\$ 5,230,000

See notes to the consolidated financial statements

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

**NOTE 1 – ORGANIZATION AND OPERATIONS**

**Organization**

Quadrant 4 System Corporation (the “Company” or “Q4”) was incorporated in Florida on May 14, 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 operates its business through its wholly owned subsidiaries and is transforming itself to a SMAC (Social – Mobile – Analytics – Cloud) company. The Company has significant presence in Health Insurance, Media, Retail and Financial Services verticals.

**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 – BASIS OF PRESENTATION**

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules and regulations under Regulation S-X of the U.S. Securities and Exchange Commission for Form 10-Q, and should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for Quadrant 4 System Corporation (the “Registrant” or the “Company”) for the year ended December 31, 2013. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements presentation. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented have been included. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year ended December 31, 2013, as reported in the Form 10-K, have been omitted.

In preparing the interim unaudited consolidated financial statements, management was required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the financial reporting date and throughout the periods being reported upon. Certain of the estimates result from judgments that can be subjective and complex and consequently actual results may differ from these estimates. These financial statements should be read in conjunction with the financial statements of the Company together with the Company’s management discussion and analysis in Item 2 of this report and in the Company’s Form 10-K for the year ended December 31, 2013. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Consolidated Financial Statements**

The consolidated financial statements include 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.

### **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.

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.

### **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.

### **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 periods ended March 31, 2014 and 2013, there were 11,410,844 and 12,266,947 respectively, potentially dilutive securities not included in the calculation of weighted-average common shares outstanding since they would be anti-dilutive.

### **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 15% of accounts receivable for the period ended March 31, 2014. No individual customer exceeded 10% of consolidated revenues for the period ended March 31, 2013.

### **Recent Accounting Pronouncements**

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

**NOTE 4 – ACQUISITIONS**

***Teledata Technology Solutions, Inc.***

Effective February 1, 2013, the Company acquired the assets of Teledata Technology Solutions, Inc. and its subsidiaries, Abaris, Inc., Alphasoftware 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.

***Acquisition of Momentum Mobile, LLC***

On February 26, 2013 (and amended on February 26, 2014) 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) 1,075,000 common shares valued at \$354,750.

***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.

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:**

	<b>TTS</b>	<b>Momentum</b>	<b>BlazerFish</b>	<b>Total</b>
Cash	\$ 900,000	\$ 400,000	\$ 250,000	\$ 1,550,000
Common stock	1,000,000	354,750	1,900,000	3,254,750
Contingent payments	1,500,000	800,000	600,000	2,900,000
	<u>\$ 3,400,000</u>	<u>\$ 1,554,750</u>	<u>\$ 2,750,000</u>	<u>\$ 7,704,750</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Customer lists intangibles	\$ 7,650,000	\$ 1,554,750	\$ 85,000	\$ 9,289,750
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)
	<u>\$ 3,400,000</u>	<u>\$ 1,554,750</u>	<u>\$ 2,750,000</u>	<u>\$ 7,704,750</u>

Each of the acquisitions include certain contingent consideration arrangements that required 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 dates(s) of approximately \$2,900,000 were 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 December 2013 resulted in a reduction of the earn-out liability by \$1,007,313.

The following unaudited proforma summary for the three months ended March 31, 2013 presents consolidated information of the company as if these business combinations occurred on January 1, 2013 and includes the amortization of acquired intangibles:

	<b>2014</b>
Gross Sales:	\$ 11,464,408
Net Loss:	\$ (492,089)

**NOTE 5 – INTANGIBLE ASSETS**

As of March 31, 2014 and December 31, 2013, intangible assets consisted of the following:

Intangible assets consisted of the following:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Customer list – Q4 Consulting	\$ 7,131,196	\$ 7,131,196
Customer list – Q4 Solutions	5,461,000	5,461,000
Technology stack – Q4 Solutions	5,550,000	5,550,000
Technology stack – Empower HR	175,000	175,000
Customer list – Q4 Cloud	7,050,000	7,050,000
Technology stack – Q4 Cloud	850,000	850,000
Customer list – Q4 Mobility	1,639,750	1,615,000
Technology stack– Q4 Mobility	2,665,000	2,665,000
	<u>30,521,946</u>	<u>30,497,196</u>
Accumulated amortization	(15,212,236)	(13,888,943)
	<u>\$ 15,309,710</u>	<u>\$ 16,608,253</u>

For the three months ending March 31, 2014, the change in intangible assets was as follows:

Beginning of the year	\$ 16,608,253
Additions	24,750
Impairment of assets	-
Amortization	<u>(1,323,293)</u>
End of the year	<u>\$ 15,309,710</u>

For quarters ending March 31, 2014 and 2013, amortization expense was \$1,323,293 and \$1,156,827, respectively.

