Quadrant 4 Systems Corp
Form 10-Q
August 14, 2012

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

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

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

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

(732) 798-3000
(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 x No o

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 x No o

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. x

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The number of shares of common stock outstanding as of August 12, 2012 was 51,740,448.

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Part II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUADRANT 4 SYSTEMS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	30-Jun 2012 (Unaudited)	31-Dec 2011
ASSETS		
Current Assets		
Cash	$121,175	$1,079,248
Accounts receivables (net of allowance for doubtful accounts of $435,295 and $498,535 for June 30, 2012 and December 31, 2011, respectively)	4,934,915	5,296,113
Other current assets	1,340,550	415,099
Total current assets	6,396,640	6,790,460
Intangible Assets	14,572,140	16,595,261
Property and equipment – net	4,000	4,500
Other assets	911,108	1,039,632
TOTAL ASSETS	$21,883,888	$24,429,853

LIABILITIES AND STOCKHOLDERS' EQUITY

	30-Jun 2012 (Unaudited)	31-Dec 2011
Current Liabilities		
Accounts payable and accrued expenses	$3,919,265	$3,499,512
Note payable - revolver	3,497,902	4,309,317
Notes payable - other	-	140,000
Total current liabilities	7,417,167	7,948,829
Long-term debt	8,149,415	8,474,494
Derivative liability	333,323	333,329
Total liabilities	15,899,905	16,756,652
Stockholders' Equity		
Preferred stock - $0.001 par value; authorized: 10,000,000,000 shares: issued and outstanding: none		
Common stock - $0.001 par value; authorized: 5,000,000,000 shares: issued and outstanding 51,740,448 and 51,740,448 at June 30, 2012 and December 31, 2011, respectively	51,740	51,740
Additional paid-in capital	11,179,746	11,179,746
Accumulated deficit	(5,247,503)	(3,558,285)

Total stockholders' equity	5,983,983	7,673,201
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$21,883,888	$24,429,853

See notes to the consolidated financial statements

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QUADRANT 4 SYSTEMS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue	$6,656,920	$8,567,333	$13,384,559	$14,002,326
Cost of revenue	5,369,565	6,615,947	10,685,688	10,934,821
Gross Margin	1,287,355	1,951,386	2,698,871	3,067,505
General and administrative expenses	(793,019)	(614,861)	(1,524,935)	(976,534)
Amortization expense	(1,011,559)	(1,096,198)	(2,023,121)	(1,755,711)
Interest expense	(407,903)	(556,574)	(840,039)	(819,114)
Derivative gain	93,336	-	6	-
Net loss before income taxes	(831,790)	(316,247)	(1,689,218)	(483,854)
Income taxes	-	-	-	-
Net loss	$(831,790)	$(316,247)	$(1,689,218)	$(483,854)
Net loss per common share - basic and diluted	$(0.02)	$(0.01)	$(0.03)	$(0.01)
Weighted average common shares - basic and diluted	51,740,448	48,426,418	51,740,448	47,031,339

See notes to the consolidated financial statements

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QUADRANT 4 SYSTEMS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	June 30 2012	June 30 2011
Cash flows from operating activities:		
Net loss	$(1,689,218)	$(483,854)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Derivative gain	(6)	-
Accretion of interest	111,110	-
Amortization and depreciation	2,023,621	1,755,711
Doubtful accounts	136,867	133,054
Changes in assets and liabilities		
Accounts receivable	224,331	(2,219,632)
Other current assets	(925,451)	804
Other assets	128,524	(21,078)
Accounts payable and accrued expenses	419,753	979,429
Net cash provided by operating activities	429,531	144,434
Cash flows from financing activities:		
Proceeds from sales of common stock	-	708,750
Proceeds from notes payable - other	-	386,645
(Decrease) increase in note payable - revolver	(811,415)	3,465,880
(Decrease) increase in due to seller	-	(390,000)
Payments of long-term debt	(436,189)	(110,389)
Payments of notes payable	(140,000)	(4,036,314)
Net cash (used in) provided by financing activities	(1,387,604)	24,572
Net (decrease) increase in cash	(958,073)	169,006
Cash - Beginning of year	1,079,248	60,061
Cash - End of year	$121,175	$229,067
Supplemental disclosure of noncash information		
Cash paid for:		
Interest	$871,632	$593,906
Income taxes	$-	$-
Noncash transactions		

