

Quadrant 4 System Corp  
Form 10-K/A  
September 23, 2016

---

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

---

FORM 10-K/A  
(Amendment No. 1)

---

(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, 2015

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.)

1501 E. Woodfield Road, Suite 205 S, Schaumburg, Illinois, 60173

(Address of principal executive offices)

(855) 995-7367

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of each class

Name of each exchange on which registered

Common stock par value \$0.001 per share N/A

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/A

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

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

The aggregate market value of common stock held by affiliates of the Registrant on June 30, 2015 based on the closing price on that date of \$0.42 on the OTC was \$20,125,498.68. 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 25, 2016 was 108,861,774.

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.

---

EXPLANATORY NOTE FOR AMENDMENT NO. 1:

QUADRANT 4 SYSTEM CORPORATION (the “Company” or “we”) is filing this Amendment No. 1 on Form 10-K/A to amend and restate in their entirety the following Items in our Annual Report on Form 10-K for the year ended December 31, 2015 as originally filed with the Securities and Exchange Commission on March 28, 2016 (the “Original Form 10-K”) in order to correct required information in the Original Form 10-K as follows:

(i) Cover Page: Title of securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934 (the “1934 Act”) and aggregate market value of common stock held by affiliates of the Registrant.

(ii) Part II, Item 8 (Financial Statements), for the purposes of (a) adding disclosures regarding related party transactions as set forth in Note 14 thereto, (b) correcting Note 11 to reflect that our Articles of Incorporation do not provide for the issuance of preferred stock and (c) correcting Note 14 to provide additional information regarding our relationship with a key subcontractor.

(iii) Part II, Item 9B (Other Information), Part IV, Item 15 (Exhibits, Financial Statement Schedules) and Exhibits 3.1 and 3.2 to attach copies of the Company’s Articles of Incorporation and Bylaws.

(iv) Part III, Item 10 (Directors and Executive Officers of the Registrant) to (a) correct the ages of the directors, (b) remove disclosures regarding the beneficial ownership of our common stock by our directors and executive officers, which disclosure have been corrected and incorporated into Item 12 of this Amendment, and (c) correct disclosures regarding compliance of our directors and executive officers with the requirements of Section 16(a) of the 1934 Act.

(v) Part III, Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters) to correct the disclosure of the beneficial ownership of our common stock.

(vi) Part III, Item 13 (Certain Relationships and Related Transactions) to provide revised disclosure of relationships and transactions with related parties.

No other portions of such Items as set forth in the Original Form 10-K, and no other Items of the Original Form 10-K, were affected by such changes. This report on Form 10-K/A is presented as of the filing date of the Original Form 10-K and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the foregoing matters. This Amendment should be read in conjunction with the Original Form 10-K, which continues to speak as of the date thereof.

PART II

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 - 2015 and 2014</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	F-2
<u>Consolidated Statements of Operations for the years ended December 31, 2015 and 2014</u>	F-3
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2015 and 2014</u>	F-4
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-6

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, 2015 and 2014 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. Quadrant 4 System Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits 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 consolidated 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 consolidated 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, 2015 and 2014 and the results of their consolidated operations and their consolidated cash flows for each of the years in the two year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ Schulman Lobel Zand Katzen Williams & Blackman LLP

New York, NY

March 28, 2016, except as to Notes 11 and 14, which is as of September 22, 2016

F-1

---

QUADRANT 4 SYSTEM CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	2014
<b>ASSETS</b>		
Current Assets		
Cash	\$246,492	\$2,285,557
Accounts and unbilled receivables (net of allowance for doubtful accounts of \$550,000 and \$810,000 at December 31, 2015 and December 31, 2014, respectively)	9,555,725	10,118,816
Inventory	95,400	-
Other current assets	148,076	233,789
Total current assets	10,045,693	12,638,162
Intangible assets, customer lists and technology stacks – net		
Goodwill	11,566,643	12,479,737
Equipment under capital lease – net	2,004,600	-
Equipment – net	366,961	-
Long-term assets	168,169	35,931
Software development costs – net	11,357,524	5,146,047
Deferred financing costs – net	356,979	600,583
Deferred licensing and royalty fees – net	960,000	1,200,000
Other assets	327,329	361,464
<b>TOTAL ASSETS</b>	<b>\$37,153,898</b>	<b>\$32,461,924</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$5,652,257	\$4,413,094
Note payable – revolver	7,601,904	6,750,050
Earn outs payable	343,075	-
Current obligation under capital lease	152,640	-
Current maturities - long term debt, net of debt discount of \$31,945	2,637,344	650,810
Total current liabilities	16,387,220	11,813,954
Non-current obligation under capital lease		
Long-term debt, less current maturities, net of debt discount of \$197,333	162,149	-
Total liabilities	4,338,763	5,834,688
Stockholders' Equity		
Common stock - \$0.001 par value; authorized: 200,000,000 shares: issued and outstanding 108,861,774 and 102,661,774 shares at December 31, 2015 and December 31, 2014, respectively	108,862	102,662
Additional paid-in capital	35,194,180	33,231,980
Accumulated deficit	(19,037,276)	(18,521,360)
Total stockholders' equity	16,265,766	14,813,282

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$37,153,898	\$32,461,924
--	--------------	--------------

See notes to the consolidated financial statements.

F-2

---



QUADRANT 4 SYSTEM CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,	
	2015	2014
Revenue	\$52,038,044	\$48,492,349
Cost of revenue	31,168,394	30,917,470
Gross margin	20,869,650	17,574,879
Operating expenses:		
General and administrative expenses	(12,353,824 )	(8,467,919 )
Research and development	(1,849,389 )	(2,655,980 )
Amortization, depreciation and impairment expense/loss	(5,238,582 )	(5,642,942 )
Interest expense	(1,943,771 )	(1,877,406 )
Total	(21,385,566 )	(18,644,247 )
Net loss before income taxes	(515,916 )	(1,069,368 )
Provision for income taxes	-	-
Net loss	\$(515,916 )	\$(1,069,368 )
Net loss per common share – basic and diluted	\$*	(0.01 )
Weighted average common shares – basic and diluted	\$ 103,754,377	102,024,778

\*Less than \$0.01, per share

See notes to the consolidated financial statements

F-3

---

QUADRANT 4 SYSTEM CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Years ended December 31, 2015 and 2014

	Shares	Common Stock	Additional Paid-in Capital	Accumulated (Deficit)	Total Stockholders' Equity
Balance, December 31, 2013	92,466,690	\$92,467	\$27,063,188	\$(17,451,992)	\$9,703,663
Sale of common stock	1,874,584	1,875	1,122,876	-	1,124,751
Shares issued for services	451,055	451	119,865	-	120,316
Shares issued for loan extension	350,000	350	139,650	-	140,000
Shares issued and warrants granted for acquisition of assets	4,519,445	4,519	2,997,401	-	3,001,920
Shares issued for licensing fee	3,000,000	3,000	1,197,000	-	1,200,000
warrants granted with notes payable	-	-	592,000	-	592,000
Net loss – 2014	-	-	-	(1,069,368 )	(1,069,368 )
Balance, December 31, 2014	102,661,774	\$102,662	\$33,231,980	\$(18,521,360)	\$14,813,282
Shares issued for acquisition of assets	4,750,000	4,750	972,750	-	977,500
Shares issued for services and employees	1,450,000	1,450	325,050	-	326,500
Warrants granted	-	-	664,400	-	664,400
Net loss – 2015	-	-	-	(515,916 )	(515,916 )
Balance, December 31, 2015	108,861,774	\$108,862	\$35,194,180	\$(19,037,276)	\$16,265,766

