

Quadrant 4 System Corp
Form 10-K
March 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 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-QFOR
(Registrant's telephone number, including area code)

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

(None)
Title of each class

(None)
Name of each exchange on which registered

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

Yes No

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

Yes No

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

Yes No

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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.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 126.2 of the Securities Exchange Act of 1934).

Yes No

The aggregate market value of common stock held by affiliates of the Registrant on March 15, 2015 based on the closing price on that date of \$0.32 on the OTC was \$8,848,307. 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.

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Special Note Regarding Forward Looking Statements

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

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

PART I

ITEM 1. BUSINESS

Overview

Quadrant 4 is a provider of cloud based Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) products to the health insurance, media and education verticals. In addition, the Company provides expertise and relevant services that leverage our proprietary Social Media, Mobility, Analytics and Cloud (SMAC) technology stack. Our clients engage us to help them build more efficient operations; provide solutions to critical business and technology problems, and to help them drive technology-based innovation and growth. Our revenue is primarily generated from the sale and licensing of our PaaS and SaaS systems as well as from a wide range of technology oriented services and solutions. Our core platforms include QHIX/QBIX, a cloud based health insurance exchange and benefits management platform; QBLITZ, a cloud based digital media platform and QEDX, a cloud based education platform for K-12 students each of which incorporates our proprietary SMAC technologies. Our core services include Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications and Business Analytics. We blend these services with our technology platforms to offer client and industry specific solutions to the Healthcare, Media and Education industries.

Corporate History

Quadrant 4 System Corporation (sometimes referred to herein as “Quadrant 4” or the “Company”) was incorporated by the Florida Department of State on May 9, 1990 as Sun Express Group, Inc. and changed its name on March 31, 2011. The Company changed its domicile to Illinois on April 25, 2014. The Company generates revenue from clients located mostly in North America and operates out of six different office locations throughout the United States.

Principal Business

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, media and education verticals. Along with these platforms, the company also provides relevant services that leverage 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. The Company blends these services with our technology platforms to offer client and industry specific solutions to the Healthcare, Media, and Education verticals.

Industry Background

Many industry verticals are dealing with significant disruptions that arise due to regulatory changes, life style changes and rapid adoption of new technologies. These disruptions lead to challenges such as loss of revenue, clients, profitability and market share. These challenges provide opportunities for Quadrant 4 to execute constructive strategies in a timely fashion to address these changing business needs. The passing of the Affordable Care Act (ACA) brought about unprecedented changes in the health insurance markets that called for building both public and private exchanges that allow payors and individuals/ groups to buy health insurance online. The rapid migration of print media to digital media along with the proliferation of inexpensive mobile devices leads to challenges not only in delivering fresh content 24x7, but also in rethinking advertisement based revenue models.

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Today, the publishing industry looks at multimillion dollar high speed printing equipment as obsolete while content has become their core and strategic asset. The early adoption of technology by the student population, along with the implementation of common core standards in our K12 education system, has led to disruptions that require newer and better methods for assessment and intervention for children.

Today, many companies are questioning their IT infrastructure which in many cases is in need of modernization just as their businesses face intense competitive pressure and rapidly changing market dynamics. This is driven by such factors as changes in the economy, new sets of government regulations, changing business models and global competition both in their markets as well as their supply-chains. At the same time, companies must evaluate the effect of emerging technologies such as social networks, mobile devices, advanced analytics and cloud computing, or SMAC, on their business operations. There is a significant need to embrace these technologies to improve their businesses, expand markets and respond to customer needs. These technologies represent a new IT technology stack that is profoundly changing the way companies relate to their customers, engage with employees and bring innovative products and services to market. In response to these challenges, many companies are focused on improving efficiencies, enhancing effectiveness and driving innovation through technology. Companies need to build agility into both the cost and revenue sides of their models and in this context, they increasingly view the global sourcing model as a key to their efforts to operate more cost-effectively and productively. Separately, to confront secular industry shifts, changing demographics and new methods of doing business, companies are looking to innovate and build new and different capabilities with emerging technologies to ensure their business models stay relevant.

Companies increasingly seek to meet the dual mandates of more efficient and effective operations, including cost reduction and technology-based innovation and business transformation in a comprehensive, integrated manner. Achieving these objectives present major challenges and requires companies to have highly skilled professionals trained in many specialized technologies and diverse industries.

SMAC technology based solutions when offered and deployed as PaaS and/or SaaS based models have given businesses a real opportunity to develop innovative solutions that ultimately lead to leveraging public IT infrastructure, lowering the cost of ownership and deploying innovative applications that not only improve enterprise decision making capabilities but also allows them to roll out new business models with an unprecedented ability to reach customers.

Key Offerings

Platform as a Service for the Health Insurance and Benefits Management Industry – QBIX & QHIX

QBIX is our benefits management platform and is marketed as QHIX Benefits Administration (also known as QHIX BA). QBIX is a platform that brings together group enrollment, communication, and administration in a single product. QBIX works end-to-end and all-around, encompassing all stakeholders and an entirety of enrollment and administration capabilities in a single solution. The Company began beta testing of QBIX in January 2014 and offered for sale in January 2015. The Company has been recording revenues from QBIX since January 2015.

QHIX is our next generation healthcare eco-system. Our platform was designed, built and put into production to not only conform to but exceed all requirements of the Affordable Care Act (ACA). Why do we call QHIX an eco-system? QHIX manages all stakeholders for our clients in a single platform with a business rules engine that allows business analysts to manage the entire system, not relying on programmers for day to day activities.

Our target market are health plans, Third Party Administrators and National Brokerage Marketing Organizations. Each of these clients and prospects are working hard to help their clients meet all of the requirements of the ACA. For our health plan clients, one of the strictest provisions of the ACA is one known as Medical Loss Ratio (MLR). MLR

states that a health plan must pay out 80% of their premiums in claims on behalf of their members. This leaves 20% for all operating expenses including profit. If a health plan does not pay 80% in claims, they are responsible for rebating the underpayment back to their clients. In 2014, \$478 million was rebated back to clients, according to the Center for Consumer Information & Oversight and the Center for Medicare & Medicaid Services.

Health plans must operate differently in the future because of MLR. The luxury of having multiple systems performing similar functions is no longer an option for health plans. We designed QHIX for this very reason. QHIX allows a health plan to manage both group (employer) clients as well as individual consumer clients with one system, not two. This is an important differentiator for the Company and allows us to target small and large health plans alike.

The second target market for QHIX is Third Party Administrators (TPA). TPA's are growing as a result of the ACA. TPA's operate much like a health plan and provide management functions such as claims administration, care management, network management and billing and reconciliation on behalf of an employer. According to InsuranceNewsNet.com, almost 17% of small employers; 83% of large employers and employers with more than 1,000 employees are self-insured or partially self-insured which require a TPA's services. TPA's are looking for a single platform to meet their needs because of the multiple types of business they manage today. QHIX meets that need.

