STREAMLINE HEALTH SOLUTIONS INC.
Form 10-Q
December 09, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 0-28132

STREAMLINE HEALTH SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 31-1455414 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1230 Peachtree Street, NE, Suite 600,
Atlanta, GA 30309
(Address of principal executive offices) (Zip Code)
(404) 446-2052
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of December 3, 2014: 18,469,145

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | October 31, 2014 | January 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $5,944,750 | $17,924,886 |
| Accounts receivable, net of allowance for doubtful accounts of $477,994 and $267,264, respectively | 5,917,038 | 7,999,571 |
| Contract receivables | 213,652 | 1,181,606 |
| Prepaid hardware and third-party software for future delivery | 33,473 | 25,640 |
| Prepaid client maintenance contracts | 1,017,261 | 909,464 |
| Other prepaid assets | 1,447,214 | 1,407,515 |
| Deferred income taxes | 95,498 | 95,498 |
| Other current assets | 55,694 | 144,049 |
| Total current assets | 14,724,580 | 29,688,229 |
| Non-current assets: | | |
| Property and equipment: | | |
| Computer equipment | 4,854,578 | 3,769,564 |
| Computer software | 2,521,293 | 2,239,654 |
| Office furniture, fixtures and equipment | 687,407 | 889,080 |
| Leasehold improvements | 1,227,999 | 697,570 |
| | 9,291,277 | 7,595,868 |
| Accumulated depreciation and amortization | (6,012,436) | (6,676,824) |
| Property and equipment, net | 3,278,841 | 919,044 |
| Contract receivables, less current portion | 52,263 | 78,395 |
| Capitalized software development costs, net of accumulated amortization of $10,904,467 and $7,949,352, respectively | 10,044,129 | 10,238,357 |
| Intangible assets, net of accumulated amortization of $2,981,391 and $1,930,366, respectively | 11,797,610 | 12,175,634 |
| Deferred financing costs, net of accumulated amortization of $107,271 and $98,102, respectively | 120,760 | 44,898 |
| Goodwill | 15,889,595 | 11,933,683 |
| Other | 841,432 | 500,634 |
| Total non-current assets | 42,024,630 | 35,890,645 |
| | $56,749,210 | $65,578,874 |

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | October 31, 2014 | January 31, 2014 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $2,173,577 | $1,796,418 |
| Accrued compensation | 1,073,771 | 1,782,599 |
| Accrued other expenses | 962,247 | 554,877 |
| Current portion of long-term debt | 1,214,280 | 1,214,280 |
| Deferred revenues | 8,215,846 | 9,658,232 |
| Current portion of note payable | — | 300,000 |
| Current portion of capital lease obligations | 795,339 | 105,573 |
| Total current liabilities | 14,435,060 | 15,411,979 |
| Non-current liabilities: | | |
| Term loans | 5,887,331 | 6,971,767 |
| Warrants liability | 1,791,901 | 4,117,725 |
| Royalty liability | 2,376,564 | 2,264,000 |
| Swap contract | — | 111,086 |
| Note payable | 600,000 | 600,000 |
| Lease incentive liability | 220,883 | 74,434 |
| Capital lease obligations | 772,804 | 121,089 |
| Deferred revenues, less current portion | 114,433 | — |
| Deferred income tax liabilities | 825,677 | 816,079 |
| Total non-current liabilities | 12,589,593 | 15,076,180 |
| Total liabilities | 27,024,653 | 30,488,159 |
| Series A 0% Convertible Redeemable Preferred Stock, $.01 par value per share, $8,849,985 and $8,849,985 redemption value, 4,000,000 shares authorized, 2,949,995 and 2,949,995 shares issued and outstanding, net of unamortized preferred stock discount of $2,498,816 and $3,250,317, respectively | 6,351,169 | 5,599,668 |
| Stockholders' equity: | | |
| Common stock, $.01 par value per share, 45,000,000 shares authorized; 18,458,745 and 18,175,787 shares issued and outstanding, respectively | 184,588 | 181,758 |
| Additional paid in capital | 77,953,327 | 76,983,088 |
| Accumulated deficit | (54,764,527) | (47,562,713) |
| Accumulated other comprehensive loss | — | (111,086) |
| Total stockholders' equity | 23,373,388 | 29,491,047 |
| | $56,749,210 | $65,578,874 |

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENDSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Months Ended October 31,
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Systems sales | $345,919 | $347,532 | $999,209 | $2,905,846 |
| Professional services | 447,939 | 966,962 | 1,731,888 | 2,925,553 |
| Maintenance and support | 4,062,442 | 3,523,551 | 12,411,419 | 10,524,595 |
| Software as a service | 1,980,343 | 1,893,489 | 5,887,368 | 5,622,237 |
| Total revenues | 6,836,643 | 6,731,534 | 21,029,884 | 21,978,231 |
| Operating expenses: | | | | |
| Cost of systems sales | 835,398 | 611,887 | 2,505,190 | 1,911,609 |
| Cost of professional services | 681,350 | 1,262,559 | 2,446,466 | 3,503,765 |
| Cost of maintenance and support | 756,469 | 739,887 | 2,553,180 | 2,519,952 |
| Cost of software as a service | 770,347 | 520,062 | 2,113,390 | 1,613,217 |
| Selling, general and administrative | 4,230,347 | 3,373,230 | 12,925,597 | 10,362,246 |
| Research and development | 2,275,410 | 1,370,178 | 6,850,973 | 3,627,336 |
| Total operating expenses | 9,549,321 | 7,877,803 | 29,394,796 | 23,538,125 |
| Operating loss | (2,712,678) | (1,146,269) | (8,364,912) | (1,559,894) |
| Other income (expense): | | | | |
| Interest expense | (180,583) | (580,390) | (523,599) | (1,734,763) |
| Loss on early extinguishment of debt | (114,522) | — | (114,522) | — |
| Miscellaneous income (expense) | 752,219 | (4,510,439) | 1,803,509 | (6,316,867) |
| Loss before income taxes | (2,255,564) | (6,237,098) | (7,199,524) | (9,611,524) |
| Income tax benefit (expense) | — | 4,680 | (2,290) | (158,944) |
| Net loss | $(2,255,564) | $(6,232,418) | $(7,201,814) | $(9,770,468) |
| Less: deemed dividends on Series A Preferred Shares | (269,152) | (374,162) | (751,501) | (731,309) |
| Net loss attributable to common shareholders | $(2,524,716) | $(6,606,580) | $(7,953,315) | $(10,501,777) |
| Basic net loss per common share | $(0.14) | $(0.50) | $(0.44) | $(0.82) |
| Number of shares used in basic per common share computation | 18,309,677 | 13,257,943 | 18,210,034 | 12,884,711 |
| Diluted net loss per common share | $(0.14) | $(0.50) | $(0.44) | $(0.82) |
| Number of shares used in diluted per common share computation | 18,309,677 | 13,257,943 | 18,210,034 | 12,884,711 |