See notes to the consolidated financial statements

QUADRANT 4 SYSTEM CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(515,916 )	\$(1,069,368 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization, impairment and depreciation expense	5,238,582	5,642,942
Deferred license cost	240,000	-
Provision for doubtful accounts	(260,000 )	8,409
Issuance of stock for services and loan extension	326,500	260,316
Issuance of warrants for services	664,400	-
Changes in assets and liabilities, net of the effect of the acquisitions		
Accounts and unbilled receivables	978,124	(4,311,076 )
Inventory	(95,400 )	-
Other current assets	(69,151 )	(63,436 )
Software development costs	(6,516,889 )	(1,890,000 )
Deferred finance costs	243,604	(546,667 )
Other assets	44,999	(72,792 )
Obligation under capital lease	314,789	-
Debt discount	-	(592,000 )
Accounts payable and accrued expenses	(2,080,934 )	(851,725 )
Net cash used in operating activities	(1,487,292 )	(3,485,397 )
Cash flows from investing activities:		
Purchase of equipment	(523,470 )	(20,440 )
Acquisition of assets – net cash paid	(370,766 )	-
Net cash used in investing activities	(894,236 )	(20,440 )
Cash flows from financing activities:		
Proceeds from sales of common stock	-	1,124,751
Proceeds from notes payable – other	-	4,100,000
Borrowings on revolver	51,838,143	41,087,708
Repayments of revolver	(50,986,289)	(38,668,233)
Payments of long-term debt	(509,391 )	(2,750,047 )
Net cash provided by financing activities	342,463	4,894,179
Net (decrease)/increase in cash	(2,039,065 )	1,388,342
Cash – beginning of year	2,285,557	897,215
Cash – end of year	\$246,492	\$2,285,557
Supplemental disclosure of cash flow information		
Interest	\$1,848,331	\$1,367,559
Income Taxes	\$-	\$-
Supplemental disclosure for Investing activities:		
Assets acquired		

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

Inventory	\$90,442	\$-
Current assets	164,196	-
Equipment	90,721	-
Customer list and relationship	3,661,479	-
Goodwill	2,004,600	-
Total assets acquired	6,011,438	-
Purchase of assets funded by:		
Accrued Liabilities	3,263,172	-
Subordinate debt	1,000,000	-
Common stock par value \$0.001 per share, 4,750,000 shares	977,500	-
Contingent earn-out payments	400,000	-
	5,640,672	-
Net Cash paid	\$370,766	\$-

See notes to the consolidated financial statements.

F-5

---

QUADRANT 4 SYSTEM CORPORATION  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

Organization

Quadrant 4 System Corporation (sometimes referred to herein as “Quadrant 4” or the “Company”) was incorporated by the Florida Department of State on May 9, 1990 as Sun Express Group, Inc. and changed its name on March 31, 2011. The Company changed its domicile to Illinois on April 25, 2014. The Company generates revenue from clients located mostly in North America operating out of multiple office locations in the United States. In addition, the Company’s revenues are derived from a few select industries pertaining to information technology, consulting, professional services and vertical cloud platforms that include a large number of participants and are subject to rapid change.

Operations

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

The Company generates revenues principally from two broad segments, namely Services and Platforms. The Services component includes Consulting that bills on a time & material basis; Solutions that bills on time & material basis; and managed services that bills fixed monthly fees and provides pre-determined services. The Platform segment bills on transaction basis such as per member per month enrolled for the QBIX/QHIX; per bandwidth consumed for the QBLITZ; and per student per month for the QEDX platforms. The QBIX revenue stream started in 2015. The Company anticipates to increase the Platform based revenues in 2016.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include all the accounts of the Company. As of January 1, 2015, the two wholly owned subsidiaries have been merged with Quadrant 4 System Corporation. All intercompany transactions for 2014 have been eliminated.

Estimates

The preparation of the Company’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include the allowance for uncollectible accounts receivable, depreciation and amortization, intangible assets, including customer lists and technology stacks, capitalization, fair value and useful lives, accruals, contingencies, impairment and valuation of stock warrants and

options. These estimates may be adjusted as more current information becomes available, and any adjustment could have a significant impact on recorded amounts. Accordingly, actual results could defer from those estimates.

#### Fair Value of Financial Instruments

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

F-6

---

### Accounts and Unbilled Receivables

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

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

### Vendors and Contractors

The Company outsources portions of its work to third party service providers (Note 14). These providers can be captive suppliers that undertake software development, research & development and custom platform development. Some vendors may provide specific consultants or resources (often called Corp to Corp) or independent contractors (often designated as 1099) to satisfy agreed deliverables to its clients.

### Equipment

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

### Inventory

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

### Intangible Assets

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

The carrying value of intangible assets are reviewed for impairment by management of the Company at least annually or upon the occurrence of an event which may indicate that the carrying amount may be greater than its fair value. Management of the Company has decided to perform its impairment testing on a quarterly basis starting with the September 30, 2015 quarter. 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 years ranging from 2 to 5 years.

Technology stacks are valued based on management's forecast of expected future net cash flows, with revenues based on projected sales of these technologies and are amortized over years ranging from 2 to 7 years.

#### Software Development Costs

Costs that are related to the conceptual formulation and design of licensed software programs are expensed as incurred to research, development engineering and other administrative support expenses; costs that are incurred to produce the finished product after technological feasibility has been established and after all research and development activities for any other components of the product or process have been completed are capitalized as software development costs. Capitalized amounts are amortized on a straight-line basis over periods ranging up to five years and are recorded in amortization expense which started during 2015 when the platforms first became available for sale. The Company performs periodic reviews to ensure that unamortized software development costs remain recoverable from future revenue. Cost to support or service licensed program are charged to cost of revenue as incurred.

F-7

---



The Company's Product Development and R&D are carried out by both our employees in the US as well as outsourced contractors in India. The US employees mainly focus on the domain, market relevance, feasibility and possible pilots/prototypes. The Indian contractors mostly focus on execution in terms of software development and testing.

#### Pre-paid Expenses

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

#### Deferred Financing Costs

Financing costs incurred in connection with the Company's notes payable and revolving credit facilities are capitalized and amortized into expense using the straight-line method over the life of the respective facility (Note 9).

#### Deferred Licensing and Royalty Fees

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

#### Operating Leases

The Company has operating lease agreements for its offices some of which contain provisions for future rent increases or periods in which rent payments are abated. Operating leases which provide for lease payments that vary materially from the straight-line basis are adjusted for financial accounting purposes to reflect rental income or expense on the straight-line basis in accordance with the authoritative guidance issued by the Financial Accounting Standards Board ("FASB"). No such material difference existed as of December 31, 2015 and 2014.

#### 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.

## Goodwill

In connection with the Company's acquisitions, valuations are usually completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of the Company's due diligence in connection with the acquisitions, projections for future operation, and data obtained from third-party valuation specialists as deemed appropriate. Goodwill represents the future economic benefits of a business combination measured as the excess purchase price over the fair market value of net assets acquired.

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values.