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National Benefit Marketing Organizations, our final target market, works directly with employers to assist their clients with their insurance and employee benefit programs. Employers are facing many challenges as a result of the ACA including additional required reporting, Form 1094 for employers and 1095 for employees. These reports were originally due from an employer to the IRS by January 31, 2016. Congress just delayed this reporting requirement to March 31, 2016. This reporting is mandatory or the employer will face significant fines for not reporting. These employers rely on their broker to help them meet these requirements. QHIX meets this need. According to Employee Benefit News, employer sponsored benefit programs provide health insurance to 147 million US citizens which ranges from small employers to even the largest US employer, Walmart.

We designed QHIX to help our clients engage consumers differently using Social, Mobile and Analytics (SMAC) operating through a Cloud environment. These capabilities include member engagement tools using social platforms, mobile capabilities and using big data analytics to target specific consumer health care needs.

One of the more unique features of QHIX is Reach and Teach (R&T). R&T is an engagement platform which allows our clients the ability to Reach their consumers at the appropriate times, such as open enrollment or change of family status, with the right information, tools and other content to assist these consumers when making significant family decisions regarding enrollment into insurance plans; decisions regarding healthcare; engaging with their healthcare provider or managing insurance programs through the year. R&T is also a valuable sales and marketing tool for our clients since they can target specific consumer groups with the right information based on past purchases of insurance and employee benefit programs. R&T will generate more revenue per consumer for our clients.

QHIX, the next generation eco-system provides the following benefits to our clients:

- § All Stakeholders: Employers, employees, consumers, brokers and business partners use one system;
- § Financial management: Provides both consolidated billing for employers (Invoice), direct payment for consumers, and broker commission reconciliation and payment remittance;
- § Consumer Engagement: R&T provides ability to proactively engage consumers based on important events with educational tools;
- § Compliance: Meeting all ACA requirements for employers and employees;
- § Time to Deploy: QHIX was designed to be deployed much quicker than traditional systems because of the infrastructure, open architecture and business rules where business analysts not programmers manage most business functions; and
- § Intuitive UI/UX: Easy to configure and easy to use by all stakeholders.

QHIX is available on the Amazon Cloud and we offer our platform on a SaaS (Software as a Service) subscription model where our clients pay on a monthly basis for the average number of lives serviced by the platform on a per member per month basis. The Company may also license QHIX to its clients for a fixed fee and allow them to host it on their own environment. The Company began piloting QHIX in March 2015. QHIX will be offered for sale starting the first quarter of 2016.

Our current prospect pipeline includes Health Plans, Third Party Administrators and National Marketing Organizations representing more than 35 million consumers. We believe that the industry will recognize our QHIX platform in 2016 as their solution of choice.

Platform as a Service for the Digital Media Businesses – QBLITZ

The Media industry is currently experiencing the greatest disruption since the advent of the printing press. Consumers now consume content from a plethora of devices, form factors and formats at varying velocities. Media companies ranging from cable and satellite operators to print publishing and newspaper outfits have been impacted by changes in the habits of consumers in consuming content. In publishing, many consumers have transitioned away from

newspapers and print magazines over to digital editions consumable over the web, mobile tablets or smartphones. The TV and movie industry has also been impacted by consumers opting to use online streaming options such as Netflix in place of traditional viewing choices.

Some of the evolving trends in Media include:

- § The move towards Social Media as a source of information, engagement and news e.g. disaster updates worldwide get announced on Twitter instantaneously and spread virally
- § Mobile usage has increased and more news and content is consumed via mobile devices than via any other medium
- § Social networks are becoming search engines and supplanting more traditional search engines such as Google.
- § Big data is being increasingly used to personalize content for audiences

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A study by McKinsey, points to the fact that with the availability of powerful engine technologies, the “long tail” of media and content (whether text, video, classifieds, products for sale, etc.) is accessible to anyone for free. This has caused erosion in the value of traditional bundled content found in newspapers, network TV stations, or big-box retailers. This has resulted in challenges for both content owners and marketers in reaching and engaging audiences that access such eclectic, fragmented media. A whopping 86% of US consumers claim that they are multitasking while watching TV with less than 25% of these activities directly related to the programs they are watching. There is also a change in consumption habit with more consumers electing to use time-shifted DVR content e.g. watching video on over-the-top Internet video services such as Youtube or Hulu. This increase in all varieties of time-, place-, and device-shifting consumption of content pressures traditional advertising-driven business models for distributors, advertisers, and content owners in the value chain.

In order to keep pace with changing consumption patterns, business models, and fragmentation in distribution, media organizations require a new set of content distributions capabilities across 4 different dimensions – Social, Mobile, Analytics and Cloud (SMAC).

The QBLITZ platform offering has been designed from the ground up to assist media companies in handling this disruption via software tools, cloud infrastructure, mobility and the development of a highly trained group of domain experts.

Some of the highlights of QBLITZ include:

- § Social/User Generated Content Management (User Video Upload, Microblog, Photo Album, User Profile, Commenting, Moderation)
 - § Content Query (Document, Image Query, Image Resizing, Video Query, Commenting Query)
- § Event Query (Places of Interest, Registration, Event Calendar, Location Based Listing, Data Collection, Elasticsearch indexing, Cassandra ingestion)
- § Communities & Personalization (Taxonomy, Liking, Following, Voting, Notification, Personalized Feed (Recommendation, Elastic Search, E-Commerce and Catalog, Classifieds, Buyers Guide, Shopping Cart, Paywall, FSBO, Location Based Listing, Lead Flow and Validation)
 - § Digital Asset Management (Taxonomy, Digital Rights Management)
 - § Catalog Management (Product Catalog, Taxonomy, Data Ingestion, Data Mapping)
- § Big Data Analytics, ODS, Central Logging, Reporting, Recommendation Processing, Leads, Lead Collection, Lead Routing, Lead Flow Management
- § Infrastructure Services such as Private-Public Cloud Bursting, Content Delivery Network, Geo-Optimized Serving, Cloud Management, Disaster Recovery, Round the Cloud Monitoring
- § Mobility Services such as: iOS and Android Development, Gaming, Animation, Connected TV Development, Augmented Reality

This rich set of capabilities coupled with state of the art technologies in Cloud Computing, NoSQL, Big Data, enable media clients to keep pace with changes in the marketplace and gain competitive advantages.

Media organizations that include magazine/newspaper publishers, broadcasters (TV/Radio) and digital content providers (portals, websites etc.) can benefit from QBLITZ in the following ways:

- § Utilize analytics to drive the business and create a feedback loop from Editorial to Publishing to Audience Engagement. This may take the form of:
 - Personalizing content to consumers through recommendation engines
 - Pricing advertising dynamically in real time
 - Being able to measure audience engagement more precisely and thereby creating a metric to value content
- § Engage audiences on multiple devices and content formats e.g. smartphone, tablet, connected TV and web among others using websites, mobile sites, mobile apps, video and audio

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- § Enable media companies to build vertical social networking capabilities leveraging their audiences more effectively
- § Embrace new business models in media e.g. micro paywall with Apple iPay, or Bitcoin payment for granular pieces of content (e.g. an article, or a set of videos)

The Company will begin its beta/pilot testing of QBLITZ by June 2017 and will be offering for sale in January 2018.