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENDSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Three and Nine Months Ended October 31,
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | $(2,255,564 ) | $(6,232,418 ) | $(7,201,814 ) | $(9,770,468 ) |
| Other comprehensive gain (loss), net of tax: | | | | |
| Fair value of interest rate swap liability | (4,153 ) | — | (3,436 ) | — |
| Reclassification adjustment for loss on settlement of interest rate swap liability realized in net loss | 114,522 | — | 114,522 | — |
| Other comprehensive income | $110,369 | $— | $111,086 | $— |
| Comprehensive loss | $(2,145,195 ) | $(6,232,418 ) | $(7,090,728 ) | $(9,770,468 ) |

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended October 31,
(Unaudited)

| | Nine Months Ended | |
|---|---|---|
| | 2014 | 2013 |
| Operating activities: | | |
| Net loss | $(7,201,814) | $(9,770,468) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation | 670,955 | 490,043 |
| Amortization of capitalized software development costs | 2,735,990 | 2,086,885 |
| Amortization of intangible assets | 1,051,025 | 946,228 |
| Amortization of other deferred costs | 172,804 | 296,942 |
| Valuation adjustment for warrants liability | (2,325,824) | 2,082,789 |
| Share-based compensation expense | 1,286,145 | 1,203,919 |
| Other valuation adjustments | 119,593 | 4,140,441 |
| Loss on disposal of property and equipment | 110,710 | — |
| Loss on exit of operating lease | 234,823 | — |
| Provision for accounts receivable | 252,803 | — |
| Deferred tax expense | — | 150,634 |
| Changes in assets and liabilities, net of assets acquired: | | |
| Accounts and contract receivables | 3,360,780 | 2,509,842 |
| Other assets | (314,501) | (627,883) |
| Accounts payable | 410,395 | 87,014 |
| Accrued expenses | (801,074) | (150,206) |
| Deferred revenues | (2,124,790) | (2,683,899) |
| Net cash (used in) provided by operating activities | (2,361,980) | 762,281 |
| Investing activities: | | |
| Purchases of property and equipment | (1,862,855) | (106,392) |
| Capitalization of software development costs | (503,464) | (1,047,938) |
| Payment for acquisition, net of cash received | (6,058,225) | (3,000,000) |
| Net cash used in investing activities | (8,424,544) | (4,154,330) |
| Financing activities: | | |
| Principal repayments on term loan | (910,710) | (937,501) |
| Principal repayments on note payable | (300,000) | — |
| Principal payments on capital lease obligation | (165,115) | — |
| Payment of deferred financing costs | (256,212) | — |
| Proceeds from exercise of stock options and stock purchase plan | 438,425 | 1,093,285 |
| Net cash (used in) provided by financing activities | (1,193,612) | 155,784 |
| Decrease in cash and cash equivalents | (11,980,136) | (3,236,265) |
| Cash and cash equivalents at beginning of period | 17,924,886 | 7,500,256 |
| Cash and cash equivalents at end of period | $5,944,750 | $4,263,991 |

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION
The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. (“we”, “us”, “our”, or the “Company”), pursuant to the rules and regulations applicable to quarterly reports on Form 10-Q of the U.S. Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. These Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in our most recent annual report on Form 10-K, Commission File Number 0-28132. Operating results for the nine months ended October 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2015.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Our significant accounting policies are presented in “Note 2 – Significant Accounting Policies” in the fiscal year 2013 Annual Report on Form 10-K. Users of financial information for interim periods are encouraged to refer to the footnotes contained in the Annual Report on Form 10-K when reviewing interim financial results.
Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Fair Value of Financial Instruments
The Financial Accounting Standards Board’s (“FASB”) authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.
The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments. Cash and cash equivalents are classified as Level 1. The carrying amount of our long-term debt approximates fair value since the interest rates being paid on the amounts approximate the market interest rate. Long-term debt and the interest rate swap are classified as Level 2. The initial fair value of royalty liability and warrants liability was determined by management with the assistance of an independent third-party valuation specialist, and by management thereafter. We used the Black-Scholes option pricing model to estimate the fair value of warrants liability. The fair value of the royalty liability is determined based on the probability-weighted revenue scenarios for the Looking Glass® Clinical Analytics solution licensed from Montefiore Medical Center (discussed below). The contingent consideration for royalty liability and warrants liability are classified as Level 3.
Revenue Recognition
We derive revenue from the sale of internally-developed software either by licensing or by software as a service (“SaaS”), through the direct sales force or through third-party resellers. Licensed, locally-installed clients utilize our support and maintenance services for a separate fee, whereas SaaS fees include support and maintenance. We also derive revenue from professional services that support the implementation, configuration, training, and optimization

of the applications. Additional revenues are also derived from reselling third-party software and hardware components.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We recognize revenue in accordance with Accounting Standards Codification (ASC) 985-605, Software-Revenue Recognition, and ASC 605-25, Revenue Recognition — Multiple-element arrangements. We commence revenue recognition when the following criteria all have been met:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- The arrangement fees are fixed or determinable, and
- Collectibility is reasonably assured.