F-8

---

## Revenue Recognition

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

1. Time & material - consulting and project engagements fall in this category and revenues are recognized when the client signs and approves the time sheet of consultants who have completed work on their assignment.  
Managed services – engagements where the Company bills a fixed contracted amount per billing period for the defined services provided such as software maintenance, break-fix and hosting services. The client provides no acknowledgement of delivery since the agreed upon service level agreements determine any service deficiencies.
2. Any service deficiencies are addressed within the normal course of the engagement. Since the revenue is not subject to forfeiture, refund or other concession and all delivery obligations are fulfilled and the fee is fixed and determinable, the Company follows the guidance under FASB ASC 985-605 to recognize the revenues.  
Software As A Service – subscription revenues for using the Company’s software platforms will fall in this category. The Company recognizes the revenues for each period using the starting and ending average of subscriber fees during the billing period. The objective of the period average is to accommodate frequent changes such as new hires, terminations, and/or births/deaths on our QHIX health insurance platform. Our platforms automatically determine the average users and no further acknowledgement is required from the clients to recognize these revenues.
- 3.

As of December 31, 2015 and 2014, the Company does not have any multiple-element revenue streams.

## 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, 2015 and 2014, there were 20,096,454 and 17,588,760 respectively, potentially dilutive securities not included in the calculation of weighted-average common shares outstanding since they would be anti-dilutive.

## Derivatives

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

changes in fair value of these instruments are recorded in income or expense.

#### Share based compensation

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

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

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

F-9

---

## Concentrations of Credit Risk

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

The Company currently banks at two national institutions with one being the primary and the other for petty cash purposes. The Company does not maintain large balances in its lockbox account due to the daily automatic sweeping arrangement with its lenders that credits its debts on a daily basis.

The Company's largest customer represented 14.9% and 13.7% of consolidated revenues and 15.8% and 7.8% of accounts receivable as of and for the years ended December 31, 2015 and 2014, respectively. The Company had one customer that represented 15.8% of the total accounts receivable as of December 31, 2015, while one customer had 10.5% of the total accounts receivable as of December 31, 2014. The Company's largest vendor represented 30.7% and 23.8% of total vendor payments for the years ended December 31, 2015 and 2014, respectively.

## Recent Accounting Pronouncements

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

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

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The amendments in this ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial positions. The amendments in this ASU are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods permitted.

In February 2016, the FASB issued ASU 2016-02, Leases, which is intended to improve financial reporting for lease transactions by increasing transparency and comparability among organizations. The guidance in ASU No. 2016-02 requires a lessee to recognize the following at the commencement date for all leases with lease terms of more than 12

months: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance in ASU No 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Management is currently assessing the impact the guidance will have upon adoption.

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

F-10

---

NOTE 3 – ACQUISITIONS

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

Brainchild Corporation

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

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

The Company paid \$500,000 in cash, less certain loan balances at closing; issued 250,000 shares of the Company's common stock with a buy back at thirty-six months at a guaranteed valuation of \$2.00, per share, and a note for \$1,000,000 for thirty-six months with interest at 8%, per annum. In addition, the Agreement calls for a performance based earn-out of up to \$400,000, as defined, to be paid on a semi-annual basis on January 1 and July 1 each year based on actual cash received from the sale of units during the period. As of December 31, 2015, the Company has paid \$80,469 as performance based earn-out in cash. The Seller has the option to receive any or all of the earn-out payment in common stock of the Company priced at a five trading day average price, as defined. On January 20, 2015, the Company merged Brainchild with its parent.

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

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

DialedIn Corporation

On December 1, 2015, the Company acquired 100% shares of DialedIn Corporation and merged it with the Company. DialedIn built a platform to create, distribute and track enterprise communications. DialedIn's platform allows organizations to better communicate internally and improve sales and marketing communications by developing web-based, interactive communications and provides in-depth insights into audience engagement.

The Company issued 4,000,000 shares of the Company's common stock, valued at \$760,000, in exchange for all the assets and liabilities of DialedIn Corporation. Each outstanding share of stock of DialedIn was cancelled and converted into the right to receive stock of the Company as defined.

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

The following unaudited proforma summary presents consolidated information of the Company as if these business combinations occurred on January 1, 2015.

	December
	31, 2015
Gross Sales:	\$52,248,554
Net Loss:	\$(1,605,980 )

The Company calculated the significance of the acquisition based upon the past five year's losses and determined that audited financial statements were not required.

F-11

---



## DUS Corporation

Effective October 1, 2015, the Company entered into an asset purchase agreement with DUS Corporation to acquire certain assets, properties and rights connected with the Intelligent Help Desk business, subject to certain liabilities totaling \$2,950,000, for 500,000 shares of the Company's stock valued at \$75,000. The business provides help desk support services for purchasers of hardware and software solutions. The seller agreed to a non-compete clause for a period of three years. The Company obtained a valuation report from a consultant who it hired to perform the allocation of the DUS purchase price.

Since the Company recorded goodwill of \$2,004,600 in connection with its acquisition of DUS on October 1, 2015, the Company has determined that no impairment testing was deemed necessary at December 31, 2015.

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

## Fair value of consideration transferred from the acquisitions:

	Brainchild	DialedIn	DUS	Total
Cash	\$500,000	\$-	\$-	\$500,000
Subordinated debt	1,000,000	-	-	1,000,000
Common stock	142,500	760,000	75,000	977,500
Contingent earn-out payments	400,000	-	-	400,000
	\$2,042,500	\$760,000	\$75,000	\$2,877,500

## Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$30,272	\$98,962	\$-	\$129,234
Customer lists/Technology intangibles, net	649,265	695,339	-	1,344,604
Inventory	90,442	-	-	90,442
Deposits	2,000	7,163	-	9,163
Accounts receivable	121,715	33,318	-	155,033
Fixed assets	12,045	3,676	75,000	90,721
Accounts payable and accrued liabilities	(151,774 )	(161,398 )	(2,950,000)	(3,263,172)
Sub total	753,965	677,060	(2,875,000)	(1,443,975)
Excess of purchase price allocated to intangible assets	1,288,535	82,940	945,400	2,316,875
Excess of purchase price allocated to Goodwill	-	-	2,004,600	2,004,600
Total	\$2,042,500	\$760,000	\$75,000	\$2,877,500

## NOTE 4 – INTANGIBLE ASSETS OF CUSTOMER LISTS AND TECHNOLOGY STACKS

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

	December 31, 2015			December 31, 2014		
	Gross	Accumulated amortization	Balance	Gross	Accumulated amortization	Balance
Customer list						
Services	\$24,217,238	\$(21,129,178)	\$3,088,060	\$23,281,196	\$(19,145,168)	\$4,136,028
Education	290,670	(58,140 )	232,530	-	-	-
Media	1,639,750	(1,169,008 )	470,742	1,639,750	(797,808 )	841,942
	26,147,658	(22,356,326)	3,791,332	24,920,946	(19,942,976)	4,977,970

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

Technology stack

Services	\$7,237,637	\$(4,892,300 )	\$2,345,337	\$6,450,000	\$(3,797,411 )	\$2,652,589
Education	1,647,130	(235,308 )	1,411,822	-	-	-
Health	175,000	(74,988 )	100,012	175,000	(49,992 )	125,008
Media	5,642,171	(1,724,031 )	3,918,140	5,642,171	(918,002 )	4,724,169
	14,701,938	(6,926,627 )	7,775,311	12,267,171	(4,765,404 )	7,501,767
Total	\$40,849,596	\$(29,282,953)	\$11,566,643	\$37,188,117	\$(24,708,380)	\$12,479,737

F-12

---

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

For the years ended December 31, 2015 and 2014, the changes in intangible assets were as follows:

	2015	2014
Balance, January 1,	\$12,479,737	\$15,058,253
Additions	3,661,477	3,001,921
Impairment of assets	(170,951 )	-
Amortization	(4,404,620 )	(5,580,437 )
Balance, December 31,	\$11,566,643	\$12,479,737

For the years ended December 31, 2015 and 2014, amortization expense was \$4,404,620 and \$5,580,437, respectively. For the years ended December 31, 2015 and 2014, the Company recognized an impairment loss of \$170,951 and nil respectively. The impairment loss in 2015 pertains to the reduction in revenue from the acquired customers which was calculated using the present value of future cash flows.