Platform as a Service for the K-12 Education Markets – QEDX

We are leveraging our experience providing cloud-based exchanges for health care and media to the education market. Health care and education are vital not only to the wellbeing of individuals but also to the strength of the nation. These two sectors now represent one quarter of our nation's economy.

We sell our QEDX platform to Independent School Districts, individual schools and government agencies such as the Department of Education.

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According to BMO Capital Markets, annual spending for Education services in 2015-16 is expected to be over \$1.3 trillion. Experts estimate that the education industry will be growing at 2.9% annual rate through 2019 when total spending in this sector is expected to be roughly \$1.5 trillion annually. The digital learning space is expected to increase from \$73.8 billion in 2011 to \$220.0 billion by 2017, showing a CAGR of 20.3%, from 2012-2017.

Education in any city tops state and local government spending. According to Ballotpedia.org, the budget of a major district such as Miami-Dade with 345,000 students is \$3.5 billion! Budgets for smaller districts with 10,000 students are \$75 - \$100 million. School district operations are complex and they operate under intense public scrutiny for the quality of their product (higher student achievement as measured by high stakes tests) and the return on investment. They use a wide array of business intelligence and academic intelligence systems for data analytics, along with instructional programs for teaching and assessing curricula. Extracting actionable data or gathering it from various departments is complicated and time consuming. Timely and consistent communications are needed between district and school personnel, to parents, and to the public at large.

Our Education Exchange platform, QEDX, was developed throughout 2015 to provide all the stakeholders in school districts with unprecedented efficiencies. Vital data from all of a district's information systems can be turned into actionable data and shared in minutes rather than days.

Having seen the obvious benefits of QEDX, a number of districts have committed to pilot programs beginning in 2016. Full product launch is scheduled for early 2016 with sales beginning in the second quarter of 2016 for the 2016-17 school year. The QEDX cloud-based platform is branded as Empowered Solutions®. QEDX empowers districts not only with data integration features, but also with flexible options tailored to their specific needs and preferences. The QEDX Exchange platform serves as a central hub for providing Social, Mobile, Analytic, Cloud-based education services and products.

A key market discriminator for QEDX is its ability to provide both business intelligence and student performance data, with immediate access to assessment and instructional resources. The Company acquired Brainchild Corporation in 2015, an established provider of web-based and mobile learning solutions to K-12 schools. Brainchild has a large recurring customer base of over 3,200 schools in 5 states using its mobile learning and formative assessment products. Brainchild brings its 20 plus year experience in high stakes test preparation and academic interventions for struggling students. Its content library consists of over 100,000 standards-based reading, writing, math, and science items, with over 2,000 teaching animations in English and Spanish.

On December 10, 2015, President Obama signed the Every Student Succeeds Act (ESSA) which returns decisions to States and Districts over how funds are spent. ESSA also permits States and Districts to formulate guidelines for teacher evaluation, academic standards, school turnarounds, and accountability. For the past quarter century, federal education policy has been moving in one direction - toward standards-based education redesign, a greater reliance on standardized tests, and bigger role for Washington when it comes to holding schools accountable for student results. By enabling local control, funds will be spent where they are needed more quickly and efficiently.

ESSA retains key tenets of the law it is replacing, calling on States and Districts to focus on helping failing schools and those where traditionally overlooked groups of students are struggling. Former Education Secretary Senator Lamar Alexander said, "What it means is that governors and school boards and teachers can immediately begin to plan and make their own decisions about the design of their tests; how many tests; what their academic standards ought to be; all of the basic decisions about student achievement."

ESSA brings opportunities for which we are uniquely qualified:

§ Effective communications of new policies and local practices will be needed between all the stakeholders in school districts

§ Teacher evaluation records will be streamlined through Empowered Solutions®
§ Rapid creation, alignment, and deployment of lessons based on new standards is a key Brainchild strength and will be deployed under Empowered Solutions®
§ Federal, State, and local funds that were spent under stringent federal guidelines will be liberated for immediate access. One example is the \$13 billion in Title I funds for “closing the gap” for economically disadvantaged students, Brainchild’s largest market.

In 2016 QEDX will enhance school district performance management by providing a range of consolidated educational services and solutions. Empowered Solutions® will improve student performance with instruction and assessment to those learners who are most at risk, to turn them into prepared and engaged citizens of the 21st century and beyond.

The Company began pilot testing QEDX in August 2015 and will begin selling QEDX from January 2017.

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Portfolio of Services:

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

§ Digital Transformation Services

We help enterprises leverage digital technologies to transform their business. From creating digital strategy from the ground up and building delivery platforms to meeting integration requirements, we provide a whole gamut of services ensuring holistic digital transformation. A frontrunner in harnessing the integrated power of Social, Mobile, Analytics and Cloud, we leverage our experience to strengthen our digital transformation services. Our proprietary Cross Vertical Platform solutions entwined with our domain expertise help enterprises gain comprehensive digital capabilities to thrive in this digital world.

Our innovation services keeps the client stay competitive. Our Digital Transformation solutions and services can help companies identify the gaps in their strategy and invest in the best technologies, offer key insights to drive digital strategy.

§ Analytics

We provide business analytics services to help enterprises unlock business value from their most valuable asset, data. Our facilitation helps the development of a holistic strategy by our clients around the use of structured, semi-structured and unstructured data available both internally to our client's organization and externally in the public domain. In order to use data more effectively, we provide solutions enabling data visualization and management reporting which a business user can segment, drill-down, and filter in order to derive business insights. Our team assists clients with building predictive models / Prescriptive models using statistical techniques that improve our clients' marketing effectiveness, risk management, decision support, fraud detection capabilities, etc. In order to build predictive models that are most effective for our clients, we utilize domain and industry knowledge related to the business problem to validate the drivers of the underlying problem or outcome and provide corresponding solutions or insights.

§ Technology Consulting

We lead the way for enterprises to transform their business processes and enhance performance on the whole. In the role of a trusted information technology consulting partner, we gain a thorough understanding of enterprises' business goals, skill requirements, technology landscape and policies to implement the best strategy for delivering results. Leveraging our understanding of business processes and industry knowledge and adopting a prescriptive approach, our consulting services equip enterprises with ideal solutions needed to overcome critical business challenges. With our consulting services, clients reap rewards from rich insights that help them strengthen their decision-making capabilities, fuel business growth and reduce operational costs.

§ Application Life Cycle Management

Our application lifecycle management services provide thrust to enterprises' efforts to thrive in this dynamic business environment. With our services, clients reap twin benefits of cutting costs drastically and improving the overall

agility, responsiveness, productivity and efficiency of their IT infrastructure. As a result of either supporting the entire application landscape or some of the applications, we ensure that our clients' core operational systems are responsive to changing needs. In addition, our Application Value Management Solutions help clients gain more value by balancing cost, complexity and capacity, reducing cost of ownership, improving service levels and creating new operational efficiencies.

