Quadrant 4 Systems Corp
Form 10-Q
November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

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

Commission File Number 33-42498

QUADRANT 4 SYSTEMS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

(847) 871-9450
(Registrant's telephone number, including area code)

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

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

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

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

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

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

The number of shares of common stock outstanding as of November 9, 2012 was 51,740,448.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUADRANT 4 SYSTEMS CORPORATION
Consolidated Balance Sheet For the period ending September 30, 2012

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash	$9,749	$1,079,248
Accounts Receivables (net of allowance for doubtful accounts of $ 568,287 and $498,535 for September 30, 2012 and December 31, 2011 respectively)	4,875,399	5,296,113
Other current assets	460,825	415,099
Total current assets	5,345,973	6,790,460
Property and equipment - net	3,750	4,500
Other assets	2,110,745	1,039,632
Intangible assets, net	13,560,580	16,595,261
TOTAL ASSETS	$21,021,048	$24,429,853
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$3,983,232	$3,499,512
Note payable - Revolver	3,205,553	4,309,317
Current maturities - long term debts, less debt discount	633,336	-
Notes payable - other	-	140,000
Total current liabilities	7,822,121	7,948,829
Long term debt less current maturities	7,863,071	8,474,494
Derivative liability	266,661	333,329
Total liabilities	15,951,853	16,756,652
Stockholders' Equity		
Preferred stock - $0.001 par value; authorized: 10,000,000,000 shares: issued and outstanding: none	-	-
Common stock - $0.001 par value; authorized: 5,000,000,000 shares: issued and outstanding 51,740,448 and 51,740,448 at September 30, 2012 and December 31, 2011, respectively	51,740	51,740
Additional paid-in capital	11,179,746	11,179,746
Accumulated Deficit	(6,162,291)	(3,558,285)
Total stockholders' equity	5,069,195	7,673,201
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$21,021,048	$24,429,853

See notes to the consolidated financial statements

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QUADRANT 4 SYSTEMS CORPORATION
Consolidated Statements of Operations

	Three months ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Revenue	$6,532,571	$7,834,869	$19,917,130	$21,837,195
Cost of revenue	5,051,425	6,088,508	15,737,113	17,023,329
Gross Margin	1,481,146	1,746,361	4,180,017	4,813,866
General and administrative expenses	(992,609)	(465,753)	(2,517,544)	(1,436,039)
Amortization expense	(1,011,560)	(1,122,627)	(3,034,681)	(2,878,338)
Interest expense	(458,427)	(368,810)	(1,298,466)	(1,194,174)
Derivative gain	66,662	-	66,668	-
Net loss before Income taxes	(914,788)	(210,829)	(2,604,006)	(694,685)
Income taxes	-	-	-	-
Net loss	$(914,788)	$(210,829)	$(2,604,006)	$(694,685)
Net loss per common share- basic and diluted	$(0.02)	$(0.00)	$(0.05)	$(0.01)
Weighted average common shares - basic and diluted	51,740,448	49,250,492	51,740,448	47,779,186

See notes to the consolidated financial statements

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QUADRANT 4 SYSTEMS CORPORATION
Consolidated Statement of Cash Flows for the period ending September 30, 2012

	For the Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net loss	$(2,604,006)	$(694,685)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Derivative gain	(66,668)	-
Amortization and depreciation	3,035,431	2,878,338
Doubtful accounts	218,900	186,001
Changes in assets and liabilities		
Accounts receivable	201,814	(2,165,847)
Other current assets	(45,726)	(216,326)
Other assets	(1,071,113)	(67,526)
Accounts payable and accrued expenses	483,720	1,141,117
Net cash provided by operating activities	152,352	1,061,072
Cash flows from investing activities:		
Purchase of fixed assets	-	(5,000)
Net cash used in investing activities	-	(5,000)
Cash flows from financing activities:		
Proceeds from sales of common stock	-	708,750
Proceeds from notes payable - other	350,000	456,592
(Decrease) increase in note payable - factor	(1,103,764)	2,708,648
(Decrease) increase in due to seller	-	(390,000)
Payments of long-term debt	(328,087)	(110,389)
Payments of notes payable	(140,000)	(4,402,529)
Net cash used in financing activities	(1,221,851)	(1,028,928)
Net (decrease) increase in cash	(1,069,499)	27,144
Cash - Beginning of period	1,079,248	60,061
Cash - End of period	$9,749	$87,205
Supplemental disclosure of noncash information		
Cash paid for:		
Interest	$1,079,089	$989,906

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

See notes to the consolidated financial statements

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

NOTE 1 –ORGANIZATION AND OPERATIONS

Organization

Quadrant 4 Systems Corporation (the "Company") was incorporated in Florida on May 9, 1990, as Sun Express Group, Inc. On March 31, 2011, the Company changed its name to Quadrant 4 Systems Corporation to better reflect its current business model. During 2010, the Company acquired three separate assets relating to IT consulting and effective March 1, 2011, the Company acquired assets relating to IT solutions, held in a wholly-owned subsidiary now known as Quadrant 4 Solutions, Inc. On July 1, 2011, the Company merged three wholly-owned subsidiaries holding its IT consulting assets into a single wholly-owned subsidiary which was then renamed Quadrant 4 Consulting, Inc. The Company operates two wholly-owned subsidiaries, Quadrant 4 Consulting, Inc. and Quadrant 4 Solutions, Inc.