**NOTE 6 – NOTE PAYABLE - REVOLVER**

As amended in February 2013, the Company entered into an agreement with a financing company providing a revolving line of credit. Under the agreement, the Company assigned certain accounts receivable, including purchased accounts receivable, to the financing company in return for a maximum line of credit of \$6,500,000. The agreement is automatically renewable on the anniversary unless cancelled by the parties. Fees under the agreement consist of a commitment fee of \$65,000, a service fee of 0.825% per month, and interest at prime (at minimum of 5%) plus 2% per annum.

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

**NOTE 7 – LONG-TERM DEBT**

Long-term debt consisted of the following:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Note payable due December 31, 2015, as extended, plus interest at 5% per annum (a)	\$ 3,117,538	\$ 3,117,538
Note 1 payable due February 6, 2015, as extended, plus interest at 16% per annum (b)	682,500	682,500
Note 2 payable due February 6, 2015, plus interest at 10% per annum (b)	695,673	704,729
Note 3 payable due February 6, 2015, as extended, plus interest at 16% per annum (b)	1,585,500	1,585,500
	<u>6,081,211</u>	<u>6,090,267</u>
Total	6,081,211	6,090,267
Less: Current maturities	(2,963,673)	(442,717)
Total long-term debt	<u>\$ 3,117,538</u>	<u>\$ 5,647,550</u>

(a) 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 through December 31, 2018. In March 2014, the note was extended to December 31, 2015 without any further considerations.

(b) 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 14, 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.

**NOTE 8 – DERIVATIVE LIABILITY/FAIR VALUE**

The derivative liability consists of the following:

	<b>March 31, 2013</b>
Warrants	\$ 191,660
Conversion feature	-
	<u>191,660</u>
Derivative liability	<u>\$ 191,660</u>

The derivative liability related to the outstanding warrants was valued using the Black-Scholes option valuation model and the following assumptions at March 31, 2013:

Risk free interest rate	.72%
Expected volatility	440%
Expected dividend yield	0

**NOTE 9 – STOCKHOLDERS' EQUITY**

**Preferred Stock**

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

**Reserved Shares**

As of March 31, 2014, the Company has issued the following warrants for common stock:

Financing and stock subscriptions	4,401,113
Note Extensions	2,843,064
Management	2,500,000
Debt conversion	<u>1,666,667</u>
Total Reserved	<u><u>11,410,844</u></u>

During the three months ended March 31, 2014, 1,207,917 warrants were exercised totaling \$724,750. In addition during the three months ended March 31, 2014, 666,667 warrants were exercised during the three months ended March 31, 2014 with a value of \$400,000 but are being shown as common stock payable as the shares were not issued as of March 31, 2014.

**NOTE 10 – CONTINGENCIES**

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. The Company has insurance to cover such claims.

**NOTE 11 – FOREIGN OPERATIONS**

The Company's headquarters and operations are located in the United States. However, the Company does have some key suppliers and subcontractors located in India. The Company and its management team have no ownership, directly or indirectly, in these key suppliers and subcontractors. Payments made to India suppliers and subcontractors were \$1,354,000 and \$970,000 for the three months ending March 31, 2014 and March 31, 2013.

**NOTE 12 – SUBSEQUENT EVENT**

On May 1, 2014, the Company acquired certain technology assets specific to media platforms for a total consideration of 4,444,445 shares priced at \$0.45/share and 2 million warrants with an exercise price of \$1/share. These assets are critical to executing the contract that company signed and disclosed in 8k dated May 8, 2014.

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

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

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This Form 10-Q for the quarter ending March 31, 2013 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amending, and Section 21E of the Securities Exchange Act of 1934, as amending. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms, 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**

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.

### **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 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.

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

The Company is actively executing on its business model which consists of delivery of consulting services in the targeted market segments. The nature of our model involves engaging employees and consultants to provide services to our customers with billing accrued and due in normal billing cycles. We incur debt to meet payroll obligations, the largest component of our expenses, and service debt with the payments received from our customers. Many of our employees and consultants are assisted in the immigration process which process is an expense component. The Company utilizes few major capital items in the delivery of its services and requires no significant plant expenses beyond ordinary commercial office space for both use by the employees on a limited basis and the back-office support for those employees. Our financial statements reflect primarily income from billing for our consulting services and expenses incurred to pay employees and consultants, including financing to meet payroll in anticipation of receipt of billing income from customers as well as general administration expenses to manage the Company.