Our global delivery business model spearheads a range of rapid response and cost-effective support services to our clients. From providing help desk services at the client location or from remote locations to delivering cost-effective offshore solutions addressing complex maintenance services, including modifications, enhancements and documentation, our services cater to the varied demands of clients. We draw on our experience to renovate clients' core systems to meet the requirements imposed by new regulations, new standards or other external events. Our diagnostic services serve clients well in identifying their shortcomings in IT systems and optimizing the performance of systems.

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§ Enterprise Applications & Data Management

We leverage our strategic partnerships with SAP and Oracle to help enterprises unlock the potentials of enterprises applications. Our extensive experience extends across ERP, application maintenance and support, business intelligence and enterprise performance management. Through an optimal blend of near shore, onshore and offshore resources, we integrate and align our client's applications with their business processes to create a robust IT foundation. With our consultants offering comprehensive consulting, implementation, development, maintenance, integration, and upgrade services and with our ability to implement emerging technologies like mobile, SOA and cloud, we ensure delivery excellence to reduce risks and costs while adding value to our client's business.

Our data management services help enterprises to reap gains from their most valuable asset, data. Adopting a holistic approach, we focus on the key elements like data architecture, taxonomy, metadata, storage and security to ensure that our clients find access to relevant data at the right time. Our services range from design, planning, set up and installation to database administration, restoration and upgrades. Leveraging our expertise in supporting business-critical applications and managing huge databases like Oracle and Microsoft SQL server, we help enterprises to make the best use of information to trigger business success.

§ Enterprise Mobility

Focused on creating the next generation mobile enterprise, our enterprise mobility services span the full mobility spectrum, extending from consulting and deployment to device management, support and industry-focused solutions.

With capabilities extending across leading mobile platforms, we ensure that our clients succeed from concept to launch reaping rich rewards from their mobile investments. Our proven ability to leverage mobility to enhance operational efficiency has enhanced our reputation to create mobile solutions helping clients meet varied needs and realize their business potentials. Designed and developed with the end user in mind, our mobile solutions create an enriched user experience.

§ Managed Services

Our managed services help enterprises gain maximum value from their technology investments and nurture an IT infrastructure equipped to handle future demands. Our clients take advantage of our managed service offerings to focus on their business goals and objectives while reducing costs in managing their IT infrastructure.

With a range of cloud infrastructure services including cloud hosting, colocation services, IT infrastructure and managed hosting services, we help our clients tap into emerging market opportunities through the right mix of programs and services. From serving clients as their remote IT department to offering support for all major platforms like SAP Windows, UNIX/Linux, robust systems management and help desk ticketing systems, we provide complete solutions to meet varied business needs of our clients.

Global Delivery Model

Our geographic reach extends across the globe, with delivery centers located in USA and in India through our dedicated outsourcing partner. We have a three-tiered global architecture for service delivery and operations, consisting of offshore center, employees co-located at clients' sites, local or in-country delivery centers in CA, IL, GA, MI, NV and NJ. Our organization is highly experienced and our employees maintain the highest level of quality certifications. Our facilities, technology and communications infrastructure facilitate the seamless integration of our global workforces.

Sales and Marketing

We market and sell our services directly through our professional staff, senior management and direct sales personnel operating out of our offices in CA, FL, GA, IL, MI, NV and NJ. The duration of the sales process varies depending on the type of service, ranging from approximately two months to over one year.

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Customers

We rationalize our services to our customers with the intent to increase yield, volume, shelf life and profitability every year. As of December 31, 2015, we were providing services to approximately 430 clients, as compared to approximately 245 clients as of December 31, 2014. As of December 31, 2015, we decreased the number of strategic clients to 27 from 31 in 2014. We define a strategic client as one offering the potential to generate at least \$250,000 or more in annual revenues at maturity. Accordingly, we provide a significant volume of services to many customers. Therefore, a loss of a significant customer or a few significant customers could materially reduce revenues and profitability. We generated 39.5% of our revenues from top 5 clients in 2015 compared to 34.1% in 2014; 52.3% of our revenues from top 10 clients compared to 48.1% in 2014; and 63.2% of our revenues from top 20 clients compared to 62.5% in 2014. These increases in concentration were by design to increase sales and delivery efficiencies. In addition, the services we provide to our larger customers are often critical to the operations of such customers and a termination of our services generally would require careful consideration and transition planning. For the years ended December 31, 2015 and 2014, most of our revenues were generated from clients located in North America.

The Company's largest customer represented 14.9% and 13.7% of consolidated revenues for the years ended December 31, 2015 and 2014, respectively. No other individual customer exceeded 10% of our revenues for 2015 and 2014.

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

ITEM 1A. RISK FACTORS

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

Risks Associated with Our Business and Industry

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

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

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

Most of our revenues during the year ended December 31, 2015 were derived from customers located in North America. If the United States economy continues to weaken or slow and conditions in the financial markets continue to deteriorate, pricing for our services may be depressed and our customers may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. We earned a significant portion of our revenues from few select industries and deterioration in these industry segments may reduce the demand for our services and negatively affect our revenues and profitability. In addition, if we are unable to successfully anticipate changing economic and political conditions affecting the industries and markets in which we operate, we may be unable to effectively plan for or respond to those changes, and our business could be negatively affected.

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We face intense competition from other providers.

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

| | |
|---|--------------------------------------------------------------|
| § | Systems integration firms |
| § | Contract programming companies |
| § | Application software companies |
| § | Large or traditional consulting companies |
| § | Professional services groups of computer equipment companies |
| § | Software-as-a-Service and Platform-as-a-Service players |
| § | Infrastructure management and outsourcing companies and |

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

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

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

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

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

Our industry is characterized by rapid technological change, evolving industry standards, changing customer preferences and new platforms, product and service introductions. Our future success will depend on our ability to

develop platforms and solutions that keep pace with changes in the markets in which we provide our services. We cannot be sure that we will be successful in developing new platforms and services addressing evolving technologies in a timely or cost-effective manner or, if these platforms and services are developed, that we will be successful in the marketplace. In addition, we cannot be sure that products, services or technologies developed by others will not render our services non-competitive or obsolete. Our failure to address the demands of the rapidly evolving technological environment could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

Our top five and top ten customers generated approximately 39.5% and 52.3%, respectively, of our revenues for the year ended December 31, 2015. The volume of work performed for specific customers is likely to vary from year to year, and a major customer in one year may not use our services in a subsequent year. The loss of one of our large customers could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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We are investing substantial cash in new technology platforms to service Health Insurance, Media and Education exchanges with a Software-as-a-Service and Platform-as-a-Service model, and our profitability could be reduced if our business does not grow proportionately.

We have made and continue to make significant contractual commitments in accordance with our master services agreement with our Indian vendor related to capital expenditures on software development for our platforms. These investments will likely increase our costs and if we are unable to grow our business and revenues proportionately, our profitability may be reduced.