Acquisition of assets (net of liabilities assumed $10,100,000 and issuance of common stock of $4,000,000) in 2011	$-	$-

See notes to the consolidated financial statements

QUADRANT 4 SYSTEMS CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – ORGANIZATION AND OPERATIONS

Organization

Quadrant 4 Systems Corporation (the "Company") was incorporated in Florida on May 9, 1990, as Sun Express Group, Inc. On July 12, 2001, the Company changed its name to Sun Network Group, Inc. On June 3, 2005, the Company changed its name to Aventura VOIP Networks, Inc. and on October 17, 2005 to Aventura Holdings, Inc. On December 24, 2009, the Company changed its name to Zolon Corporation. On March 31, 2011, the Company changed its name to Quadrant 4 Systems Corporation to better reflect its current business model. During 2010, the Company acquired assets relating to consulting and programming (sometimes referred to as the VSGAC assets, the RMIAC assets and the ISSAC assets to differentiate the sources and acquisitions of these assets all within the same business model spectrum) and effective March 1, 2011, the Company acquired assets relating to solutions services, held in a wholly-owned subsidiary now known as Quadrant 4 Solutions, Inc. On July 1, 2011, the Company merged three wholly-owned subsidiaries – acquisition corporations or AC's - holding the VSGAC assets, the RMIAC assets and the ISSAC assets (used as the means to acquire its business and those assets) into a single wholly-owned subsidiary which was then renamed Quadrant 4 Consulting, Inc. The Company operates two wholly-owned subsidiaries, Quadrant 4 Consulting, Inc. and Quadrant 4 Solutions, Inc.

Operations

The primary business model of the Company is to provide Information Technology (IT) consulting services and solutions. The Company intends to establish a full spectrum of IT services that include consulting, products and solutions specific to the Healthcare, Retail and Financial Services verticals.

NOTE 2 – BASIS OF PRESENTATION

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules and regulations under Regulation S-X of the U.S. Securities and Exchange Commission for Form 10-Q, and should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for Quadrant 4 Systems Corporation (the "Registrant" or the "Company") for the year ended December 31, 2011. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements presentation. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented have been included. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year ended December 31, 2011, as reported in the Form 10-K, have been omitted.

In preparing the interim unaudited consolidated financial statements, management was required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the financial reporting date and throughout the periods being reported upon. Certain of the estimates result from judgments that can be subjective and complex and consequently actual results may differ from these estimates. These financial statements should be read in conjunction with the financial statements of the Company together with the Company's management discussion and analysis in Item 2 of this report and in the Company's Form 10-K for the year ended December 31, 2011. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

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NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Quadrant 4 Consulting, Inc. and Quadrant 4 Solutions, Inc.

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

Estimates

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

Loss per Common Share

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

For the quarters ending June 30, 2012 and 2011, there were 10,983,614 and 8,050,281, respectively, potentially dilutive securities not included in the calculation of weighted-average common shares outstanding since they would be anti-dilutive.

Derivatives

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

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08: "Intangibles--Goodwill and Other (Topic 350) Testing Goodwill for Impairment". The guidance in this update are intended to reduce complexity and costs by allowing the reporting entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The update includes examples of events and circumstances that an entity should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The effect of adopting this pronouncement did not have a significant impact on the entity's financial statements for the most recent interim period.

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05: (1) eliminates the option to present components of other comprehensive income ("OCI") as part of the statement of changes in stockholders' equity, (2) requires presentation of each component of net income and each component of OCI (and their respective totals) either in a single continuous statement or in two separate (but consecutive) statements, and (3) requires presentation of reclassification adjustments on the face of the statement. The amendment is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 did not have a significant impact on the Company's consolidated financial statements.

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In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). While many of the amendments to U.S. GAAP are not expected to have a significant effect on practice, the new guidance changes some fair value measurement principles and disclosure requirements. Adoption of ASU 2011-04 is effective for annual periods beginning after December 15, 2011 and did not have a significant impact on the Company's consolidated financial statements.