As of December 31, 2015, the estimated aggregated amortization expense for each of the five succeeding years is as follows:

Year	Amount
2016	\$3,742,540
2017	3,510,211
2018	1,477,145
2019	1,364,959
2020	913,616
2021 and thereafter	558,172
Total	\$11,566,643

NOTE 5 – SOFTWARE DEVELOPMENT COSTS

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

	December 31, 2015			December 31, 2014		
	Gross	Accumulated amortization	Balance	Gross	Accumulated amortization	Balance
QBIX	\$1,527,060	\$ (305,412 )	\$1,221,648	\$1,427,485	\$ -	\$1,427,485
QHIX	4,823,355	-	4,823,355	3,121,313	-	3,121,313
QBLITZ	3,879,899	-	3,879,899	597,249	-	597,249
QEDX	1,432,622	-	1,432,622	-	-	-
	\$11,662,936	\$ (305,412 )	\$11,357,524	\$5,146,047	\$ -	\$5,146,047

For the year ending December 31, 2015, the change in Software Development costs was as follows:

Balance, January 1,	\$5,146,047
Additions	6,516,889
Impairment of assets	-
Amortization	(305,412 )
Balance, September 30,	\$11,357,524

Amortization expenses on software development cost was \$305,412 and nil for the years ending December 31, 2015 and 2014, respectively.

F-13

---

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

The Company began amortizing the QBIX platform development costs in 2015. The Company anticipates the QHIX and QEDX platforms to be offered for sale starting in the first quarter of 2016 and for QBLITZ starting in year 2018. As of December 31, 2015, the estimated aggregated amortization expense for each of five succeeding years is as follows:

Year	Amount
2016	\$ 1,556,604
2017	1,556,604
2018	2,332,584
2019	2,332,584
2020	2,027,189
2021 and thereafter	1,551,959
Total	\$ 11,357,524

NOTE 6 – INVENTORY

Inventory consists of the following:

Description	December 31, 2015
Hardware Assessment Devices	\$ 82,574
Display Devices	9,431
Accessories – Power adaptors & Cables	3,395
	\$ 95,400

NOTE 7 – EQUIPMENT

Equipment consists of the following:

Description of Cost	December 31, 2015	December 31, 2014
Furniture & fixtures	\$ 35,993	\$ 5,000
Leasehold improvements	33,311	-
Computing equipment	594,319	44,431
Total	663,623	49,431
Less: Accumulated depreciation	(128,493)	(13,500 )
Balance	\$ 535,130	\$ 35,931

  

Description	December 31, 2015	December 31, 2014
Equipment – net	\$ 168,169	\$ 35,931
Equipment under capital lease – net	366,961	-
	\$ 535,130	\$ 35,931

Depreciation expense was \$114,993 and \$6,000 for the years ended December 31, 2015 and 2014, respectively.

NOTE 8 – NOTE PAYABLE - REVOLVER

In October 2014, the Company refinanced its factoring facility and replaced it with a new Asset Based Lending (ABL) revolver bank facility that has a term of 36 months and a maximum line of \$10,000,000. The ABL was priced at 4.5% over 30-day LIBOR (with a minimum floor of 2%) plus an administrative fee of 0.1% per month on the outstanding balance and 0.084% per month on the unused portion of the revolver. As of December 31, 2015, the Company has borrowings of \$7,601,904 on the Revolver.

The Company has agreed for two specific financial covenants that include (a) Fixed Charge Coverage Ratio for trailing 12 months cannot be less than 1.3 and 1.0. Fixed Charge Coverage Ratio being defined as the ratio of Operating Cash Flows to Fixed Charges; and (b) Total Leverage Ratio for the trailing 12 months to be between 1.0 and 3.0. Total Leverage Ratio being defined as the ratio of Total Debt to EBITDA. As of December 31, 2015, the Company is in compliance with the two specific financial covenants.

As of December 31, 2014, the Company was in compliance with the two specific financial covenants, however, the Company did not meet providing a copy of the audited consolidated financial statements to the bank within 90 days of its year-end. In addition, the Company's December 31, 2014 borrowing base report that was provided to the bank was subsequently discovered to have been calculated incorrectly.

## Edgar Filing: Quadrant 4 System Corp - Form 10-K/A

In addition, the Company entered into a term loan commitment with the lender for \$3,000,000 (Note 9).

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

In connection with the financing, the Company incurred legal, loan origination and advisory expenses totaling \$600,583 which has been recorded as deferred financing costs and are being amortized over three years as interest expense. Amortization for the years ending December 31, 2015 and 2014 on the deferred financing costs is \$141,382 and \$56,505, respectively.

In addition, the Company entered into an advisory agreement on April 6, 2014 with a financial advisor to facilitate arranging the financing. A termination fee of \$560,000 incurred as a result of the change in lenders has been expensed as interest expense for the year ending December 31, 2014.

### NOTE 9 – LONG-TERM DEBT

As of December 31, 2015 and 2014, long-term debt consisted of the following:

	December 31, 2015	December 31, 2014
Note payable due December 31, 2017, as extended, plus interest at 6.5% per annum (a)	\$3,117,538	\$3,117,538
Note payable due October 1, 2017, plus interest at approximately 10% per annum (b)	1,825,447	2,853,571
Note payable due July 1, 2016, plus interest at 8% per annum (c)	1,232,000	1,100,000
Note payable due December 31, 2017, plus interest at 8% per annum (d)	1,000,000	-
Note payable due September 23, 2018, plus interest at 6.7% per annum (e)	30,400	-
	7,205,385	7,071,109
Less: Debt Discount	(229,278 )	(585,611 )
Total	6,976,107	6,485,498
Less: Current maturities, net of debt discount of \$31,945	(2,637,344)	(650,810 )
Total long-term debt	\$4,338,763	\$5,834,688

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

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

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

(c) In December 2014, the Company entered into a securities purchase agreement for a senior debenture in the amount of \$1,232,000 at 8%. The senior debenture does not contain a provision for the debt to be converted into shares of the Company's common stock. Interest is payable on October 1, 2015 with principal payments of 25% on 1/1/2016, 25% on 4/1/2016 and the remaining 50% on 7/1/2016. The Company issued 2,053,333 warrants priced at \$0.60/share. The Company is obligated to issue additional 2,053,333 warrants priced at \$0.60/share in the event of a default.

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

F-15

---



(d) In January 2015, the Company issued a subordinated note for \$1,000,000 with an interest rate of 8% to be amortized quarterly over eighteen months beginning July 1, 2016.