If we determine that any of the above criteria have not been met, we will defer recognition of the revenue until all the criteria have been met. Maintenance and support and SaaS agreements are generally non-cancelable or contain significant penalties for early cancellation, although clients typically have the right to terminate their contracts for cause if we fail to perform material obligations. However, if non-standard acceptance periods, non-standard performance criteria, or cancellation or right of refund terms are required, revenue is recognized upon the satisfaction of such criteria, as applicable.

Revenues from resellers are recognized gross of royalty payments to resellers.

Multiple Element Arrangements

We follow the accounting revenue guidance under Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force.

Terms used in evaluation are as follows:

- VSOE — the price at which an element is sold as a separate stand-alone transaction
- TPE — the price of an element, charged by another company that is largely interchangeable in any particular transaction
- ESP — our best estimate of the selling price of an element of the transaction

We follow accounting guidance for revenue recognition of multiple-element arrangements to determine whether such arrangements contain more than one unit of accounting. Multiple-element arrangements require the delivery or performance of multiple solutions, services and/or rights to use assets. To qualify as a separate unit of accounting, the delivered item must have value to the client on a stand-alone basis. Stand-alone value to a client is defined in the guidance as those that can be sold separately by any vendor or the client could resell the item on a stand-alone basis. Additionally, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item or items must be considered probable and substantially in the control of the vendor.

We have a defined pricing methodology for all elements of the arrangement and proper review of pricing to ensure adherence to our policies. Pricing decisions include cross-functional teams of senior management, which uses market conditions, expected contribution margin, size of the client's organization, and pricing history for similar solutions when establishing the selling price.

Software as a Service

We use ESP to determine the value for a software-as-a-service arrangement as we cannot establish VSOE and TPE is not a practical alternative due to differences in functionality from our competitors. Similar to proprietary license sales, pricing decisions rely on the relative size of the client purchasing the solution and include calculating the equivalent value of maintenance and support on a present value basis over the term of the initial agreement period. Typically revenue recognition commences upon client go live on the system and is recognized ratably over the contract term. The software portion of SaaS for Health Information Management ("HIM") products does not need material modification to achieve its contracted function. The software portion of SaaS for our Patient Financial Services ("PFS") products require material customization and setup processes to achieve their contracted function.

System Sales

We use the residual method to determine fair value for proprietary software licenses sold in a multi-element arrangement. Under the residual method, we allocate the total value of the arrangement first to the undelivered elements based on their VSOE and allocate the remainder to the proprietary software license fees.

Typically pricing decisions for proprietary software rely on the relative size and complexity of the client purchasing the solution. Third-party components are resold at prices based on a cost-plus margin analysis. The proprietary

software and third-

party components do not need any significant modification to achieve their intended use. When these revenues meet all criteria for revenue recognition and are determined to be separate units of accounting, revenue is recognized. Typically this is upon shipment of components or electronic download of software. Proprietary licenses are perpetual in nature, and license fees do not include rights to version upgrades, fixes or service packs.

Maintenance and Support Services

The maintenance and support components are not essential to the functionality of the software, and clients renew maintenance contracts separately from software purchases at renewal rates materially similar to the initial rate charged for maintenance on the initial purchase of software. We use VSOE of fair value to determine fair value of maintenance and support services. Rates are set based on market rates for these types of services, and our rates are comparable to rates charged by our competitors, which are based on the knowledge of the marketplace by senior management. Generally, maintenance and support is calculated as a percentage of the list price of the proprietary license being purchased by a client. Clients have the option of purchasing additional annual maintenance service renewals each year for which rates are not materially different from the initial rate but typically include a nominal rate increase based on the consumer price index. Annual maintenance and support agreements entitle clients to technology support, upgrades, bug fixes and service packs.

Term Licenses

We cannot establish VSOE fair value of the undelivered element in term license arrangements. However, as the only undelivered element is post-contract customer support, the entire fee is recognized ratably over the contract term. Typically revenue recognition commences once the client goes live on the system. Similar to proprietary license sales, pricing decisions rely on the relative size of the client purchasing the solution. The software portion of our Looking Glass® Coding & CDI products generally do not require material modification to achieve their contracted function.

Professional Services

Professional services components that are not essential to the functionality of the software, from time to time, are sold separately by us. Similar services are sold by other vendors, and clients can elect to perform similar services in-house. When professional services revenues are a separate unit of accounting, revenues are recognized as the services are performed.

Professional services components that are essential to the functionality of the software and are not considered a separate unit of accounting are recognized in revenue ratably over the life of the client, which approximates the duration of the initial contract term. We defer the associated direct costs for salaries and benefits expense for professional services contracts. As of October 31, 2014 and January 31, 2014, we had deferred costs of $528,000 and $441,000, respectively. These deferred costs will be amortized over the identical term as the associated revenues. Amortization expense of these costs was $121,000 and $50,000 for the nine months ended October 31, 2014 and 2013, respectively.

We use VSOE of fair value based on the hourly rate charged when services are sold separately, to determine fair value of professional services. We typically sell professional services on a fixed-fee basis. We monitor projects to assure that the expected and historical rate earned remains within a reasonable range to the established selling price.

Severances

From time to time, we enter into termination agreements with associates that may include supplemental cash payments, as well as contributions to health and other benefits for a specific time period subsequent to termination. For the three months ended October 31, 2014 and 2013, we incurred $20,000 and zero in severance expenses, respectively, and $596,000 and $380,000 for the nine months ended October 31, 2014 and 2013, respectively. At October 31, 2014 and January 31, 2014, we had accrued severances of $216,000 and zero, respectively.

Equity Awards

We account for share-based payments based on the grant-date fair value of the awards with compensation cost recognized as expense over the requisite vesting period. We incurred total compensation expense related to stock-based awards of $421,000 and $378,000 for the three months ended October 31, 2014 and 2013, respectively, and $1,286,000 and $1,204,000 for the nine months ended October 31, 2014 and 2013, respectively.