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.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	June 30, 2012	December 31, 2011
Customer list – VSGAC	$ 4,086,987	$ 4,086,987
Customer list – RMIAC	801,034	801,034
Customer list – ISSAC	2,243,175	2,243,175
Customer list – Quadrant 4 Solutions	8,500,000	8,500,000
Technology software – Quadrant 4Solutions	3,500,000	3,500,000
Framework technology software – Quadrant 4 Solutions	2,100,000	2,100,000
	21,231,196	21,231,196
Accumulated amortization	(6,659,056)	(4,635,935)
	$ 14,572,140	$ 16,595,261

For the six months ending June 30, 2012, the change in intangible assets was as follows:

Beginning of the Year	$ 16,595,261
Additions	-
Amortization	(2,023,121)
End of the period	$ 14,572,140

For the quarters ending June 30, 2012 and 2011, amortization expense was $1,011,559 and $1,096,198, respectively.

NOTE 5 – NOTE PAYABLE - REVOLVER

As amended in February 2011, the Company entered into an agreement with a financing company providing a revolving line of credit. Under the agreement, the Company assigned certain accounts receivable, including purchased accounts receivable, to the financing company in return for a maximum line of credit of $6,500,000. The agreement is automatically renewable on the anniversary unless cancelled by the parties. Fees under the agreement consist of a commitment fee of $65,000, a service fee of 0.825% per month, and interest at prime plus 2% per annum.

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

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NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

		June 30, 2012		December 31, 2011
Note payable due December 31, 2014, as extended, plus interest at 5% per annum (a) (b)	$	1,220,827	$	1,582,017
Note payable due December 31, 2014, as extended, plus interest at 5% per annum (a)		500,000		500,000
Seller note payable due December 31, 2014, as extended, plus interest at 5% per annum (a)		5,850,807		5,925,807
Convertible Debenture payable to a finance company due July 1, 2013, plus interest at 16% per annum (c)		800,000		800,000
Less discount		(222,219)		(333,329)
Total long-term debt	$	8,149,415	$	8,474,495

(a) In December 2011, the Company issued 2,489,956 shares of common stock in exchange for extending due date of certain notes payable. The shares were valued at $871,485 ($0.35 per share, the stock price on the date of the agreement), and will be charged to expense over terms of the extensions.

(b) The purchase agreement also provided for the Company to charge all uncollectable receivables and payments of pre-acquisition liabilities against the note payable to Stonegate Holdings (seller of the VSGAC and RMIAC assets). As of December 31, 2011, the Company charged an aggregate of $2,134,236 to Stonegate Holdings and reduced the value of customer lists, as this was a result of the acquisition agreement.

(c) On December 27, 2011, the Company sold an aggregate of $800,000 of debentures (Debentures) and warrants to purchase 1,333,333 shares of common stock of the Company. The Debentures are payable on July 18, 2013 and interest is payable quarterly, commencing April 1, 2012, at 16% per annum.

The warrants are exercisable at any time through December 31, 2017 at $0.60 per share, subject to adjustment as defined in the warrant agreement.

The Debentures are convertible into shares of common stock of the Company at $0.50 per share, at any time, subject to limitations, as defined in the agreement. The conversion price and amount may be subject to adjustment.

In addition, under certain conditions, the Company has the right to redeem the Debentures at 120% of the principal amount and accrued interest thereon.

The debt discount was calculated at issuance and is being amortized to interest expense over the term of the note.

NOTE 7 – DERIVATIVE LIABILITY/FAIR VALUE

The derivative liability consists of the following:

	June 30, 2012	December 31, 2011
Warrants	$ 333,323	$ 333,329
Conversion feature	-	-
Derivative liability	$ 333,323	$ 333,329

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The derivative liability related to the outstanding warrants was valued using the Black-Scholes option valuation model and the following assumptions at June 30, 2012:

Risk free interest rate	.83 %
Expected volatility	402%
Expected life (in years)	4.50
Expected dividend yield	0

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

NOTE 8 – STOCKHOLDERS' EQUITY

Preferred Stock

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

Reserved Shares

As of June 30, 2012, the Company has reserved the following shares of common stock:

Warrants – sales of stock	7,266,948
Warrants – financing and other	2,116,666
Conversion – financing	1,600,000
Warrants – Proposed, but unissued, for directors, management and consultants	2,500,000
	13,483,614

NOTE 9 – CONTINGENCIES

In July 2011, a claim was made against the Company seeking payment of an "exclusivity fee" and other expenses arising from a proposed financing in the amount of approximately $500,000. The Company believes that this particular claim is without merit and intends to vigorously defend this action. The Company has also filed a counterclaim relating to the improper nature of the litigation.