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

Maturities of long term debt are as follows for the years ended December 31,

Year	Amount
2016	\$2,834,677
2016 (Less: Debt Discount)	(197,333 )
2017	4,361,855
2017 (Less: Debt Discount)	(31,945 )
2018	8,853
	\$6,976,107

A termination fee of \$560,000 incurred as a result of the change in lenders has been expensed as interest expense for the year ending December 31, 2014.

#### NOTE 10 – FAIR VALUE

##### Fair Value

The Company’s financial instruments consist primarily of receivables, accounts payable, accrued expenses and short-term and long-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.

As of December 31, 2015 and 2014, the Company did not have any assets and or liabilities subject to the fair value hierarchy.

## NOTE 11 – STOCKHOLDERS' EQUITY

## Sales of Common Stock

During 2015, the Company issued the following shares of restricted stock:

Purpose	Number of		Average
	Shares	Total Cost	Cost/Share
Acquisition of operating assets	4,750,000	\$977,500	\$ 0.21
Employee performance bonus	1,000,000	\$190,000	\$ 0.19
Various services	450,000	\$136,500	\$ 0.30
Totals	6,200,000	\$1,304,000	\$ 0.21

During 2014, the Company issued the following shares of restricted stock:

Purpose	Number of		Average
	Shares	Total Cost	Cost/Share
Acquisition of operating assets	7,519,445	\$3,224,750	\$ 0.57
Financing charges	350,000	\$140,000	\$ 0.40
Various services	451,055	\$120,317	\$ 0.27
Warrant exercise	1,874,584	\$1,124,750	\$ 0.60
Totals	10,195,084	\$4,609,817	\$ 0.45

## Warrants

The Company has outstanding the following warrants to purchase the Company's common stock as of December 31,

	2015	2014
Financing and stock subscriptions	8,579,030	8,579,030
Note Extensions	2,843,064	2,843,064
Management	7,007,693	4,500,000
Debt conversion	1,666,668	1,666,667
Total Reserved	20,096,454	17,588,761

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

	Number of	Exercise	Weighted
	Shares	Price	Average
			Exercise
			Price
Balance at December 31, 2012	12,026,678	\$0.36 – 0.60	\$ 0.51
Warrants exercised	(1,700,000 )		
Warrants expired	-		
Warrants issued to management	2,500,000	\$0.10	
Warrants issued for debt conversion	1,666,667	\$0.36	
Warrants issued with stock subscription	666,667	\$0.36	
Balance at December 31, 2013	15,160,012	\$0.10 – 0.36	\$ 0.47
Warrants exercised	(1,874,584 )	0.60	
Warrants expired	-		

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

Warrants issued to management	2,000,000	\$0.10	
Warrants issued for financing	2,303,333	\$0.60	
Balance at December 31, 2014	17,588,761	\$0.10 – 0.60	\$ 0.55
Warrants exercised	-		
Warrants expired	-		
Warrants issued to management	50,000	\$0.10	
Warrants issued to management	2,507,693	\$0.01	
Balance at December 31, 2015	20,096,454	\$0.01 – 0.10	\$ 0.48

F-17

---

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

All outstanding warrants are currently exercisable. A summary of outstanding common stock warrants at December 31, 2015 follows:

Number of Common Stock Warrants	Expiration Date	Remaining Contractual Life (Years)	Exercise price
3,400,000	10/25/2016	0.8	\$ 0.60
446,042	10/25/2016	0.8	\$ 0.60
281	10/25/2016	0.8	\$ 0.60
1,333,333	12/26/2016	1.0	\$ 0.36
2,000,000	5/1/2017	1.3	\$ 0.10
629,371	10/25/2017	1.8	\$ 0.36
2,059,734	12/31/2017	2.0	\$ 0.36
583,333	12/31/2017	2.0	\$ 0.36
50,000	12/31/2017	2.0	\$ 0.10
2,500,000	7/1/2018	2.5	\$ 0.10
1,666,667	12/31/2018	3.0	\$ 0.36
666,667	12/31/2018	3.0	\$ 0.36
250,000	10/28/2019	3.8	\$ 0.60
2,053,333	12/22/2019	4.0	\$ 0.60
1,153,847	10/8/2020	4.8	\$ 0.01
1,153,846	10/8/2020	4.8	\$ 0.01
50,000	10/8/2020	4.8	\$ 0.01
50,000	10/8/2020	4.8	\$ 0.01
50,000	10/8/2020	4.8	\$ 0.01
20,096,454			

On December 31, 2015, the Company changed the exercise price on certain warrants to purchase the Company's common stock from \$1.00 per share to \$0.36 per share. Since the calculated Black Scholes value of these warrants decreased, no change was recorded.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases:

The Company has entered into office leases at various locations as follows:

Date	Term (Years)	Location	Expiration
09/2012	5	NJ	08/31/2016
06/2013	5	MI	10/31/2018
07/2014	3	GA	08/31/2017
12/2014	4	CA	04/30/2019
06/2015	7	IL	12/31/2022

The Company also added certain facilities (FL and NV) as a month to month basis. As of December 31, 2015 the Company's future minimum lease payments are as follows:

Year Ending December 31, Amount

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

2016	\$162,141
2017	162,871
2018	122,521
2019	59,533
2020 and beyond	88,154
	\$595,220

Rent Expense for the years ended December 31, 2015 and 2014 were \$403,541 and \$241,298, respectively.

F-18

---

Capital Lease:

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

In accordance with FASB ASC 840, Leases, the Company has recorded this capital lease asset and capital lease obligation initially at an amount equal to the present value at the beginning of the lease term of minimum lease payments. As of December 31, 2015, the equipment of \$458,701 less accumulated depreciation of \$91,740 had a net book value of \$366,961.

The following is a schedule of future minimum lease payments as of December 31, 2015.

Year ending December 31,	
2016	\$ 167,114
2017	167,114
Total minimum lease payments	334,228
Less: amount representing interest	(19,694 )
Present value of net minimum lease payments, presented as current and non-current obligations under capital leases of \$152,640 and \$162,149, respectively.	\$314,534

Investor relations consulting Agreement:

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

Legal:

On May 13, 2014, a claim was filed against the Company in the Superior Court of California, County of Santa Clara arising from a collections dispute related to vendors of an acquisition target of the Company. All Plaintiffs were vendors of the target and are seeking recovery of approximately \$222,000. The Company is vigorously defending their position and it is expected that the court case will remain stayed until at the earliest being the fall 2016, pending a ruling from the Appellate court. The case has been fully briefed at the Appellate level but no hearing on the matter has been set. In response to the claim, the Company has recorded an accrual in the event of legal settlement in the amount of \$123,000. As of the date of this filing, the Plaintiff lost the case on NJ jurisdictional basis and have appealed in CA. The main case is on hold until the Appellate court rules.

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

NOTE 13 – INCOME TAXES

The Company and its subsidiaries filed consolidated Federal and state income tax returns. Tax years 2012, 2013, 2014 and 2015 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, 2015, management has determined that there are no significant uncertain tax positions requiring recognition in the Company's consolidated financial statements.

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

As of December 31, 2015 and 2014 the Company had net operating loss carryforwards of approximately \$5,717,000 and \$5,291,000 respectively, to reduce future Federal income tax liabilities through 2037, which under regulations of the Internal Revenue Service related to ownership changes are limited under IRC Section 382 to approximately \$669,000 per year.