The fair value of the stock options granted have been estimated at the date of grant using a Black-Scholes option pricing model. The option pricing model inputs (such as, expected term, expected volatility, and risk-free interest rate) impact the fair value estimate. Further, the forfeiture rate impacts the amount of aggregate compensation. These assumptions are subjective and are generally derived from external (such as, risk-free rate of interest) and historical (such as, volatility factor, expected term, and forfeiture rates) data. Future grants of equity awards accounted for as stock-based compensation could have a material impact on reported expenses depending upon the number, value, and vesting period of future awards.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We issue restricted stock awards in the form of our common stock. The fair value of these awards is based on the market close price per share on the day of grant. We expense the compensation cost of these awards as the restriction period lapses, which is typically a one-year service period to the Company.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax credit and loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing net deferred tax assets, we consider whether it is more likely than not that some or all of the deferred tax assets will not be realized. We establish a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized.

We provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether certain tax positions are more likely than not to be sustained upon examination by tax authorities. We believe we have appropriately accounted for any uncertain tax positions.

Net Loss Per Common Share

We present basic and diluted earnings per share ("EPS") data for our common stock. Basic EPS is calculated by dividing the net income (loss) attributable to common stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common stockholders and the weighted average number of shares of common stock outstanding adjusted for the effects of all dilutive potential common shares comprised of options granted, unvested restricted stock, warrants and convertible preferred stock. Potential common stock equivalents that have been issued by us related to outstanding stock options, unvested restricted stock and warrants are determined using the treasury stock method, while potential common stock issuable upon conversion of Series A Convertible Preferred Stock are determined using the "if converted" method.

Our unvested restricted stock awards and Series A Convertible Preferred Stock are considered participating securities under ASC 260, Earnings Per Share, which means the security may participate in undistributed earnings with common stock. Our unvested restricted stock awards are considered participating securities because they entitle holders to non-forfeitable rights to dividends or dividend equivalents during the vesting term. The holders of the Series A Convertible Preferred Stock would be entitled to share in dividends, on an as-converted basis, if the holders of common stock were to receive dividends, other than dividends in the form of common stock. In accordance with ASC 260, a company is required to use the two-class method when computing EPS when a company has a security that qualifies as a "participating security." The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net earnings to allocate to common stockholders, earnings are allocated to both common and participating securities based on their respective weighted-average shares outstanding for the period. Diluted EPS for our common stock is computed using the more dilutive of the two-class method or the if-converted method.

In accordance with ASC 260, securities are deemed to not be participating in losses if there is no obligation to fund such losses. For the nine months ended October 31, 2014 and 2013, the unvested restricted stock awards and the Series A Convertible Preferred Stock were not deemed to be participating since there was a net loss from operations. As of October 31, 2014, there were 2,949,995 shares of preferred stock outstanding, each share is convertible into one share of our common stock. For the nine months ended October 31, 2014 and 2013, the Series A Convertible Preferred Stock would have an anti-dilutive effect if included in diluted EPS and therefore, was not included in the calculation. As of October 31, 2014 and 2013, there were 61,062 and 29,698, respectively, unvested restricted shares of common stock outstanding that were excluded from the calculation as their effect would have been anti-dilutive.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is the calculation of the basic and diluted net earnings (loss) per share of common stock:

| | Three Months Ended | |
|---|---|---|
| | October 31, 2014 | October 31, 2013 |
| Net loss | $(2,255,564) | $(6,232,418) |
| Less: deemed dividends on Series A Preferred Stock | (269,152) | (374,162) |
| Net loss attributable to common shareholders | $(2,524,716) | $(6,606,580) |
| Weighted average shares outstanding used in basic per common share computations | 18,309,677 | 13,257,943 |
| Stock options and restricted stock | — | — |
| Number of shares used in diluted per common share computation | 18,309,677 | 13,257,943 |
| Basic net loss per share of common stock | $(0.14) | $(0.50) |
| Diluted net loss per share of common stock | $(0.14) | $(0.50) |

| | Nine Months Ended | |
|---|---|---|
| | October 31, 2014 | October 31, 2013 |
| Net loss | $(7,201,814) | $(9,770,468) |
| Less: deemed dividends on Series A Preferred Stock | (751,501) | (731,309) |
| Net loss attributable to common shareholders | $(7,953,315) | $(10,501,777) |
| Weighted average shares outstanding used in basic per common share computations | 18,210,034 | 12,884,711 |
| Stock options and restricted stock | — | — |
| Number of shares used in diluted per common share computation | 18,210,034 | 12,884,711 |
| Basic net loss per share of common stock | $(0.44) | $(0.82) |
| Diluted net loss per share of common stock | $(0.44) | $(0.82) |

Diluted net loss per share excludes the effect of 2,648,785 and 2,562,317 outstanding stock options for the three and nine months ended October 31, 2014 and 2013, respectively. The inclusion of these shares would be anti-dilutive. For the nine months ended October 31, 2014 and 2013, the warrants to purchase 1,400,000 shares of common stock would have an anti-dilutive effect if included in diluted net loss per share and therefore were not included in the calculation.

Recent Accounting Pronouncements

In August 2014, the FASB issued an accounting standard update relating to disclosures of uncertainties about an entity’s ability to continue as a going concern. The update provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures in the event that there is such substantial doubt. The update will be effective for us on February 1, 2017.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for us on February 1, 2017. Early adoption is not permitted. The guidance is to be applied using one of two retrospective application methods. We are currently evaluating the impact of the adoption of this accounting standard update on our internal processes, operating results, and financial reporting. The impact is currently not known or reasonably estimable.

In July 2013, the FASB issued an accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This update amends existing GAAP that required in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax

benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when such items exist in the same taxing jurisdiction. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The

amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, and retrospective application is permitted. The Company adopted this update on January 31, 2014 and it did not have a material impact on our financial statements.

