

Quadrant 4 System Corp
Form 10-Q
November 14, 2016

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

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

Commission File Number 33-42498

QUADRANT 4 SYSTEM CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(855) 995-7367
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of common stock outstanding as of November 14, 2016 was 106,991,504.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Operations</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 3. <u>Defaults Upon Senior Securities</u>	28
Item 4. <u>Mine Safety Disclosures</u>	28
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	30

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUADRANT 4 SYSTEM CORPORATION

Condensed Consolidated Balance Sheets

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash	\$1,511,819	\$246,492
Accounts and unbilled receivables (net of allowance for doubtful accounts of 550,000 and \$550,000 at September 30, 2016 and December 31, 2015, respectively)	11,597,221	9,555,725
Other current assets	1,528,997	243,476
Total current assets	14,638,037	10,045,693
Long-term assets		
Intangible assets, customer lists and technology stacks – net	14,037,492	11,566,643
Goodwill	2,004,600	2,004,600
Equipment under capital lease – net	298,156	366,961
Equipment – net	162,166	168,169
Other Long-term assets		
Software development costs – net	14,736,189	11,357,524
Deferred licensing and royalty fees – net	780,000	960,000
Other assets	401,346	327,329
TOTAL ASSETS	\$47,057,986	\$36,796,919
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$5,712,367	\$5,652,257
Note payable – revolver	3,748,738	7,601,904
Current portion of earnouts	272,173	343,075
Current obligation under capital lease	174,166	152,640
Current maturities - long term debt (net of debt discount of nil and debt issuance costs of \$398,924 at September 30, 2016 and \$31,945 and \$223,605 at December 31, 2015, respectively)	4,871,027	2,413,739
Cash payable for investment	4,342,425	-
Total current liabilities	19,120,896	16,163,615
Non-current obligation under capital lease	27,649	162,149
Long-term debt, less current maturities (net of debt discount of nil and debt issuance costs of \$520,442 at September 30, 2016 and \$197,333 and \$133,374 at December 31, 2015, respectively)	9,730,792	4,205,389
Contingent earnouts	2,400,000	-
Common stock payable	120,000	-
Total liabilities	31,399,337	20,531,153

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

Stockholders' Equity

Common stock - \$0.001 par value; authorized: 200,000,000 shares: issued and outstanding 106,991,504 and 108,861,774 shares at September 30, 2016

and December 31, 2015, respectively

Additional paid-in capital

Accumulated deficit

Total stockholders' equity

106,992	108,862
34,822,979	35,194,180
(19,271,322)	(19,037,276)
15,658,649	16,265,766

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$47,057,986 \$36,796,919

See notes to the condensed consolidated financial statements

3

Table of Contents

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

	Three Months Ending		Nine Months Ending	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$ 15,680,384	\$ 12,690,876	\$ 42,183,611	\$ 39,399,276
Cost of revenue	9,808,823	7,389,377	26,172,132	23,419,976
Gross Margin	5,871,561	5,301,499	16,011,479	15,979,300
Operating expenses:				
General and administrative expenses	(3,539,481)	(2,966,097)	(9,690,396)	(9,011,955)
Research & Development	(68,062)	(417,997)	(422,888)	(1,458,020)
Amortization, impairment and depreciation expense	(1,607,116)	(1,349,401)	(4,420,097)	(3,691,017)
Reversal of assignment of legal judgment	-	-	692,000	-
Interest expense	(730,258)	(516,439)	(2,404,145)	(1,553,858)
Total	(5,944,917)			