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

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

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

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

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

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

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

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

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

- § Our clients' perceptions of our ability to add value through our services
 - § Competition
- § Introduction of new services or products by us or our competitors
 - § Our competitors' pricing policies
- § Our ability to accurately estimate, attain and sustain contract revenues, margins and cash flows over increasingly longer contract periods
 - § Bid practices of clients and their use of third-party advisors
- § Our ability to charge premium prices when justified by market demand or the type of service and
 - § General economic and political conditions

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

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

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

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

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

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

In addition, the increasing size and scope of our operations increase the possibility that a member of our personnel will engage in unlawful or fraudulent activity, breach our contractual obligations, or otherwise expose us to unacceptable business risks, despite our efforts to train our people and maintain internal controls to prevent such

instances. If we do not continue to develop and implement the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

Our operating results may experience significant quarterly fluctuations.

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

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

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

| | |
|---|--------------------------------------------------------------------------------------------------------------------------------|
| § | Changes in pricing in response to customer demand and competitive pressures |
| § | § Changes to the financial condition of our clients |
| § | § The ratio of fixed-price contracts versus time-and-materials contracts |
| § | § Employee wage levels and utilization rates |
| § | Changes in foreign exchange rates, including the Indian rupee versus the U.S. dollar |
| § | § Additional amortization expense of our software development costs |
| § | § The timing of collection of accounts receivable |
| § | § Enactment of new taxes |
| § | Changes in domestic and international income tax rates and regulations and |
| § | Changes to levels and types of stock-based compensation awards and assumptions used to determine the fair value of such awards |

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

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

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

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

In the normal course of business and in conjunction with certain client engagements, we have entered into contractual arrangements through which we may be obligated to indemnify clients or other parties with whom we conduct business with respect to certain matters. These arrangements can include provisions whereby we agree to hold the indemnified party and certain of their affiliated entities harmless with respect to third-party claims related to such matters as our breach of certain representations or covenants, or out of our intellectual property infringement, our gross negligence or willful misconduct or certain other claims made against certain parties. Payments by us under any of these arrangements are generally conditioned on the client making a claim and providing us with full control over the defense and settlement of such claim. It is not possible to determine the maximum potential amount under these

indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Historically, we have not made payments under these indemnification agreements so they have not had any impact on our operating results, financial position, or cash flows. However, if events arise requiring us to make payment for indemnification claims under our indemnification obligations in contracts we have entered, such payments could have a material impact on our operating results, financial position, and cash flows.

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

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

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

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

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

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

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

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

The occurrence of any of the foregoing could result in unexpected expenses or require us to recognize an impairment of our assets, which would reduce the value of our assets and increase expenses. In addition, if we alter or discontinue

our offering of affected items or services, our revenue could be affected. If a claim of infringement were successful against us or our clients, an injunction might be ordered against our client or our own services or operations, causing further damages.

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

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

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

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

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

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

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

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

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

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

possible results of industry consolidation could adversely affect our business.

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

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

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

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

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

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

Our stock price continues to be volatile.

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

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm the value of our stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports, effectively prevent fraud and operate as a public company. We have, in the past, discovered and may, in the future, discover areas of our internal controls over financial reporting that need improvement. If we are unable to adequately maintain or improve our internal controls over financial reporting, we may report that our internal controls are ineffective. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. Ineffective internal controls over financial reporting could also cause investors to lose confidence in our reported financial information which would likely have a negative effect on the trading price of our securities or could affect our ability to access the capital markets.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2. PROPERTIES

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

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ITEM 3. LEGAL PROCEEDINGS

On May 13, 2014, a claim was filed against the Company in the Superior Court of California, County of Santa Clara, California 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 defending their position and it is expected that the court case will remain stayed until the earliest being fall 2016.

The Plaintiffs in this case lost their case in NJ on jurisdictional basis and have appealed in CA. The Company has responded to the appeal and until the Appellate court decides on this matter, the main case is stayed. In response to the claim, as of December 31, 2015 the Company has recorded an accrual in the event of legal settlement in the amount of \$123,000.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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PART II

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

Market Information

Price Range of Common Stock

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

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

| | High | Low |
|-------------------------------|---------|---------|
| Year Ended December 31, 2015: | | |
| Fourth Quarter | \$ 0.35 | \$ 0.19 |
| Third Quarter | \$ 0.43 | \$ 0.19 |
| Second Quarter | \$ 0.55 | \$ 0.35 |
| First Quarter | \$ 0.66 | \$ 0.40 |
| Year Ended December 31, 2014: | | |
| Fourth Quarter | \$ 0.58 | \$ 0.40 |
| Third Quarter | \$ 0.79 | \$ 0.28 |
| Second Quarter | \$ 0.69 | \$ 0.32 |
| First Quarter | \$ 1.06 | \$ 0.30 |

Dividends

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

Recent Sale of Unregistered Securities

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

| Purpose | Number of Shares | Total Cost | Average 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 |
|--------|-----------|----|-----------|----|------|

Repurchases of Equity Securities

No repurchases of our common stock were made during the fiscal year of 2015.

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ITEM 6. SELECTED FINANCIAL DATA

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Form 10-K for the year ended December 31, 2015 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and are considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

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

Overview

Quadrant 4 is a provider of cloud based Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) products to the health insurance, media and education verticals. In addition, the Company provides expertise and relevant services that leverage our proprietary Social Media, Mobility, Analytics and Cloud (SMAC) technology stack. Our clients engage us to help them build more efficient operations; provide solutions to critical business and technology problems, and to help them drive technology-based innovation and growth. Our revenue is primarily generated from the sale and licensing of our PaaS and SaaS systems as well as from a wide range of technology oriented services and solutions. Our core platforms include QHIX/QBIX, a cloud based health insurance exchange and benefits management platform; QBLITZ, a cloud based digital media platform and QEDX, a cloud based education platform for K-12 students each of which incorporates our proprietary SMAC technologies. Our core services include Consulting, Application Life Cycle Management, Enterprise Applications & Data Management, Mobility Applications and Business Analytics. We blend these services with our technology platforms to offer client and industry specific solutions to the Healthcare, Media and Education industries.

Core Business

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, media and education verticals. 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. 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. Effective January 1, 2015, the Company merged its two wholly owned subsidiaries. Thus, the 2015 financial statements are no longer consolidated.

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Competition

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

| | | |
|---|---|------------------------------------------------------------------|
| | § | Systems integration firms |
| | § | Contract programming companies |
| | § | Application software companies |
| | § | Traditional large consulting firms |
| § | | Professional services groups of computer equipment companies and |
| | § | Facilities management and outsourcing companies |

We compete with numerous smaller local companies offering specific technologies and services in specific industry segments we operate.

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

The nature of our model involves engaging employees and consultants to provide services to our customers with billing accrued and due in normal billing cycles. We also enter into subscription contracts for our software platforms that clients pay a fixed amount every month. We incur debt to meet payroll obligations, the largest component of our expenses, and service debt with the payments received from our customers. Many of our employees and consultants are assisted in the immigration process which is an expense component. The Company utilizes few major capital items in the delivery of its services and requires no significant plant expenses beyond ordinary commercial office space for both use by the employees on a limited basis and the back-office support for those employees.