NOTE 3 — ACQUISITIONS AND STRATEGIC AGREEMENTS

On October 25, 2013, we entered into a Software License and Royalty Agreement (the “Royalty Agreement”) with Montefiore Medical Center (“Montefiore”) pursuant to which Montefiore granted us an exclusive, worldwide 15-year license of Montefiore’s proprietary clinical analytics platform solution, Clinical Looking Glass® (“CLG”), now known as our Looking Glass® Clinical Analytics solution. In addition, Montefiore assigned to us the existing license agreement with a customer using CLG. As consideration under the Royalty Agreement, Streamline paid Montefiore a one-time initial base royalty fee of $3,000,000, and we are obligated to pay on-going quarterly royalty amounts related to future sublicensing of CLG by Streamline. Additionally, Streamline has committed that Montefiore will receive at least an additional $3,000,000 of on-going royalty payments within the first six and one-half years of the license term. The Montefiore agreements were accounted for as a business combination with the purchase price representing the $3,000,000 initial base royalty fee, plus the present value of the $3,000,000 on-going royalty payment commitment. The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date as follows:

| | Balance at October 25, 2013 |
|---|---|
| Assets purchased: | |
| License agreement | $ 4,431,000 |
| Existing customer relationship | 408,000 |
| Covenant not to compete | 129,000 |
| Working capital | 124,000 |
| Other assets | 25,000 |
| Goodwill (1) | 108,000 |
| Total assets purchased | $ 5,225,000 |
| Consideration: | |
| Cash paid | 3,000,000 |
| Future royalty commitment | 2,225,000 |
| Total consideration | $ 5,225,000 |

(1) Goodwill represents the excess of purchase price over the estimated fair value of net tangible and intangible assets acquired, which is not deductible for tax purposes.

On February 3, 2014, we completed the acquisition of Unibased Systems Architecture, Inc. (“Unibased”), a provider of patient access solutions, including enterprise scheduling and surgery management software, for healthcare organizations throughout the United States, pursuant to an Agreement and Plan of Merger dated January 16, 2014 (the “Merger Agreement”) for a total purchase price of $6,500,000, subject to net working capital and other customary adjustments. A portion of the total purchase price was withheld in escrow as described in the Merger Agreement for certain transaction and indemnification expenses.

Pursuant to the Merger Agreement, we acquired all of the issued and outstanding common stock of Unibased, and Unibased became a wholly-owned subsidiary of Streamline. Under the terms of the Merger Agreement, Unibased stockholders received cash for each share of Unibased common stock held. The preliminary purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date as follows:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Balance at February 3, 2014 |
|---|---|
| Assets purchased: | |
| Cash | $ 59,000 |
| Accounts receivable | 487,000 |
| Other assets | 82,000 |
| Internally-developed software | 2,017,000 |
| Client relationships | 647,000 |
| Trade name | 26,000 |
| Goodwill (1) | 3,956,000 |
| Total assets purchased | 7,274,000 |
| Liabilities assumed: | |
| Accounts payable and accrued liabilities | 350,000 |
| Deferred revenue obligation, net | 797,000 |
| Deferred income taxes | 9,000 |
| Net assets acquired | $ 6,118,000 |
| Cash paid | $ 6,118,000 |

(1) Goodwill represents the excess of purchase price over the estimated fair value of net tangible and intangible assets acquired, which is not deductible for tax purposes.

The operating results of Unibased are not material for proforma disclosure.

NOTE 4 — LEASES

We rent office and data center space and equipment under non-cancelable operating leases that expire at various times through fiscal year 2022. Future minimum lease payments under non-cancelable operating leases for the next five fiscal years are as follows:

| | Facilities | Equipment | Fiscal Year Totals |
|---|---|---|---|
| 2014 (three months remaining) | $ 206,000 | $ 8,000 | $ 214,000 |
| 2015 | 1,030,000 | 5,000 | 1,035,000 |
| 2016 | 969,000 | 2,000 | 971,000 |
| 2017 | 1,007,000 | — | 1,007,000 |
| 2018 | 1,039,000 | — | 1,039,000 |
| Thereafter | 2,435,000 | — | 2,435,000 |
| Total | $ 6,686,000 | $ 15,000 | $ 6,701,000 |

Rent and leasing expense for facilities and equipment was $493,000 and $324,000 for the three months ended October 31, 2014 and 2013, respectively, and $1,330,000 and $877,000 for the nine months ended October 31, 2014 and 2013, respectively.

The Company has a capital lease to finance office equipment purchases. The balance of capital lease equipment was $1,515,000 and $261,000 as of October 31, 2014 and January 31, 2014, respectively, and the balance of accumulated depreciation was $328,000 and $76,000, as of October 31, 2014 and January 31, 2014, respectively. The amortization expense of leased equipment is included in depreciation expense.

NOTE 5 — DEBT

Term Loan and Line of Credit

On August 16, 2012, we amended the subordinated term loan and line of credit agreements with Fifth Third Bank, whereby Fifth Third Bank provided us with a $5,000,000 revolving line of credit, a $5,000,000 senior term loan and a

$9,000,000 subordinated term loan, a portion of which was used to refinance the previously outstanding $4,120,000

subordinated term loan. Additionally, as part of the refinancing in August 2012, we mutually agreed to settle the success fee included in the previous subordinated term loan for $700,000. The difference between the $233,000 success fee accrued through the date of the amendment and the amount paid was recorded to deferred financing costs and was amortized over the term of the amended loan until the subordinated loan was paid in full in January 2014, at which time the unamortized balance was recognized as loss on early extinguishment of debt. We paid a commitment fee in connection with the senior term loan of $75,000, which is included in deferred financing costs.

We were required to pay a success fee in accordance with the amended subordinated term loan, which has been recorded in interest expense as accrued over the term of the loan. The success fee was due on the date the entire principal balance of the loan became due. The success fee of $1,124,000 was paid when the subordinated term loan was paid in full (see below).

In December 2013, we amended and restated our previously outstanding senior credit agreement and amended the subordinated credit agreement to increase the senior term loan to $8,500,000, reduce the interest rates, and extend the maturity of the senior term loan and the revolving line of credit to December 1, 2018 and December 1, 2015, respectively. In January 2014, we paid the subordinated term loan in full. The outstanding senior term loan is secured by substantially all of our assets. The senior term loan principal balance is payable in monthly installments of $101,000, which started in January 2014 and will continue through the maturity date, with the full remaining unpaid principal balance due at maturity. Borrowings under the senior term loan bear interest at a rate of LIBOR plus 5.25%. However, as a result of our interest rate swap, the interest rate was fixed at 6.42% until October 27, 2014, when the interest rate swap agreement was terminated. Accrued and unpaid interest on the senior term loan is due monthly through maturity.