As of December 31, 2015 and 2014 realization of the Company's deferred tax assets of \$5,171,000 and \$3,483,000 respectively, were not considered more likely than not and, accordingly, a valuation allowance of \$5,171,000 and \$3,483,000 respectively, has been provided.

F-19

---

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

The net change in the valuation allowance during the year ended December 31, 2015 increased by \$1,688,000 and in 2014 decreased by \$6,406,000.

	2015	2014
Amortization of intangibles	\$2,672,000	\$1,860,000
Allowance for doubtful accounts	220,000	324,000
Reserve for vacation payroll and legal settlement	79,000	79,000
Net operating loss	2,200,000	1,220,000
	5,171,000	3,483,000
Valuation allowance	(5,171,000)	(3,483,000)
Net deferred tax asset	\$-	\$-

For the years ended December 31, 2015 and 2014, the actual tax expense differs from the effective tax expense (benefit) based on the U. S. Federal Rate of 34%, as follows:

	2015	2014
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 14 – RELATED PARTY TRANSACTIONS

Q4 India

The Company's headquarters and operations are located in the United States. However, the Company has a key supplier and subcontractor known as Quadrant 4 Software Solutions (Pvt.) Limited located in India ("Q4 India"). The Company has no ownership, directly or indirectly, in Q4 India. Until May 2016, Q4 India was, according to public records, wholly-owned by Stonegate Holdings, Inc., which, according to the Schedule 13G filed with the SEC by Stonegate Holdings, Inc. on May 11, 2011, is a shareholder of the Company holding 6,695,959 shares of the Company's common stock, equal to 6.15% of the shares issued and outstanding. According to Maryland public records, Stonegate Holdings, Inc. has been dissolved. Based on information available to the Company, Stonegate Holdings, Inc. was acquired by another entity that has no relationship to the Company or its affiliates in or around 2010. Stonegate Assets, Inc., which, based on information available to the Company, is an affiliate of Stonegate Holdings, Inc., holds an additional 7,000,000 shares of the Company's common stock, equal to 6.43% of the shares issued and outstanding. The Company also markets its activities through Q4 India. Q4 India billed the Company \$8,215,000 and \$6,749,000 for the years ended December 31, 2015 and 2014, respectively. The Company owed Q4 India \$700,000 and \$630,000 as of December 31, 2015 and 2014, respectively. The Company believes that the relationship is structured on an arm's length basis.

The Company has entered into a long-term master services agreement with Q4 India that ends on December 31, 2018 with customary options for termination with 30 days notice. Q4 India provides captive services to the Company and is paid on a cost-plus basis. The Company is the sole customer of Q4 India. The Company paid the following amounts to Q4 India for providing different classes of services:

Description of Cost	Year Ending December 31, 2015	Year Ending December 31, 2014
---------------------	--	--



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

Client delivery and support	\$3,335,450	\$2,688,316
Platform development (capitalized by the Company)	2,340,000	1,890,000
Sales support	176,470	150,530
Back office support	2,039,990	1,642,892
Research & Development	323,090	377,262
	\$8,215,000	\$6,749,000

F-20

---

Surrex Solutions Corporation (Surrex)

The Company has been doing business with Surrex Solutions Corporation (Surrex), a provider of information technology consulting, project and IT staffing, and contract programming services, since 2010. The Company attempted to acquire Surrex in 2014 but subsequently abandoned the transaction. Since September 2014, the Company has provided broad management services and advice to Surrex and for the years ended December 31, 2015 and 2014, recorded approximately \$3,200,000 and \$1,700,000 in revenue and \$517,000 and \$1,491,000 in accounts receivable, respectively, from this customer. Since December 23, 2014, Philip Firrek, an independent director of the Company, has served as assignee for the benefit of creditors (akin to a bankruptcy trustee) for Surrex. Nandu Thondavadi, CEO and a director of the Company, held signatory authority on one of Surrex's bank accounts for two months in early 2015 to ensure collection of receivables being properly credited. The Company believes that the relationship is structured on an arm's length basis.

Core Information Technology Solutions, Inc. (CITS)

The Company has been doing business with Core Information Technology Solutions, Inc. (CITS), a provider of integration and optimization services for formative assessment solutions, technology infrastructure, management applications, special education compliance, outsourced staffing solutions and technical career education programs since early 2014. The Company entered into a licensing agreement June 2014 with Core Education and Consulting Solutions, Inc., an affiliate of CITS (both owned by Core Education Group of Singapore (CEGS)). During 2014, the Company negotiated to acquire CITS but subsequently abandoned the transaction. Since May 2014, the Company's executive officers and directors, Nandu Thondavadi and Dhru Desai have provided management advice and consulting services to the owners of CEGS and have received compensation of \$130,000, each, for the year ended December 31, 2015 and \$0 in 2014 for their services. The compensation was remitted to Global Technology Ventures Corporation and Congruent Ventures LTD., inactive entities owned by Mr. Thondavadi and Mr. Desai, respectively. The Company has been conducting regular business with CITS on an arm's length basis and as of December 31, 2015 and 2014, recorded approximately \$4,600,000 and \$2,900,000 in revenue and \$1,517,000 and \$1,648,000 in accounts receivable, respectively, from this customer. Mr. Thondavadi and Mr. Desai have personally guaranteed various obligations of CITS, and Mr. Thondavadi held signatory authority on its bank accounts from May 2014 through April 2015 to ensure collection of receivables being properly credited. The Company believes that the relationship is structured on an arm's length basis.

NOTE 15 – SUBSEQUENT EVENT

Debentures:

In January 2016, the Company offered to accredited investors three-year, 9% convertible debentures (Notes) in the aggregate principal amount of up to \$5,000,000. Each convertible debenture is comprised of a convertible debenture which is payable or convertible to shares of common stock of the Company at a conversion price equal to \$0.70 per share. Each holder of a Note will receive a detachable warrant to purchase common stock of the Company with an exercise price of \$0.75 per share. Each warrant will have a term of one year post repayment or voluntary conversion, provided that the right to exercise the warrant will terminate upon the sale of all or substantially all of the assets of the Company or a merger of the Company, as defined.

As at the time of filing, the Company has received \$80,000 of subscriptions and the Company reserves the right to terminate the debenture offer before it is fully subscribed.

ITEM 9B. OTHER INFORMATION

We are attaching as Exhibits 3.1 and 3.2, respectively, copies of our Articles of Incorporation (as amended to date) and our Bylaws.

4

---

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors and executive officers of the Company are as follows:

Name	Age	Position	Period Held
Nandu Thondavadi	62	Director/CEO	2010 – Current
Dhru Desai	54	Director/CFO	2010 – Current
Thomas E. Sawyer	85	Director	2010 – Current
Eric F. Gurr	57	Director	2013 – Current
Philip Firrek	70	Director	2014 – Current

Biographical information regarding the Directors and Officers are as follows:

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 Chief Executive Officer of a global software company for over a decade. Earlier to that, Dr. Thondavadi was the Clinical Professor of Management at the Kellogg School of Management (Northwestern University, Evanston, IL) where he taught both MBA and Executive MBA classes from 1992 through 2002. Dr. Thondavadi also previously served as Vice President for Coleman Cable Systems in North Chicago, IL from 1992 through 1995; Technical Director - Corporate Technology Center for Square D Company in Palatine, IL from 1989 through 1992 and Senior Engineering Consultant for Electronic Data Systems Corporation (EDS) in Troy, MI from 1985 through 1989. Dr. Thondavadi received his MBA from the Kellogg School of Management in 1992; his Ph.D. in Chemical Engineering and his MS in Industrial Engineering, both from the University of Cincinnati in 1982; his M.Sc.(Tech) in 1977 and his B.Sc. (Tech) in 1975, both in Chemical Technology and both from the UDCT, Bombay University, India and his B.Sc.in Chemistry & Physics from the University of Mysore, India in 1971.