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

NOTE 10 – FOREIGN OPERATIONS

The Company's headquarters and operations are located in the United States. However, the Company does have some key suppliers and subcontractors located in India. The Company has no ownership, directly or indirectly, in these key suppliers and subcontractors. Payments made to India suppliers and subcontractors were $1,200,000 and $1,185,000 for the three months ending June 30, 2012 and June 30, 2011, respectively and $1,610,000 and $1,185,000 for the six months ending June 30, 2012 and June 30, 2011, respectively.

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Form 10-Q for the quarter ending June 30, 2012 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amending, and Section 21E of the Securities Exchange Act of 1934, as amending. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms, v those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and are considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

Overview

QUADRANT 4 SYSTEMS CORPORATION ("Quadrant 4 Systems", "we", "us", "our", or the "Company") is a publicly held company engaged in the information technology sector. The Company was incorporated by the Florida Department of State on May 9, 1990 as Sun Express Group, Inc. and operated a series of technology related businesses ranging from CCTV security systems to VOIP systems. In May 2010, the Company changed its business model and, in June 2010, the Company acquired a new business involving IT consulting. This consulting business was greater in size than the existing businesses; so the opportunity was treated by the Company as a material shift in its business model and disclosed in a Current Report on form 8-K on June 2010. At present, the Company has developed its business model in two wholly-owned subsidiaries, Quadrant 4 Consulting, Inc. and Quadrant 4 Solutions, Inc. via a series of acquisitions of several assets as described in the 10-K form filed for the period ending December 31, 2011.

The Company completed certain significant acquisitions in the previous two years following the reorganization of its business model, which are reflected in the accompanying financial statements. The Company is actively pursuing a business model that was changed and expanded in connection with the acquisition of assets and opportunities presented therein. Therefore, the significance of these recent acquisitions includes certain factors which represent risks and also require accentuation and explanation. The comparison to the previous year's second quarter is subject to this explanation.

The current operations of the Company consist of providing Information Technology (IT) and software-enabled services and consulting. The Company is focused on providing its services to companies in the Financial Services, Healthcare and Retail sectors. The Company intends to grow organically from the expansion of offerings and services to customers, most of which were acquired as relationships from acquisitions as well as the acquisition of new business relationships as part of its acquisition strategy.

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The financial statements being reported in this Quarterly Report are based on assets acquired within the past two years . The Company has a limited operating history with these assets, their management and the implementation of controls. There can be no assurance that the assets will continue to perform in the manner and to the degree indicated by the financial results disclosed for the recently-ending second quarter. The risks associated with recently-acquired assets are also discussed as a risk in the Company's annual report under Form 10-K.

Business Strategy

Quadrant 4 Systems Corporation plans to expand its focus in the Information Technology (IT) and Information Technology Enabled Services (ITES) market segments through a series of strategic business combinations. The Company intends to establish a full spectrum of IT services that include consulting, products and solutions specific to Healthcare, Retail and Financial Services industries and intends to grow organically to meet all of these service markets. To assist in the implementation of this new strategy, the Company intends to augment its present management and staffing, and, in furtherance of this plan, has undertaken discussions with certain individuals that bring significant existing experience and relationships in the chosen vertical segments to join the management team and/or participate in some advisory capacity at various levels.

Many US corporations have deferred upgrading and implementing IT infrastructure projects during the most-recent economic downturn. As a result, Quadrant 4 Systems believes that there is a pent-up demand for IT services that include consulting and implementation to help these clients remain efficient and competitive during the recovery time. The Company believes the best way to accomplish its strategic goals will be to initially seek to establish an IT services company platform by acquiring a set of profitable assets with history, track record and satisfied client base. After building the initial platform to launch the new business plan, the Company believes that it will be able to rapidly grow in targeted sectors by attracting additional assets to the Company with subsequent acquisitions. The Company intends to exploit current market conditions where many small and medium size IT services companies (with revenues in the range of $5mm to $50mm), both public and privately held, with "marquee" client relationships would fit with the Company's strategic consolidation initiative. During the past year, the Company has identified and begun negotiations with several targets that qualify for Quadrant 4 Systems' criteria for acquisition and business combination.

Following acquisition of the projected assets and their integration, the Company intends to focus on organic growth both in adding additional revenues from existing clients and also adding new clients.

Core Business

Ultimately, the Company believes that it will focus its efforts as a provider of IT services. The Company intends to provide IT consulting services; managed services; software product architecture; software development, maintenance and outsourcing and industry-specific software solutions primarily to enterprises engaged in the Financial Services, Retail and Healthcare sectors.