Borrowings under the revolving line of credit bear interest at a rate equal to LIBOR plus 3.50%. A commitment fee of 0.40% is incurred on the unused revolving line of credit balance, and is payable quarterly. As of October 31, 2014, we had no outstanding borrowings and had accrued $3,000 in unused balance commitment fees.

We paid $116,000 in closing fees in connection with this senior term loan, which has been recorded as a debt discount and is being amortized to interest expense over the term of the loan using the effective interest method.

We are subject to certain financial and operational covenants pursuant to the senior term loan and line of credit facilities. The significant financial covenants are as follows: (i) maintain minimum liquidity of $5,750,000 as of September 30, 2014 or at any time thereafter; (ii) maintain a fixed charge coverage ratio for the fiscal quarter ended October 31, 2014 and each fiscal quarter thereafter of not less than 1.00:1, calculated quarterly on a trailing four quarter basis, provided, however, that for each quarterly period ending prior to July 31, 2015, the fixed charge coverage ratio will be determined for the period from August 1, 2014 to the end of such quarterly period; and (iii) on a consolidated basis, maintain ratio of senior funded debt to adjusted EBITDA less than 3.00:1 as of the end of fiscal quarters ended October 31, 2014, and January 31, 2015, and less than 2.50:1 as of each fiscal quarter thereafter, calculated quarterly on a trailing four fiscal quarter basis. Given the refinancing and termination of the senior term loan and line of credit facilities in November 2014, we did not measure compliance with these financial covenants for the period ended October 31, 2014. If we had been required to measure compliance, we would not have been in compliance with these financial covenants. Our new credit facility, which is described in more detail under Note 8 below, includes financial covenants that are more favorable to the company. In addition, the credit facilities prohibit the Company from paying dividends on the common and preferred stock.

Outstanding principal balances on debt consisted of the following at:

| | October 31, 2014 | January 31, 2014 |
|---|---|---|
| Senior term loan (1) | $7,387,000 | $8,298,000 |
| Note payable | 600,000 | 900,000 |
| Capital lease | 1,568,000 | 227,000 |
| Total | 9,555,000 | 9,425,000 |
| Less: Current portion | 2,009,000 | 1,620,000 |
| Non-current portion of debt | $7,546,000 | $7,805,000 |

(1) Amount represents total principal due, therefore, it is not reduced by the debt discount of $285,000 and $112,000 as of October 31, 2014 and January 31, 2014, respectively. In the condensed consolidated balance sheets, the term loan is presented net of this discount.

Future principal repayments of debt consisted of the following at October 31, 2014:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Senior Term Loan | Note Payable | Capital Lease (1) | Total |
|---|---|---|---|---|
| 2014 | $304,000 | $— | $229,000 | $533,000 |
| 2015 | 1,214,000 | 300,000 | 858,000 | 2,372,000 |
| 2016 | 1,214,000 | 300,000 | 457,000 | 1,971,000 |
| 2017 | 1,214,000 | — | 105,000 | 1,319,000 |
| 2018 and thereafter | 3,441,000 | — | — | 3,441,000 |
| Total repayments | $7,387,000 | $600,000 | $1,649,000 | $9,636,000 |

(1) Future minimum lease payments include principal plus interest.

Note Payable

In November 2013, as part of the settlement of the earn-out consideration in connection with the Interpoint acquisition, we issued an unsecured, subordinated three-year note in the amount of $900,000 that matures on November 1, 2016 and accrues interest on the unpaid principal amount actually outstanding at a per annum rate equal to 8%. The promissory note has annual principal payments of $300,000 due on November 1, 2014, 2015 and 2016.

NOTE 6 — CONVERTIBLE PREFERRED STOCK

Series A Convertible Preferred Stock

At October 31, 2014, we had 2,949,995 shares of Series A Convertible Redeemable Preferred Stock (the “Preferred Stock”) outstanding. Each share of the Preferred Stock is convertible into one share of the Company's common stock. The Preferred Stock does not pay a dividend; however, the holders are entitled to receive dividends equal (on an as-if-converted-to-common-stock basis) to and in the same form as dividends (other than dividends in the form of common stock) actually paid on shares of the common stock. The Preferred Stock has voting rights on a modified as-if-converted-to-common-stock-basis. The Preferred Stock has a non-participating liquidation right equal to the original issue price plus accrued unpaid dividends, which are senior to the Company’s common stock. The Preferred Stock can be converted to common shares at any time by the holders, or at the option of the Company if the arithmetic average of the daily volume weighted average price of the common stock for the ten day period prior to the measurement date is greater than $8.00 per share, and the average daily trading volume for the 60 day period immediately prior to the measurement date exceeds 100,000 shares. The conversion price is $3.00 per share, subject to certain adjustments.

At any time following August 31, 2016, each share of Preferred Stock is redeemable at the option of the holder for an amount equal to the initial issuance price of $3.00 (adjusted to reflect stock splits, stock dividends or similar events) plus any accrued and unpaid dividends thereon. The Preferred Stock are classified as temporary equity as the securities are redeemable solely at the option of the holder.

NOTE 7 — INCOME TAXES

Income tax expense consists of federal, state and local tax provisions. For the nine months ended October 31, 2014 and 2013, we recorded federal tax expense of zero and $126,000, respectively. For the nine months ended October 31, 2014 and 2013, we recorded state and local tax expense of $2,000 and $33,000, respectively.

NOTE 8 — SUBSEQUENT EVENTS

We have evaluated subsequent events for recognition or disclosure in the condensed consolidated financial statements filed on Form 10-Q with the SEC and no events have occurred that require disclosure, except for the following.