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.

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.

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.

Philip M. Firrek, who started his career as a Banker with American National Bank & Trust Co., Chicago, IL, is presently the managing director of Cogent Equities, LLC, a private equity firm based in Lake Forest, Illinois specializing in the purchase of underperforming loans from banks, a position he has held since January 2003. Mr. Firrek was a director of Central State Bank, State Center, Iowa, for a six year term from 2003 to 2009. Mr. Firrek also presently serves as a trustee of the Braeburn Trust, a family trust located in Delray Beach, Florida, whose major holding is IPI Medical Products, Delray Beach, Florida, a position he has held since June 2010. Prior to starting Cogent Equities, LLC, Mr. Firrek, owned two businesses, the most recent of which was American Decal & Manufacturing Co (from 1998 to 2002), a printer of license plate stickers and similar products. Mr. Firrek is a graduate of Indiana University with a BS in Business.

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 comprised solely of the audit committee chair, agrees with the Company's assessment of its internal controls at December 31, 2015 as discussed in Item 9A. The Audit Committee was chaired by Mr. Gurr from January 1, 2013 through March 6, 2015 who was determined to be independent by the Board of Directors. Mr. Gurr resigned his position from the audit committee on March 6, 2015 and Mr. Phil Firrek was appointed as the audit committee chair on March 6, 2015. The Company's Board of Directors has determined that Mr. Firrek qualifies as an "audit committee financial expert" as defined under Item 407 of Regulation S-K of the 1934 Act. Mr. Firrek met the current independence and experience requirements of Rule 10a-3 of the 1934 Act.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the 1934 Act requires our executive officers and directors, as well as persons who beneficially own more than 10 percent of our common stock, to file reports on their holdings of and transactions in our common stock. Based solely on a review of the copies of such forms in our possession and on written representations from the reporting persons, we believe that during the period from January 1, 2015 to December 31, 2015 no required reports were filed in a timely manner. The number of late reports, number of transactions reported late, and failures to file reports for such period were as follows:

#### Reporting Person Title

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

		Number of Late Reports	Number of Transactions Reported Late	Number of Failures to File Reports
Nandu Thondavadi	Director/CEO	0	0	1
Dhru Desai	Director/CFO	0	0	1
Thomas E. Sawyer	Director	0	0	1
Eric F. Gurr	Director	0	0	2
Philip Firrek	Director	0	0	2

6

---

In addition, we determined that each of the individuals above (a) did not file an SEC Form 3 as required in connection with his election or appointment as a director or executive officer and his entry into the Section 16 reporting system, and (b) did not file SEC Form 4 as required in connection with acquisitions of shares of common stock and/or warrants to acquire common stock during earlier periods. We believe, based upon representations made by each of these individuals, that all such failures to file were inadvertent. As of September 22, 2016, all delinquent Section 16 reports for the period from January 1, 2015 to December 31, 2015, and all earlier periods, have been filed with the SEC.

#### 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 code of ethics is available on the Company's website, at [www.qfor.com](http://www.qfor.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.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

#### Ownership of Common Stock

The following table sets forth, as of March 28, 2016, each stockholder known to the Company to own more than 5% of our outstanding shares of common stock, based solely on (a) the information filed by each such shareholder on Schedules 13D or 13G with the SEC on the dates indicated in the footnotes to this table (percentages are calculated assuming continuous beneficial ownership as of March 28, 2016), and (b) with respect to officers and directors only, information available to the Company based upon the Company's stock ownership records and representations made by such individuals.

Name and address of beneficial owner	Shares	Percent <sup>(1)</sup>	
Bard Associates, Inc. <sup>(2)</sup> 135 South LaSalle St., Suite 3700 Chicago, IL 60603	10,924,000	9.7	%
Stonegate Assets, Inc. <sup>(3)</sup> 4331 Chancery Park Drive Fairfax, VA 22030	7,000,000	6.4	%
Stonegate Holdings, Inc. <sup>(4)</sup> 4331 Chancery Park Drive Fairfax, VA 22030	6,695,959	6.2	%
Dhru Desai <sup>(5)</sup> 1501 E. Woodfield Road, Suite 205 S Schaumburg, Illinois, 60173	12,400,762	11.1	%
Nandu Thondavadi, Ph.D. <sup>(6)</sup> 1501 E. Woodfield Road, Suite 205 S Schaumburg, Illinois, 60173	10,897,133	9.8	%
Totals:	47,917,854	40.8	%



## Edgar Filing: Quadrant 4 System Corp - Form 10-K/A

(1) Based on 108,861,773 shares of common stock outstanding as of March 28, 2016 and including options and warrants exercisable within 60 days for each beneficial owner and detailed in the footnotes below.

(2) This information is based on the Schedule 13G filed with the SEC by Bard Associates, Inc. on January 29, 2016. Bard Associates, Inc. has sole power to vote or direct the vote for 500,000 shares of Common Stock and sole power to dispose or to direct the disposition of 10,924,000 shares of Common Stock.

(3) This information is based on information provided by the Company's transfer agent.

(4) This information is based on the Schedule 13G filed with the SEC by Stonegate Holdings, Inc. on May 11, 2011. Stonegate Holdings, Inc. has sole power to vote or direct the vote for 6,000,000 shares of Common Stock and sole power to dispose or to direct the disposition of 6,000,000 shares of Common Stock.

(5) Includes 1,000,000 shares of Common Stock owned directly by Mr. Desai, 750,000 shares owned by a corporation of which he is the sole shareholder, 1,000,000 shares owned by his spouse, 3,000,000 shares owned by a trust of which his spouse is the trustee and his children are the beneficiaries, and 4,246,916 shares owned by a second trust of which his spouse is the trustee and his children are the beneficiaries. Mr. Desai disclaims beneficial ownership of the foregoing shares with the exception of those owned directly by him.

(6) Includes 993,287 shares held directly, as successor in interest to Global Technology Ventures Corporation, 3,000,000 shares of Common Stock owned by a trust of which Dr. Thondavadi's spouse is the trustee and his child is the beneficiary, and 4,500,000 shares owned by a second trust of which his spouse is the trustee and his child is the beneficiary. Dr. Thondavadi disclaims beneficial ownership of the foregoing shares with the exception of those owned directly by him.

### Ownership of Common Stock by Directors and Executive Officers

The following table sets forth, as of March 28, 2016, information concerning the beneficial ownership of our Common Stock by: (i) our current directors and director nominees; (ii) the named executive officers listed in the Summary Compensation Table; and (iii) all of the Company's current directors and executive officers as a group. Under SEC rules, beneficial ownership for purposes of this table takes into account stock as to which the individual has or shares voting and/or investment power as well as stock that may be acquired within 60 days (such as by exercising vested stock options). The beneficial owners listed have sole voting and investment power with respect to stock beneficially owned, except as to the interests of spouses or as otherwise indicated.