Competition

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

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

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

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Results of Operations

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

	Three months ending June 30,			
	2012	2011	Increase/ (Decrease)	Percent
Revenue	$ 6,656,920	$ 8,567,333	$ (1,910,413)	-22%
Cost of Revenue	(5,369,565)	(6,615,947)	(1,246,382)	-19%
Gross Margin	1,287,355	1,951,386	(664,031)	-34%
General and administrative expenses	(793,019)	(614,861)	178,158	29%
Amortization of intangible assets	(1,011,559)	(1,096,198)	(84,639)	-8%
Interest and derivative expense	(314,567)	(556,574)	(242,007)	-43%
Net loss	$ (831,790)	$ (316,247)	$ 515,543	163%

	Six months ending June 30,			
	2012	2011	Increase/ (Decrease)	Percent
Revenue	$ 13,384,559	$ 14,002,326	$ (617,767)	-4%
Cost of Revenue	(10,685,688)	(10,934,821)	(249,133)	-2%
Gross Margin	2,698,871	3,067,505	(368,634)	-12%
General and administrative expenses	(1,524,935)	(976.,534)	548,401	56%
Amortization of intangible assets	(2,023,121)	(1,755,711)	267,410	15%
Interest and derivative expense	(840,033)	(819,114)	20,919	3%
Net loss	$ (1,689,218)	$ (483,854)	$ 1,205,364	249%

Comparison of Three Months and Six Months Ending June 30, 2012 and 2011

REVENUES

Revenues for the second quarter ending June 30, 2012 totaled $6,656,920 compared to $8,567,333 of revenue during the same period in 2011. The decrease in revenues of $(1,910,413), or (22%) over the previous second quarter, was primarily due to large part to the bankruptcy filing of a prominent photography and printing company, a large client of the Company, the lost revenue from which, represented approximately 65% of the decrease in revenues, together with several client projects starting later in the quarter. Also in order to mitigate risks and exposure relating to the financial troubles of this client, The Company began reducing resource allocation and projects away from this account and moving the resources to new clients. The resource redeployment strategy coupled with later implementation of customer projects has led to the temporary reduction of revenue for the second quarter. The Company believes that this resource redeployment strategy will provide better utilization of resources and development of new clients in upcoming quarters.

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

Revenues for the six months ending June 30, 2012 totaled $13,384,559 compared to $14,002,326 of revenue during the same period in 2011. The decrease in revenues of $(617,767), or (4%) over the previous six month period in 2011, was primarily due to large part to the bankruptcy filing of a prominent photography and printing company, a large client of the Company, the lost revenue from which, represented approximately 65% of the decrease in revenues, together with several client projects starting later in the quarter. Also in order to mitigate risks and exposure relating to the financial troubles of this client, The Company began reducing resource allocation and projects away from this account and moving the resources to new clients. The resource redeployment strategy coupled with later implementation of customer projects has led to the temporary reduction of revenue for the second quarter. The Company believes that this resource redeployment strategy will provide better utilization of resources and development of new clients in upcoming quarters.The decrease in revenues for the first six months of 2012 was also the result of a focus of sales with longer selling cycles and several client projects starting later in the second quarter but was partially offset by stronger than anticipated revenues in the first quarter of 2012.

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

COST OF REVENUES

Cost of revenue for the second quarter ending June 30, 2012 totaled $5,369,565 compared to cost of revenue of $6,615,947 during the same period in 2011. The decrease in cost of revenue of $(1,246,382), or (19%) over the previous second quarter, was due primarily to the reduction in revenues in the second quarter of 2012. Cost of revenue is comprised primarily of the direct costs of employee and contract labor and related expenses.

Cost of revenue for the six months ending June 30, 2012 totaled $10,685,688 compared to cost of revenue of $10,934,821 during the same period in 2011. The decrease in cost of revenue of $(249,133), or (2%) over the previous second quarter, was due primarily to the reduction of revenues in the second quarter of 2012 offset by higher than projected revenues in the first quarter of 2012. Cost of revenue is comprised primarily of the direct costs of employee and contract labor and related expenses.

GROSS MARGIN

The decrease in gross margin of $(664,031), or (34%) over the previous second quarter, resulted primarily from decreased revenues, the gross margin percentage decreased from approximately 22% in the second quarter of 2011 to 19% in the second quarter of 2012. This decrease was due to increased costs of new customer projects.