Operations

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

NOTE 2 – BASIS OF PRESENTATION

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

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

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NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

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

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

Estimates

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

Loss per Common Share

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

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

Derivatives

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

Recent Accounting Pronouncements

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

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

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

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

NOTE 4 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	September 30, 2012	December 31, 2011
Customer list – Consulting	$ 7,131,196	$ 7,131,196
Customer list – Solutions	8,500,000	8,500,000
Technology software – Solutions	3,500,000	3,500,000
Framework technology software – Solutions	2,100,000	2,100,000
	21,231,196	21,231,196
Accumulated amortization	(7,670,616)	(4,635,935)
	$ 13,560,580	$ 16,595,261

For the nine months ending September 30, 2012, the change in intangible assets was as follows:

Beginning of the Year	$ 16,595,261
Additions	-
Amortization	(3,034,681)
End of the quarter	$ 13,560,580

For the quarters ending September 30, 2012 and 2011, amortization expense was $1,011,560 and $1,122,627, respectively.

NOTE 5 – NOTE PAYABLE - REVOLVER

As amended in February 2011, the Company entered into an agreement with a financing company providing a revolving line of credit. Under the agreement, the Company assigned certain accounts receivable, including purchased accounts receivable, to the financing company in return for a maximum line of credit of $6,500,000. The agreement is automatically renewable on the anniversary unless cancelled by the parties. Fees under the agreement consist of a commitment fee of $65,000, a service fee of 0.825% per month, and interest at prime (at minimum of 5%) plus 2% per annum.

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

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NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	September 30, 2012	December 31, 2011
Note payable due December 31, 2014, as extended, plus interest at 5% per annum (a) (b)	$ 1,160,825	$ 1,582,017
Note payable due December 31, 2014, as extended, plus interest at 5% per annum (a)	500,000	500,000
Seller note payable due December 31, 2014, as extended, plus interest at 5% per annum (a)	5,850,807	5,925,807
Note Payable on equitable monthly installment starting from January 2013 till December 2014 plus interest at 15% per annum	351,439	-
Convertible Debenture payable to a finance company due July 1, 2013, plus interest at 16% per annum (c)	800,000	800,000
Less discount	(166,664)	(333,329)
Total debts	8,496,407	8,474,495
Less: Current maturities	(633,336)	-
Total long-term debt	$ 7,863,071	$ 8,474,495

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

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

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

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

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

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

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

NOTE 7 - DERIVATIVE LIABILITY/FAIR VALUE

The derivative liability consists of the following:

	September 30, 2012		December 31, 2011	
Warrants	$	266,661	$	333,329
Conversion feature		-		-
Derivative liability	$	266,661	$	333,329

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

Risk free interest rate	.83 %
Expected volatility	412%
Expected life (in years)	4.25
Expected dividend yield	0

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

NOTE 8 – STOCKHOLDERS' EQUITY

Preferred Stock

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

Reserved Shares

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

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

NOTE 9 – CONTINGENCIES

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

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

NOTE 10 – FOREIGN OPERATIONS

The Company’s headquarters and operations are located in the United States. However, the Company does have some key suppliers and subcontractors located in India. The Company has no ownership, directly or indirectly, in these key suppliers and subcontractors. Payments made to India suppliers and subcontractors were $ 970,000 and $1,161,935 for the three months ending September 30, 2012 and September 30, 2011, respectively and $ 2,580,000 and $ 2,495,010 for the nine months ending September 30, 2012 and September 30, 2011, respectively.

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

Overview

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

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

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

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

Business Strategy

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

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

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

Core Business

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

Competition

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

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

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

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Results of Operations

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

	Three months ending September 30,			
	2012	2011	Increase/ (Decrease)	Percent
Revenue	$ 6,532,571	$ 7,834,869	$ (1,302,298)	-17%
Cost of Revenue	(5,051,425)	(6,088,508)	(1,037,083)	-17%
Gross Margin	1,481,146	1,746,361	(265,215)	-15%
General and administrative expenses	(992,609)	(465,753)	526,856	113%
Amortization of intangible assets	(1,011,560)	(1,122,627)	(111,067)	-10%
Interest and derivative expense	(391,765)	(368,810)	22,955	6%
Net loss	$ (914,788)	$ (210,829)	$ 703,959	334%

	Nine months ending September 30,			
	2012	2011	Increase/ (Decrease)	Percent
Revenue	$ 19,917,130	$ 21,837,195	$ (1,920,065)	-9%
Cost of Revenue	(15,737,113)	(17,023,329)	(1,286,216)	-8%
Gross Margin	4,180,017	4,813,866	(633,849)	-13%
General and administrative expenses	(2,517,544)			