Critical Accounting Estimates and Policies

General

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

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. A summary of significant accounting policies is included in Note 2 to the consolidated financial statements included elsewhere in this Report. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition. The following are a summary of the significant accounting estimates and policies.

Estimates

The preparation of 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 differ 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.

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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 the operating expenses as they are incurred improvement and betterments, which extend the life 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 the 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 at least annually or upon the occurrence of an event which may indicate that the carrying amount may be greater than its fair value. If impaired, the Company will write-down such impairment. In addition, the useful life of the intangible assets will be evaluated by management at least annually or upon the occurrence of an event which may indicate that the useful life may have changed.

Customer lists are valued based on management's forecast of expected future net cash flows, with revenues based on projected revenues from customers acquired and are being amortized over 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.

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The Companies 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 (See 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 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.

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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.
2. 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. 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.
3. 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.

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, as interest expense and 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 as income or expense.

Share based Compensation

The Company recognizes compensation expenses for all share-based payment awards made to employees, directors and other based on the estimated fair value 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 instrument 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 complete.

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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.

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 senior 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.

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Results of Operations

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

| | Year Ended December 31, | | Increase/ (Decrease) | Percent |
|----------------------------------------------------------------|-------------------------|----------------|-------------------------|---------|
| | 2015 | 2014 | | |
| Revenue | \$ 52,038,044 | \$ 48,492,349 | \$ 3,545,695 | 7% |
| Cost of revenue | 31,168,394 | 30,917,470 | 250,924 | 1% |
| Gross margin | 20,869,650 | 17,574,879 | 3,294,771 | 19% |
| General and administrative expenses | (12,353,824) | (8,467,919) | (3,885,905) | 46% |
| Research & development | (1,849,389) | (2,655,980) | 806,591 | (30%) |
| Amortization, depreciation and impairment of intangible assets | (5,238,582) | (5,642,942) | 404,360 | (7%) |
| Interest expense | (1,943,771) | (1,877,406) | (66,365) | 4% |
| Net loss before income taxes | (515,916) | (1,069,368) | 553,452 | (52%) |
| Income taxes | - | - | - | |
| Net loss | \$ (515,916) | \$ (1,069,368) | \$ 553,452 | (52%) |

REVENUES

Revenues for the year ended December 31, 2015 were \$52,038,044 compared to revenues for the year ended December 31, 2014 of \$48,492,349. The increase in revenues of \$3,545,695 was primarily due to organic growth in our customer base. Revenues were comprised mainly of time & material and managed services segments of the Company. The Company expects to begin recognizing revenues from its Software-as-a-Service in 2016. These revenues are not expected to be material enough compared to the overall revenue from services and therefore the Company has elected not to report segment wise revenues. We anticipate to report segment wise revenues in the future if those revenues are material enough.

COST OF REVENUES

The increase in cost of revenues of \$250,924 was due to the increase in employees' wages in conjunction with the increase in the revenue. Cost of revenues is comprised primarily of the direct costs of delivery, sales, research and development expenses and other related expenses.

GROSS MARGIN

The increase in gross margin of \$3,294,771 or 19% was primarily due to increase in revenues. The gross margin percentage increased from 36% as of December 31, 2014 to 40% as of December 31, 2015 due to better utilization rates and billing rates.

GENERAL AND ADMINISTRATIVE EXPENSES

The increase in general and administrative expenses of \$3,885,905 was due to increased staffing, management and overhead costs associated with the new media and education related businesses. General and administrative expenses are comprised primarily of management and administrative payroll and related costs, office costs, overhead, staffing and support costs of the Company.

RESEARCH AND DEVELOPMENT EXPENSES

The decrease in research & development expenses of \$806,591 was due to completion of some of the R&D phases of the projects during 2015.

AMORTIZATION, DEPRECIATION, IMPAIRMENT AND WRITE- DOWN OF INTANGIBLE ASSETS

The amortization, depreciation and impairment expenses of \$5,238,582 in 2015 decreased from \$5,642,942 in 2014 mainly due to completion of amortization of certain customer lists in the 2014 period.

INTEREST

The slight increase of interest expense of \$66,365 as of December 31, 2015, was due to increase in volume of revolver during 2015 compared to 2014.

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NET LOSS

Net loss decreased by \$583,464 for the year ended December 31, 2015 as compared to 2014 because of increase in revenues and gross profit, reduction in research & development and amortization expense during the year.

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the years ended December 31, 2015 and December 31, 2014 is calculated as follows:

| | December 31, 2015 | December 31, 2014 |
|---------------------------------------------------|----------------------|----------------------|
| Net loss (GAAP Basis) | \$ (515,916) | \$ (1,069,368) |
| Interest expense | 1,943,771 | 1,877,406 |
| Amortization, depreciation and impairment expense | 5,238,582 | 5,642,942 |
| EBITDA | \$ 6,666,437 | \$ 6,450,980 |

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2015, we had an accumulated deficit of \$19,037,276 as compared to \$18,521,360 at December 31, 2014. As of December 31, 2015, we had a working capital deficit of \$6,341,527 as compared to a surplus of \$824,208 at December 31, 2014.

We have no material commitments for capital expenditures.

Net cash used by operations for the year ended December 31, 2015 was \$1,487,292 as compared to net cash used in operations of \$3,485,397, an increase of \$1,998,105 primarily due to the decrease in net loss and accounts receivable combined with an increase on account payable and obligation under the capitalized lease, offset by the increase in deferred software costs.

Net cash used in investing activities for the year ended December 31, 2015 was \$894,236 as compared to net cash used in investing activities of \$20,440, an increase of \$873,796 primarily relating to the purchase of fixed assets and certain intangible assets.

Net cash provided by financing activities was \$342,463 during 2015 as compared to net cash provided by financing activities of \$4,894,179 in 2014. The decrease is due to decrease in loans obtained in 2015 compared to 2014.

Liquidity. The Company is continuing to expand its SaaS and PaaS 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 internal accruals or sales of stock or borrowings.

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

As of December 31, 2015, Contractual Obligations were as follows:

| Contractual obligations | Total | Payments due by period | | | |
|-------------------------|-------|------------------------|-----------|-----------|----------------------|
| | | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| | | | | | |

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| | | | | | |
|-------------------------------------------------------------------------------|---------------|---------------|--------------|------------|--------|
| Long-term debt obligations (1) | \$ 3,117,538 | \$ -0- | \$ 3,117,538 | \$ -0- | \$ -0- |
| Notes payable – revolver | 7,601,904 | 7,601,904 | -0- | -0- | -0- |
| Other long-term liabilities reflected on the Registrant's Balance Sheet | 4,087,848 | 2,834,677 | 1,253,171 | -0- | -0- |
| Lease obligations | 595,220 | 162,141 | 285,392 | 147,687 | -0- |
| Total | \$ 15,402,510 | \$ 10,598,722 | \$ 4,656,101 | \$ 147,687 | \$ -0- |

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

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Impact of Inflation

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

Off Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES

Index to Consolidated Financial Statements

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| <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 |

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Board of Directors
Quadrant 4 System Corporation

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of Quadrant 4 System Corporation and Subsidiaries as of December 31, 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

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QUADRANT 4 SYSTEM CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,
2015 2014

ASSETS

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 | 11,566,643 | 12,479,737 |
| Goodwill | 2,004,600 | - |
| Equipment under capital lease – net | 366,961 | - |
| Equipment – net | 168,169 | 35,931 |
| Long-term assets | | |
| 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 |
| TOTAL ASSETS | \$ 37,153,898 | \$ 32,461,924 |

LIABILITIES AND STOCKHOLDERS' EQUITY

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 | 162,149 | - |
| Long-term debt, less current maturities, net of debt discount of \$197,333 | 4,338,763 | 5,834,688 |
| Total liabilities | 20,888,132 | 17,648,642 |

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 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|

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| | | |
|---------------------------------------------------|----------------------|----------------------|
| 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.