On November 21, 2014, we entered into a Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, N.A., as administrative agent, and other lender parties thereto. Pursuant to the Credit Agreement, the lenders agreed to provide a $10,000,000 senior term loan and a $5,000,000 revolving line of credit. Amounts outstanding under the Credit Agreement bear interest at variable rates depending on the Company’s election, either at a base rate or at LIBOR, in each case, plus an applicable margin. Subject to the Company’s leverage ratio, the applicable base rate margin will vary from 3.25% to 4.25% and the applicable LIBOR rate margin will vary from 4.25% to 5.25%. The term loan and line of credit mature on November

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21, 2019 and provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. The Credit Agreement includes customary financial covenants, including the requirement that the Company maintain minimum liquidity of $5,000,000 and the requirement that the Company achieve certain minimum EBITDA levels. At closing, the Company repaid indebtedness under its prior credit facility using approximately $7,400,000 of the proceeds provided by the term loan. The prior credit facility with Fifth Third Bank was terminated concurrent with the entry of the Credit Agreement.

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## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Report and in other materials we file with the Securities and Exchange Commission ("SEC") or otherwise make public. In this Report, Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. In addition, our senior management makes forward-looking statements to analysts, investors, the media and others. Statements with respect to expected revenue, income, receivables, backlog, client attrition, acquisitions and other growth opportunities, sources of funding operations and acquisitions, the timing and closing of the asset acquisition from CentraMed, Inc., the sufficiency of available liquidity, research and development, and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would" and similar expres forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement.

The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or historical earnings levels.

Among the factors that could cause actual future results to differ materially from our expectations are the risks and uncertainties described under "Risk Factors" set forth in Part II, Item 1A, and the other cautionary statements in other documents we file with the SEC, including the following:

- competitive products and pricing;
- product demand and market acceptance;
- new product development;
- key strategic alliances with vendors that resell our products;
- our ability to control costs;
- availability of products produced by third party vendors;
- the healthcare regulatory environment;
- potential changes in legislation, regulation and government funding affecting the healthcare industry;
- healthcare information systems budgets;
- availability of healthcare information systems trained personnel for implementation of new systems, as well as maintenance of legacy systems;
- fluctuations in operating results;
- critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other standard-setting organization;
- changes in economic, business and market conditions impacting the healthcare industry, the markets in which we operate and nationally; and
- our ability to maintain compliance with the terms of our credit facilities.

Most of these factors are beyond our ability to predict or control. Any of these factors, or a combination of these factors, could materially affect our future financial condition or results of operations and the ultimate accuracy of our forward-looking statements. There also are other factors that we may not describe (generally because we currently do not perceive them to be material) that could cause actual results to differ materially from our expectations.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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Results of Operations

Proprietary software and term licenses — Proprietary software revenues recognized for the three and nine months ended October 31, 2014 decreased by $24,000, or 19%, and $1,800,000, or 86%, respectively, over the prior comparable periods. This decrease is attributable to sales of our Looking Glass® Coding & CDI (formerly known as Collabra™) suite of solutions in prior fiscal year. Revenues from term licenses for the three and nine months ended October 31, 2014 were $211,000, a decrease of $6,000 or 3%, and $650,000, a decrease of $80,000, or 11%, respectively, over the prior comparable periods. This decrease is primarily attributable to the fact that in prior periods some maintenance revenue was recorded as term license revenue, which was corrected later in fiscal 2013.

Hardware and third-party software — Revenues from hardware and third-party software sales for the three and nine months ended October 31, 2014 were $31,000, an increase of $28,000 or 933%, and $50,000, a decrease of $27,000, or 35%, respectively, over the prior comparable periods. Fluctuations from period to period are a function of client demand.

Professional services — Revenues from professional services for the three and nine months ended October 31, 2014 were $448,000, a decrease of $519,000, or 54%, and $1,732,000, a decrease of $1,194,000, or 41%, respectively, from the prior comparable periods. This decrease is primarily attributable to the nature of recognizing professional services revenues once certain milestones are met, which can cause fluctuations from period to period.

Maintenance and support — Revenues from maintenance and support for the three and nine months ended October 31, 2014 were $4,062,000, an increase of $539,000, or 15%, and $12,411,000, an increase of $1,887,000, or 18%, respectively, from the prior comparable periods. This increase resulted from the acquisition of the Looking Glass Clinical Analytics solution and Unibased, with $196,000 and $589,000 resulting from Looking Glass Clinical Analytics, which was acquired in October 2013, and $402,000 and $1,145,000 attributable to Unibased, acquired in February 2014, for the three and nine month periods, respectively. Typically, maintenance renewals include a price increase based on the prevailing consumer price index.

Software as a Service (SaaS) — Revenues from SaaS for the three and nine months ended October 31, 2014 were $1,980,000, an increase of $87,000, or 5%, and $5,887,000, an increase of $265,000, or 5%, from the prior comparable periods. This increase resulted from the acquisition of Looking Glass Clinical Analytics solution and Unibased, with $80,000 and $241,000 attributable to Looking Glass Clinical Analytics and $56,000 and $168,000 resulting from Unibased for the three and nine month periods, respectively.

Cost of Sales

| | Three Months Ended | | | |
|---|---|---|---|---|
| (in thousands): | October 31, 2014 | October 31, 2013 | Change | % Change |
| Cost of systems sales | $835 | $612 | $223 | 36 % |
| Cost of professional services | 681 | 1,263 | (582) | (46)% |
| Cost of maintenance and support | 756 | 740 | 16 | 2 % |
| Cost of software as a service | 770 | 520 | 250 | 48 % |
| Total cost of sales | $3,042 | $3,135 | $(93) | (3)% |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| (in thousands): | October 31, 2014 | October 31, 2013 | Change | % Change |
| Cost of systems sales | $2,505 | $1,912 | $593 | 31 % |
| Cost of professional services | 2,446 | 3,504 | (1,058) | (30)% |
| Cost of maintenance and support | 2,553 | 2,520 | 33 | 1 % |
| Cost of software as a service | 2,113 | 1,613 | 500 | 31 % |
| Total cost of sales | $9,617 | $9,549 | $68 | 1 % |

The decrease in cost of sales for the three months ended October 31, 2014 from the comparable prior period is primarily the result of decreased personnel expense related to professional services delivery. The increase in cost of

sales for the nine months ended October 31, 2014 from the comparable prior period is primarily the result of incremental operational costs incurred for the acquired Unibased operations as well as the amortization of the internally-developed software acquired as part of the Unibased acquisition.