**Results of Operations**

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

	<b>Three months ending March 31,</b>		<b>Increase/ (Decrease)</b>	<b>Percent</b>
	<b>2014</b>	<b>2013</b>		
Revenue	\$ 10,284,144	\$ 9,907,455	\$ 376,689	4%
Cost of Revenue	(7,753,378)	(7,543,851)	209,527	3%
Gross Margin	2,530,766	2,363,604	167,162	7%
General and administrative expenses	(1,317,066)	(1,076,519)	240,547	22%
Amortization of intangible assets	(1,324,794)	(1,157,072)	167,722	14%
Interest and derivative expense	(393,212)	(572,976)	(179,764)	(31)%
Derivative gain/(loss)	-	57,504	(57,504)	(100)%
Net loss	\$ (504,306)	\$ (385,459)	\$ 118,847	31%

**Comparison of Three Months Ending March 31, 2013 and 2012****REVENUES**

Revenues for the first quarter ending March 31, 2014 totaled \$10,284,144 compared to \$9,907,455 of revenue during the same period in 2013. There is slight increase in revenues of \$376,689 or 4% over the previous first quarter. Revenues were comprised of service-related sales of software programming, consulting and development services.

**COST OF REVENUES**

Cost of revenue for the first quarter ending March 31, 2014 totaled \$7,753,378 compared to \$7,543,851 during the same period in 2013. The increase in cost of revenue of \$209,527 or 3% over the previous first quarter, was due to corresponding increase in revenues in the first quarter of 2013. Cost of revenue is comprised primarily of the direct costs of employee and contract labor and related expenses.

**GROSS MARGIN**

The increase in gross margin of \$167,162, or 7% over the previous first quarter, resulted primarily from increased revenues, the gross margin percentage increased to approximately 25% from 24% during the same period of 2013.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general & administrative expenses for the first quarter ending March 31, 2014 totaled \$1,317,066 compared to \$1,076,519 during the same period in 2013. The increase in selling, general & administrative expenses of \$240,547 or 22% over the previous first quarter was due to increased costs of building new vertical sales force during the first quarter of 2014.

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

Amortization expense for the first quarter ending March 31, 2014 totaled \$1,324,794 compared to \$1,157,072 during the same period in 2013. The increase in amortization expense of \$167,722 was due to acquisitions that occurred during the first quarter of 2013. Amortization periods on the acquired intangibles range from 5 – 7 years.

**INTEREST AND DERIVATIVE EXPENSE**

Financing and interest costs and derivative expenses for the first quarter ending March 31, 2014 totaled \$393,212 compared to \$515,472 during the same period in 2013. The decrease in financing, interest costs and derivative expenses of \$122,260 or 24% over the previous first quarter due to various note repaid during the last quarter of the previous year 2013.

**NET LOSS**

The Company reported a net loss of \$504,306 for the first quarter ending March 31, 2014 compared to \$385,459 for the same period in 2013. The increase was \$118,847, or 31% over the previous first quarter.

**EBITDA**

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the first quarters ending March 31, 2014 and March 31, 2013 is calculated as follows:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Net Loss (GAAP Basis)	\$ (504,306)	\$ (385,459)
Interest expense	393,212	572,976
Derivative (gain)/loss	-	(57,504)
Amortization and depreciation expense	1,324,794	1,157,072
Income Taxes	-	-
EBITDA	<u>\$ 1,213,700</u>	<u>\$ 1,287,085</u>

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter ending March 31, 2014 decreased by \$73,385 or 6% over the previous first quarter.

**LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2014, we had an accumulated deficit of \$13,882,644 as compared to \$13,378,338 at December 31, 2013. As of March 31, 2014, we had a working capital deficit of \$4,094,001 as compared to \$3,138,366 at December 31, 2013.

We have no material commitments for capital expenditures.

Net cash used by operations for the three months ending March 31, 2014 was \$616,729 as compared to cash used in operating activities of \$41,223 for the three months ending March 31, 2013. The decrease in cash used in operating activities in 2014 compared to 2013 was primarily due to increase in revenue and accounts receivable during three months period ending March 31, 2013.