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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

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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

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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 | | | |
| 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.

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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 differ 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.

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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.

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The Companies 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.

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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.
2. 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. 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.
3. 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.

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.

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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.

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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.

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.

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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 |

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| | | | | | | |
|-------------------------|----------------------|------------------------|----------------------|----------------------|------------------------|----------------------|
| | 26,147,658 | (22,356,326) | 3,791,332 | 24,920,946 | (19,942,976) | 4,977,970 |
| 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 |

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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.

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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.

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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.

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(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

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.

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Sales of Common Stock

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

| Purpose | Number of Shares | Total Cost | Average Cost/Share |
|---------------------------------|------------------|--------------|--------------------|
| Acquisition of operating assets | 4,750,000 | \$ 997,500 | \$ 0.21 |
| Employee performance bonus | 1,000,000 | \$ 190,000 | \$ 0.19 |
| Various services | 450,000 | \$ 136,500 | \$ 0.30 |
| Totals | 6,200,000 | \$ 1,324,000 | \$ 0.21 |

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

| Purpose | Number of Shares | Total Cost | Average 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 Shares | Exercise Price | Weighted Average Exercise Price |
|-------------------------------------|------------------|----------------|---------------------------------|
| Balance at December 31, 2012 | 12,026,678 | \$ 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 | |

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| | | | | |
|-----------------------------------------|-------------|----|--------|------|
| Warrants issued with stock subscription | 666,667 | \$ | 0.36 | |
| Balance at December 31, 2013 | 15,160,012 | \$ | 0.10 – | 0.47 |
| Warrants exercised | (1,874,584) | | 0.60 | |
| Warrants expired | - | | | |
| 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 – | 0.55 |
| 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 – | 0.48 |

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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:

Amount

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| Year Ending December 31, | |
|-----------------------------|--------------|
| 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.

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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.

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.

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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 – FOREIGN OPERATIONS

The Company's headquarters and operations are located in the United States. However, the Company does have a key supplier and subcontractor known as Quadrant 4 Software Solutions (Pvt.) Limited located in India. The Company has no ownership, directly or indirectly, in the key supplier and subcontractor. The key supplier and subcontractor is owned 100% by Stonegate Holdings LLC, Yorkshire, UK which is also unrelated to the Company either directly or indirectly. The Company also markets its activities through the key supplier and subcontractor. The India based supplier billed the Company \$8,215,000 and \$6,749,000 for the years ended December 31, 2015 and 2014, respectively. The Company owed the India based supplier \$700,000 and \$630,000 as of December 31, 2015 and 2014, respectively.

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

| Description of Cost | Year Ending December 31, 2015 | Year 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 |

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| | | |
|------------------------|--------------|--------------|
| 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 |

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.

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

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

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, respectively, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report which is December 31, 2015. Based on such evaluation, the Company's principal executive officer and principal financial officer, respectively, have concluded that, as of the end of such period, the Company's disclosure controls and procedures specific to certain transactions were not effective. Inadequate staffing and insufficient oversight were the main reasons for such ineffective controls. As reported and disclosed in Form 10K for the reporting period ended December 31, 2014, management had identified an action plan for 2015 to remedy any ineffective controls that included additional staffing, realignment of existing staff, a search to hire a Chief Financial Officer, hiring of an outside consultant to assist with internal controls and creating a well-defined financial and accounting control matrix and procedures document. The Company has been implementing this plan during 2015 and closely monitoring the effectiveness of these actions in addition to soliciting additional steps to further improve the controls on an on-going basis. The Company will continue to seek to add and better align accounting resources including appointment of a dedicated Chief Financial Officer to achieve further improvements.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the 1934 Act as a process designed by, or under the supervision of, the Company's principal executive officer and principal financial officer, respectively, and effected by the Company's management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- §pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets;
- §provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the Company's management; and
- §provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements

Based on this evaluation, our management concluded that our internal controls over financial reporting were not operating effectively as of December 31, 2015.

The existence of a material weakness or weaknesses is an indication that there is a more than remote likelihood that a material misstatement of our financial statements will not be prevented or detected in a future period.

Management has assigned a high priority to the short-and long-term improvement of our internal control over financial reporting. We have listed below the nature of the material weaknesses we have identified:

- § inadequate personnel for documenting and execution of processes related to accounting for transactions;
- § inadequate segregation of duties due to the limited size of the accounting department; and
- § a lack of experienced personnel with relevant accounting experience, due in part to our limited financial resources.

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

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Changes in Internal Control Over Financial Reporting.

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

In order to address certain separation of duties and governance issues the Company has added additional human resources as well as a realignment of existing staff in its accounting and finance departments and instituted additional procedures to review its interim financial statements and significant transactions with the audit committee on a regular basis in the spirit of continuing to improve internally.

ITEM 9B. OTHER INFORMATION

Not applicable

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Directors and Officers of the Company are as follows:

| Name | Age | Position | Period Held |
|------------------|-----|--------------|----------------|
| Nandu Thondavadi | 62 | Director/CEO | 2010 – Current |
| Dhru Desai | 54 | Director/CFO | 2010 – Current |
| Thomas E. Sawyer | 77 | Director | 2010 – Current |
| Eric Gurr | 60 | Director | 2013 – Current |
| Philip Firrek | 69 | 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.

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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.

| Name and address of Officers and Directors | Amount and nature of beneficial ownership | Percent of class % |
|--------------------------------------------|-------------------------------------------|--------------------|
| Dhru Desai | 7,403,846 | 6.65 |
| Nandu Thondavadi | 8,403,847 | 7.55 |
| Thomas Sawyer | 200,000 | 0.18 |
| Eric Gurr | 255,000 | 0.23 |
| Philip Firrek | 100,000 | 0.09 |
| All officers and directors as a group | 16,362,693 | 14.38 |

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 considered 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 can serve as the "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

Pursuant to Section 16(a) of the 1934 Act, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the SEC and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based on the Company's review of Forms 3, 4 and 5

filed by such persons, the Company believes that these compliances have been met.

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. 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.