The decrease in gross margin of $(368,634), or (12%) over the previous six month period, resulted primarily from decreased revenues, the gross margin percentage remained approximately 20% (decreasing from 21% to 20% over the previous six month period). The decrease was due to higher new customer project costs in the second quarter offset partially by lower cost of revenues in the first quarter.

SELLING, GENERAL AND ADMINISTATIVE EXPENSES

Selling, general & administrative expenses for the second quarter ending June 30, 2012 totaled $793,019 compared to selling, general & administrative expenses of $614,861 during the same period in 2011. The increase in selling, general & administrative expenses of $178,158, or 29% over the previous second quarter, was due to the inclusion of selling, general & administrative expenses and increased costs of integrating the acquisition of a new business entity (acquired March 1, 2011) during the second quarter of 2012.

Selling, general & administrative expenses for the six months ending June 30, 2012 totaled $1,524,935 compared to selling, general & administrative expenses of $976,534 during the same period in 2011. The increase in selling, general & administrative expenses of $548,401, or 56% over the previous second quarter, was due to the inclusion of selling, general & administrative expenses from the Company's acquisition on March 1, 2011 and increased costs associated with integration of this new business during the six months ending June 30, 2012.

AMORTIZATION AND WRITE-DOWN OF INTANGIBLE ASSETS

Amortization expense for the second quarter ending June 30, 2012 totaled $1,011,559 compared to $1,096,198 during the same period in 2011. The decrease in amortization expense of $84,639 was materially insignificant since full amortization of the March 1, 2011 acquisition occurred during the second quarter of 2011. Amortization periods on the acquired intangibles range from 5 – 7 years.

Amortization expense for the six months ending June 30, 2012 totaled $2,023,121 compared to $1,755,711 during the same period in 2011. The increase in amortization expense of $267,410 was due to the additional amortization expense from intangible assets (customer lists, software technology, and hardware technology) acquired in connection with the acquisition of Quadrant 4 Solutions, Inc., the business entity acquired by the Company in 2011. Amortization periods on the acquired intangibles range from 5 – 7 years.

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INTEREST AND DERIVATIVE EXPENSE

Financing and interest costs and derivative expenses for the second quarter ending June 30, 2012 totaled $314,567 compared to $556,574 during the same period in 2011. The decrease in financing, interest costs and derivative expenses of $(242,007), or 43% over the previous second quarter, was due to decreased interest rates on notes payable and long-term debt to finance the Company's acquisitions and the note payable-revolver, as well as due to the gain from derivatives associated with the prior issuance of certain warrants.

Financing and interest costs and derivative expenses for the six months ending June 30, 2012 totaled $840,033 compared to $819,114 during the same period in 2011. The increase in financing and interest costs of $20,919, or 3% over the previous six month period, was due to increased interest on notes payable and long-term debt to finance the Company's acquisitions and the note payable-revolver, amortization of debt discount as well as the derivative expense associated with the prior issuance of certain warrants.

NET LOSS

The Company reported a net loss of $831,790 for the second quarter ending June 30, 2012 compared to net loss of $316,247 for the same period in 2011. The increase of $525,543, or 163% over the previous second quarter, was due to lower revenues, a decrease in gross profit margin and increase in selling, general and administrative expenses, in the current period as compared to the prior period.

The Company reported a net loss of $1,689,218 for the six months ending June 30, 2012 compared to net loss of $483,854 for the same period in 2011. The increase of $1,205,364, or 249% over the previous six month period due to lower revenues, a decrease in gross profit margin, an increase in selling, general and administrative expenses and an increase in amortization and interest costs, in the current period as compared to the prior period.

EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the second quarters ending June 30, 2012 and June 30, 2011 is calculated as follows:

	June 30, 2012	June 30, 2011
Net Loss (GAAP Basis)	$ (831,790)	$ (316,247)
Interest and derivative expense	314,567	556,574
Amortization expense	1,011,559	1,096,198
Income Taxes	-	-
EBITDA	$ 494,336	$ 1,336,525

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the six months ending June 30, 2012 and June 30, 2011 is calculated as follows:

	June 30, 2012	June 30, 2011
Net Loss (GAAP Basis)	$ (1,689,218)	$ (483,854)
Interest and derivative expense	840,033	819,114
Amortization expense	2,023,125	1,755,711

Income Taxes		-		-
EBITDA	$	1,173,940	$	2,090,971

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the six months ending June 30, 2012 decreased by $917,031 or 44% over the previous six-month period decreased as a result of increased first year integration and administrative expenses incurred in the acquisition of a new business entity on March 1, 2011.