Name	Shares Beneficially Owned		Percent
Dhru Desai <sup>(1)</sup>	12,400,762	11.1	%
Nandu Thondavadi, Ph.D. <sup>(2)</sup>	10,897,133	9.8	%
Thomas E. Sawyer, Ph.D. <sup>(3)</sup>	200,000	*	
Eric Gurr <sup>(4)</sup>	305,000	*	
Philip Firrek <sup>(5)</sup>	100,000	*	
<b>TOTALS:</b>	<b>23,902,895</b>	<b>21.0</b>	<b>%</b>

\* indicates less than 1% ownership

(1) Includes 1,000,000 shares of Common Stock owned directly by Mr. Desai, 750,000 shares owned by a corporation of which he is the sole shareholder, 1,000,000 shares owned by his spouse, 3,000,000 shares owned by a trust of which his spouse is the trustee and his children are the beneficiaries, and 4,246,916 shares owned by a second trust of which his spouse is the trustee and his children are the beneficiaries. Mr. Desai disclaims beneficial ownership of the foregoing shares with the exception of those owned directly by him.

(2) Includes 993,287 shares held directly, as successor in interest to Global Technology Ventures Corporation, 3,000,000 shares of Common Stock owned by a trust of which Dr. Thondavadi's spouse is the trustee and his child is the beneficiary, and 4,500,000 shares owned by a second trust of which his spouse is the trustee and his child is the beneficiary. Dr. Thondavadi disclaims beneficial ownership of the foregoing shares with the exception of those owned directly by him.

(3) Includes 150,000 shares of Common Stock and warrants to acquire 50,000 shares.

(4) Includes 255,000 shares of Common Stock and warrants to acquire 50,000 shares.

(5) Includes warrants to acquire 100,000 shares.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

## Related Party Transactions

Q4 India

The Company's headquarters and operations are located in the United States. However, the Company has a key supplier and subcontractor known as Quadrant 4 Software Solutions (Pvt.) Limited located in India ("Q4 India"). The Company has no ownership, directly or indirectly, in Q4 India. Until May 2016, Q4 India, according to public records, wholly-owned by Stonegate Holdings, Inc., which, according to the Schedule 13G filed with the SEC by Stonegate Holdings, Inc. on May 11, 2011, is a shareholder of the Company holding 6,695,959 shares of the Company's common stock, equal to 6.15% of the shares issued and outstanding. According to Maryland public records, Stonegate Holdings, Inc. has been dissolved. Based on information available to the Company, Stonegate Holdings, Inc. was acquired by another entity that has no relationship to the Company or its affiliates in or around 2010. Stonegate Assets, Inc., which, based on information available to the Company, is an affiliate of Stonegate Holdings, Inc., holds an additional 7,000,000 shares of the Company's common stock, equal to 6.43% of the shares issued and outstanding. The Company also markets its activities through Q4 India. Q4 India billed the Company \$8,215,000 and \$6,749,000 for the years ended December 31, 2015 and 2014, respectively. The Company owed Q4 India \$700,000 and \$630,000 as of December 31, 2015 and 2014, respectively. The Company believes that the relationship is structured on an arm's length basis.

The Company has entered into a long-term master services agreement with Q4 India that ends on December 31, 2018 with customary options for termination with 30 days notice. Q4 India provides captive services to the Company and is paid on a cost-plus basis. The Company is the sole customer of Q4 India. The Company paid the following amounts to Q4 India for providing different classes of services:

Description of Cost	Year	Year
	Ending December 31, 2015	Ending December 31, 2014
Client delivery and support	\$3,335,450	\$2,688,316
Platform development (capitalized by the Company)	2,340,000	1,890,000
Sales support	176,470	150,530
Back office support	2,039,990	1,642,892
Research & Development	323,090	377,262
	\$8,215,000	\$6,749,000

Surrex Solutions Corporation (Surrex)

The Company has been doing business with Surrex Solutions Corporation (Surrex), a provider of information technology consulting, project and IT staffing, and contract programming services, since 2010. The Company attempted to acquire Surrex in 2014 but subsequently abandoned the transaction. Since September 2014, the Company has provided broad management services and advice to Surrex and for the years ended December 31, 2015 and 2014, recorded approximately \$3,200,000 and \$1,700,000, respectively, in revenue from this customer. Since December 23, 2014, Philip Firrek, an independent director of the Company, has served as assignee for the benefit of creditors (akin to a bankruptcy trustee) for Surrex. Nandu Thondavadi, CEO and a director of the Company, held signatory authority on one of Surrex's bank accounts for two months in early 2015 to ensure collection of receivables being properly credited. The Company believes that the relationship is structured on an arm's length basis.

Core Information Technology Solutions, Inc. (CITS)

The Company has been doing business with Core Information Technology Solutions, Inc. (CITS), a provider of integration and optimization services for formative assessment solutions, technology infrastructure, management applications, special education compliance, outsourced staffing solutions and technical career education programs since early 2014. The Company entered into a licensing agreement June, 2014 with Core Education and Consulting Solutions, Inc., an affiliate of CITS (both owned by Core Education Group of Singapore (CEGS)). During 2014, the Company negotiated to acquire CITS but subsequently abandoned the transaction. Since May 2014, the Company's executive officers and directors, Nandu Thondavadi and Dhru Desai have provided management advice and consulting services to the owners of CEGS and have received compensation of \$130,000, each, for the year ended December 31, 2015 and \$0 in 2014 for their services. The compensation was remitted to Global Technology Ventures Corporation and Congruent Ventures LTD., dissolved entities owned by Mr. Thondavadi and Mr. Desai, respectively. The Company has been conducting regular business with CITS on an arm's length basis and as of December 31, 2015 and 2014, recorded approximately \$4,600,000 and \$2,900,000, respectively, in revenue from this customer. Mr. Thondavadi and Mr. Desai have personally guaranteed various obligations of CITS, and Mr. Thondavadi held signatory authority on its bank accounts from May 2014 through April 2015 to ensure collection of receivables being properly credited. The Company believes that the relationship is structured on an arm's length basis.

#### 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.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Item 601 of  
Regulation      Exhibit  
S-K Exhibit No.:

- 3.1      Articles of Incorporation of Quadrant 4 System Corporation, filed April 12, 2013, as amended to date
- 3.2      Bylaws of Quadrant 4 System Corporation, adopted April 12, 2013
- 31.1     Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company
- 31.2     Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company
- 32.1     Section 1350 Certification by Chief Executive Officer and Chief Financial Officer
- 101     The following financial information from Quadrant 4 System Corporation's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheet at December 31, 2015 and 2014, (ii) Consolidated Statement of Operations for the years ended December 31, 2015 and 2014, (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2015 and 2014, and (iv) Consolidated Statement of Cash Flows for the years ended December 31, 2015 and 2014.

10

---

SIGNATURES

In accordance with section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Amendment No. 1 to Annual Report on Form 10-K/A to be signed on its behalf by the undersigned, thereto duly authorized individual.

QUADRANT 4 SYSTEM CORPORATION

Date: September 22, 2016 By: /s/ Nandu Thondavadi  
Name: Nandu Thondavadi  
Title: President and Chief Executive Officer

Date: September 22, 2016 By: /s/ Dhru Desai  
Name: Dhru Desai  
Title: Chief Financial Officer