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ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF DIRECTORS AND OFFICERS

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

SUMMARY COMPENSATION TABLE

| Name and principal position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option/Warrant Awards (\$) | Non-Equity Nonqualified | | All Other Compensation (\$) | Total (\$) |
|-----------------------------|------|-------------|------------|-------------------|----------------------------|----------------------------------|------------------------|-----------------------------|------------|
| | | | | | | Incentive Plan Compensation (\$) | Deferred Earnings (\$) | | |
| Nandu Thondavadi, CEO | 2015 | \$ 0 | 0 | 0 | 300,000 | 0 | 0 | 0 | \$ 0 |
| | 2014 | \$ 0 | 0 | 0 | 87,508 | 0 | 0 | 0 | \$ 0 |
| Dhru Desai, CFO | 2015 | \$ 0 | 0 | 0 | 300,000 | 0 | 0 | 0 | \$ 0 |
| | 2014 | \$ 0 | 0 | 0 | 87,508 | 0 | 0 | 0 | \$ 0 |
| Thomas Sawyer, Director | 2015 | \$ 0 | 0 | 0 | 12,991 | 0 | 0 | 0 | \$ 0 |
| | 2014 | \$ 0 | 0 | 0 | 0 | 0 | 0 | 0 | \$ 0 |
| Eric Gurr, Director | 2015 | \$ 0 | 0 | 0 | 12,991 | 0 | 0 | 0 | \$ 0 |
| | 2014 | \$ 0 | 0 | 0 | 0 | 0 | 0 | 0 | \$ 0 |
| Philip Firrek, Director | 2015 | \$ 0 | 0 | 0 | 25,823 | 0 | 0 | 0 | \$ 0 |
| | 2014 | \$ 0 | 0 | 0 | 12,991 | 0 | 0 | 0 | \$ 0 |

The Company's board of directors granted 1,153,846 warrants each to Nandu Thondavadi and Dhru Desai in 2015 as total executive compensation for meeting company performance goals and as incentive to stay on. Neither one of them have an employment agreement currently with the Company.

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

The Compensation Committee, chaired by Mr. Sawyer, a director, has discussed with the two officers regarding compensation and determined that decisions regarding fair and appropriate compensation will be undertaken once the Company has achieved certain milestones and therefore no formal compensation agreements have been made with Dr. Thondavadi or Mr. Desai. The Company's compensation committee is expected to define comprehensive compensation plan for the key executives including option grants for 2016.

Compensation Committee Report

The entire Board performs the functions of a compensation committee given the Company's small size. Compensation matters involving the Company's chief executive officer and chief financial officer have been made by the Board after

their recusal from discussions and votes on such matter. At present, there are no employment agreements with the Company and there was no discussion regarding this matter. The Board has recommended that the compensation discussion and analysis be included in this Annual Report on Form 10-K.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 28, 2016, each stockholder who owns more than 5% of our outstanding shares of common stock, each director, the chief executive officer, our executive officers and our directors and executive officers as a group.

| Title of class | Name and address of beneficial owners | Amount and nature of beneficial ownership | Percent of class % |
|---------------------------------------------------------------|---------------------------------------|-------------------------------------------|--------------------|
| Common stock | Stonegate Assets, Inc. (1) | 7,000,000 | 6.43 |
| Common stock | Stonegate Holdings, Inc. (1) | 6,695,959 | 6.15 |
| Common stock & warrants | Dhru Desai (2) | 7,403,846 | 6.65 |
| Common stock & warrants | Nandu Thondavadi (3) | 8,403,847 | 7.55 |
| Common stock | Thomas E. Sawyer (4) | 200,000 | 0.18 |
| Common stock | Eric Gurr (5) | 255,000 | 0.23 |
| Warrants | Philip Firrek (6) | 100,000 | 0.09 |
| All major shareholders, officers and directors as a group (6) | | 30,058,652 | 26.40 |

(1) Based on 108,861,773 shares of common stock outstanding as of March 28, 2016.

- (2) Mr. Dhru Desai, an officer and member of the Board of Directors, owns stock in an irrevocable trust for the benefit of his family, in his own name and his spouse's name, includes 2,403,846 warrants and is based on 111,265,619 shares outstanding.
- (3) These shares are owned by a trust and may be imputed to Dr. Nandu Thondavadi, an officer and member of the Board of Directors, as the trustee and/or certain of the beneficiaries of these family trusts are members of his immediate family. This includes warrants to purchase 2,403,847 shares granted to Dr. Nandu Thondavadi and is based on 111,265,620 shares outstanding.
- (4) Dr. Thomas E. Sawyer is a member of the Board of Directors and includes 50,000 warrants and 150,000 shares of common stock and is based on 108,911,773 shares outstanding.
- (5) Mr. Eric Gurr is a member of the Board of Directors and includes warrants to purchase 50,000 shares of the Company's common stock and is based on 108,911,773 shares outstanding.
- (6) Mr. Philip Firrek, member of the Board of Directors was granted a warrant to purchase 100,000 shares of the Company's common stock and is based on 108,961,773 shares outstanding.

(7) Based on 113,869,466 shares outstanding.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transactions

None.

Director Independence.

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Effective April 3, 2015, the Company engaged Schulman Lobel Zand Katzen Williams & Blackman LLP, (Schulman) Certified Public Accountants, as our independent accountants for the year ended December 31, 2015. Sassetti LLC served as independent auditors for the years ended December 31, 2013, 2012 and 2011, and had acted as principal auditor since June 15, 2011. Effective April 2, 2015, Sassetti LLC resigned as the Company's independent accountant.

AUDIT FEES

Fees billed by Schulman totaled \$231,200 for the year ended December 31, 2015. This amount includes fees for the reaudit for the year ended December 31, 2013; audit for the year ended December 31, 2014 and reviews of all of the Company's quarterly reports filed with the SEC during the year ended December 31, 2015. Fees totaled \$94,560 for the year ended December 31, 2014 billed by Sassetti.

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TAX FEES

There were no fees billed by the Company's auditors for tax services for fiscal years 2015 and 2014.

ALL OTHER FEES

There were no other fees billed by the Company's auditors for any other non-audit services rendered to the Company (such as attending meetings and other miscellaneous financial consulting), during the years ended December 31, 2015 and December 31, 2014.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| Item 601 of Regulation S-K Exhibit No.: | Exhibit |
|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | <u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company</u> |
| 31.2 | <u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company</u> |
| 32.1 | <u>Section 1350 Certification by Chief Executive Officer and Chief Financial Officer</u> |
| 101 | The following financial information from Quadrant 4 System Corporation's Annual Report on Form 10-K for the year ended December 31, 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. |

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SIGNATURES

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

QUADRANT 4 SYSTEM CORPORATION

Date: March 28, 2016

By:/s/ Nandu Thondavadi
Name:Nandu Thondavadi
Title:President and Chief Executive Officer

Date: March 28, 2016

By:/s/ Dhru Desai
Name:Dhru Desai
Title:Chief Financial Officer

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

Date: March 28, 2016

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

Date: March 28, 2016

By:/s/ Dhru Desai
Name:Dhru Desai
Title:Chief Financial Officer and Director
(Principal Financial Officer)

Date: March 28, 2016

By:/s/ Philip Firrek
Name:Philip Firrek
Title:Chairman of the Audit Committee and Director