Net cash used for investing activities was \$5,659 for the three months ending March 31, 2014 compared to \$1,551,565 during the same three months ending March 31, 2013. The decrease was primarily due to acquisition of assets happened in 1<sup>st</sup> Quarter 2013.

Net cash provided by financing activities for the three months ending March 31, 2014 was \$352,422 as compared to cash provided by financing activities of \$1,749,400 for the three months ending March 31, 2013. The decrease in cash provided by financing activities in 2014 compared to 2013 was primarily due to a reduction in the factor note of \$763,272 versus an increase in 2013 of \$1,315,158.

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

## **Off Balance Sheet Arrangements**

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

## **Impact of Inflation**

We believe that inflation has not had a material impact on our results of operations for the three months ending March 31, 2014. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

## **CRITICAL ACCOUNTING POLICIES**

A summary of significant accounting policies is included in Note 3 to the unaudited financial statements included elsewhere in this Report and in Note 2 to the financial statements included in our Annual Report filed under Form 10-K for the year ending December 31, 2013. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition. The following are a summary of the significant accounting estimates and policies that we believe are most critical to aid in fully understanding and evaluating our reported financial results.

### **Critical Accounting Estimates and Policies**

#### *General*

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

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

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

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

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

**Accounts and Unbilled Receivables.** Accounts and unbilled receivables consist of amounts due from customers. The Company records a provision for doubtful receivables, if necessary, to allow for any amounts which may be unrecoverable, which is based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends.

**Intangible Assets.** Intangible assets are recorded at fair value and amortized on the straight-line method over the estimated useful lives of the related assets. The carrying value of intangible assets are reviewed for impairment by management at least annually or upon the occurrence of an event which may indicate that the carrying amount may be greater than its fair value. If impaired, the Company will write-down the intangible assets for such impairment. In addition, the useful life of the intangible assets will be evaluated by management at least annually or upon the occurrence of an event which may indicate that the useful life may have changed. Customer lists were valued based on management's forecast of expected future net cash flows, with revenues based on projected revenues from customers acquired and are being amortized over five years.

**Revenue Recognition.** Revenue is recognized when it has persuasive evidence of an arrangement, the fee is fixed and determinable, performance of service has occurred and collection is reasonably assured. Revenue is recognized in the period the services are provided.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not required.

**Item 4. Controls and Procedures**

*Evaluation of 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.

*Changes in internal control over financial reporting.* There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the first quarter of fiscal 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

Not required.

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

During the three months ended March 31, 2014, 1,207,917 warrants were exercised totaling \$724,750. In addition during the three months ended March 31, 2014, 666,667 warrants were exercised during the three months ended March 31, 2014 with a value of \$400,000 but are being shown as common stock payable as the shares were not issued as of March 31, 2014.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None

**Item 6. Exhibits**

**Item 601 of Regulation S-K**

<u>Exhibit No.:</u>	<u>Exhibit</u>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company</a>
32.1	<a href="#">Section 1350 Certification by Chief Executive Officer and Chief Financial Officer</a>
101	The following financial information from Quadrant 4 System Corporation's Quarterly Report on Form 10-Q for the quarter ending March 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2014 (unaudited) and December 31, 2013; (ii) Consolidated Statements of Income (Unaudited) for the three months ending March 31, 2014 and 2013, (iii) Consolidated Statements of Cash Flows (Unaudited) for the three months ending March 31, 2014 and 2013.

**SIGNATURES**

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

**QUADRANT 4 SYSTEM CORPORATION**

May 14, 2014

By:

/s/ Dhru Desai

Dhru Desai

Chief Financial Officer and Director

**Exhibit 31.1**

**CERTIFICATIONS**

I, Nandu Thondavadi, Chief Executive Officer of Quadrant 4 System Corporation certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Quadrant 4 System Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated Subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report; and
  - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2014

/s/ Nandu Thondavadi  
Nandu Thondavadi  
President, Chief Executive Officer and Director

**Exhibit 31.2**

**CERTIFICATIONS**

I, Dhru Desai, Chief Financial Officer of Quadrant 4 System Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Quadrant 4 System Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2014

/s/ Dhru Desai  
Dhru Desai  
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Quadrant 4 System Corporation (the "Company") on Form 10-Q for the first quarter ending March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nandu Thondavadi, Chief Executive Officer and I, Dhru Desai, Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 14, 2014

By:

/s/ Nandu Thondavadi

Nandu Thondavadi

President, Chief Executive Officer and Director

May 14, 2014

By:

/s/ Dhru Desai

Dhru Desai

Chief Financial Officer and Director