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Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the six months ending June 30, 2012 decreased by $917,035 or 44% over the previous six-month period decreased as a result of increased first year integration and administrative expenses incurred in the acquisition of a new business entity on March 1, 2011.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2012, we had an accumulated deficit of $5,247,503 as compared to $3,558,285 at December 31, 2011. As of June 30, 2012, we had a working capital deficit of $1,020,527 as compared to $1,158,369 at December 31, 2011.

We have no material commitments for capital expenditures.

Net cash provided by operations for the six months ending June 30, 2012 was $429,531 as compared to net cash provided by operations of $144,434 primarily relating to an increase in other assets and higher operating loss.

Net cash used in financing activities for the six months ending June 30, 2012 was $1,387,604. Net cash provided by financing activities during the six months ending June 30, 2011 was $24,572. The increase in cash used in financing activities in 2012 compared to 2011 was due primarily to increased collections and receipt of convertible debt proceeds in late 2011 that were utilized to pay down other debt, offset in part by an increase in proceeds from the sale of stock in 2011.

The Company was reliant on proceeds from the sale of stock in 2011 and proceeds from borrowings to provide working capital. A tightening of capital markets can reduce or eliminate funding sources causing a decrease in our liquidity and an inability to generate revenues from new lending activities.

Liquidity. The Company is continuing to expand its IT business operations through acquisitions and organic internal growth. Acquisitions of target company assets will require additional financing. Currently the Company anticipates that additional financing to fund these acquisitions of assets will be provided by sales of stock or borrowings. Also, the Company is exploring alternatives for its trade receivable factoring which carries a very high interest rate. Refinancing of this receivable factoring financing will reduce the Company’s interest expenses thereby increasing the Company’s liquidity position.

The Company believes its resources are adequate to fund its current operations for the next 12 months.

Off Balance Sheet Arrangements

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

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the six months ending June 30, 2012. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is included in Note 3 to the unaudited financial statements included elsewhere in this Report and in Note 2 to the financial statements included in our Annual Report filed under Form

10-K for the year ending December 31, 2011. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition. The following are a summary of the significant accounting estimates and policies that we believe are most critical to aid in fully understanding and evaluating our reported financial results.

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Critical Accounting Estimates and Policies

General

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

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

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

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

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

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

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

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

We carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls were not effective as of June 30, 2012, based on their evaluation of these controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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

Changes in internal control over financial reporting. There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the second quarter of fiscal 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In July 2011, a claim was made against the Company seeking payment of an "exclusivity fee" and other expenses arising from a proposed receivable financing and acquisition financing arrangements. The plaintiff is seeking a $500,000 fee for issuance of a term sheet for financing which was ultimately not provided and which the Company contends was not available because the plaintiff was unable to deliver. The amount sought appears in all respects to be an excessive penalty relative to the financing which penalties are not generally enforced by courts. The Company believes that this particular claim is without merit and intends to vigorously defend this action. The Company has also filed a counterclaim relating to the improper nature of the litigation. The case and all claims are still pending; no final date has been set for trial or other adjudication.

The Company is presently a defendant in two actions in San Mateo, California and Louisville, Kentucky where each plaintiff has sought approximately $20,000 in unpaid amounts for prior services MGL Americas Inc., and Resource Mine, Inc., but the Company disputes that it assumed any obligations to either of the plaintiffs in the purchase of those assets and intends to defend itself in both actions. Each case and all claims are still pending; no final date has been set for trial or other adjudication.

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

Item 1A. Risk Factors

Not required.

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

There were no sales of unregistered equity securities in the second quarter of 2012.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

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Item 6. Exhibits

Item 601 of Regulation S-K

Exhibit No.:	Exhibit
31.1	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 Systems Corporation's Quarterly Report on Form 10-Q for the quarter ending June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2012 (unauditied) and December 31, 2011; (ii) Consolidated Statements of Income (Unaudited) for the three months ending June 30, 2012 and 2011, (iii) Consolidated Statements of Cash Flows (Unaudited) for the three months ending June 30, 2012 and 2011

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SIGNATURES

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

QUADRANT 4 SYSTEMS CORPORATION

August 12, 2012	By:	/s/ Dhru Desai Dhru Desai Chief Financial Officer, President, and Director