Cost of systems sales includes amortization and impairment of capitalized software expenditures, royalties, and the cost of third-party hardware and software. Cost of systems sales, as a percentage of systems sales, varies from period to period

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depending on hardware and software configurations of the systems sold. The relatively fixed cost of the capitalized software amortization, without the addition of any impairment charges, compared to the variable nature of system sales, causes these percentages to vary dramatically.

The cost of professional services includes compensation and benefits for personnel and related expenses. The decrease in expense is primarily due to the winding down of a surge of professional services spending intended to expedite bringing clients live.

The cost of maintenance and support includes compensation and benefits for client support personnel and the cost of third-party maintenance contracts. The increase in expense is primarily due to an increase in the number of employees in the support function following the acquisition of Unibased.

The cost of software-as-a-service solutions is relatively fixed, subject to inflation for the goods and services it requires. The increase is related to incremental data center costs that were incurred in the three and nine months ended October 31, 2014 that had no comparable expense for the prior comparable periods.

Selling, General and Administrative Expense

| | Three Months Ended | | | |
|---|---|---|---|---|
| (in thousands): | October 31, 2014 | October 31, 2013 | Change | % Change |
| General and administrative expenses | $3,298 | $2,519 | $779 | 31 % |
| Sales and marketing expenses | 932 | 854 | 78 | 9 % |
| Total selling, general, and administrative | $4,230 | $3,373 | $857 | 25 % |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| (in thousands): | October 31, 2014 | October 31, 2013 | Change | % Change |
| General and administrative expenses | $9,954 | $7,995 | $1,959 | 25 % |
| Sales and marketing expenses | 2,972 | 2,367 | 605 | 26 % |
| Total selling, general, and administrative | $12,926 | $10,362 | $2,564 | 25 % |

General and administrative expenses consist primarily of compensation and related benefits and reimbursable travel and entertainment expenses related to our executive and administrative staff, general corporate expenses, amortization of intangible assets, and occupancy costs. The increase over the prior year is primarily due to professional service fees incurred, as well as to the incremental increase for intangible amortization associated with the acquired CLG and Unibased. We recognized $346,000 and $1,051,000, respectively, in amortization expense for the three and nine months ended October 31, 2014 for intangible assets as compared to $315,000 and $946,000, respectively, in the prior comparable periods. We also incurred increased expense due to audit and other professional services.

Sales and marketing expenses consist primarily of compensation and related benefits and reimbursable travel and entertainment expenses related to our sales and marketing staff; advertising and marketing expenses, including trade shows and similar sales and marketing expenses. The increase in sales and marketing expense reflects an increase in personnel and costs associated with increased trade show activity and other marketing programs.

Product Research and Development

| | Three Months Ended | | | |
|---|---|---|---|---|
| (in thousands): | October 31, 2014 | October 31, 2013 | Change | % Change |
| Research and development expense | $2,275 | $1,370 | $905 | 66 % |
| Plus: Capitalized research and development cost | 152 | 250 | (98) | (39)% |
| Total research and development cost | $2,427 | $1,620 | $807 | 50 % |

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| (in thousands): | Nine Months Ended October 31, 2014 | October 31, 2013 | Change | % Change |
|---|---|---|---|---|
| Research and development expense | $6,851 | $3,627 | $3,224 | 89 % |
| Plus: Capitalized research and development cost | 503 | 1,048 | (545 ) | (52 )% |
| Total research and development cost | $7,354 | $4,675 | $2,679 | 57 % |

Product research and development expenses consist primarily of compensation and related benefits; the use of independent contractors for specific near-term development projects; and an allocated portion of general overhead costs, including occupancy. Research and development expense increased due to incremental development staffing from the acquired CLG and Unibased business. During the current period, our development efforts shifted to solutions involving development costs that are not capitalized due to rapid release cycles. Research and development expenses for the nine months ended October 31, 2014 and 2013, as a percentage of revenues, were 33% and 17%, respectively.

Other Income (Expense)

Interest expense for the three months ended October 31, 2014 and 2013 was $181,000 and $580,000, respectively, and $524,000 and $1,735,000 for the nine months ended October 31, 2014 and 2013, respectively. Interest expense consists of interest and commitment fees on the line of credit, interest (including accruals for success fees) on the term loans entered into in conjunction with the Interpoint and Meta acquisitions, interest on the 2013 note payable, and is inclusive of deferred financing cost amortization expense. Interest expense decreased for the three and nine months ended October 31, 2014 over the prior comparable periods due to the payoff of the subordinated term loan in January 2014. We also recorded a valuation adjustment to our warrants liability of $(2,326,000) and $2,083,000 as miscellaneous (income) expense for the nine months ended October 31, 2014 and 2013, respectively, using assumptions made by management to adjust to the current fair market value of the warrants at the end of each fiscal period. In addition, miscellaneous expense for the three and nine months ended October 31, 2014 includes a $235,000 loss for exit costs associated with the Cincinnati, Ohio office operating lease.

Provision for Income Taxes

We recorded tax (expense) benefit of zero and $5,000, respectively, for the three months ended October 31, 2014 and 2013, respectively, and $(2,000) and $(159,000) for the nine months ended October 31, 2014 and 2013, respectively, which is comprised of estimated federal, state and local tax provisions.

Backlog

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| Company proprietary software | $21,103,000 | $2,529,000 |
| Hardware and third-party software | 126,000 | 20,000 |
| Professional services | 8,095,000 | 7,141,000 |
| Maintenance and support | 21,657,000 | 28,234,000 |
| Software as a service | 24,928,000 | 17,087,000 |
| Total | $75,909,000 | $55,011,000 |

At October 31, 2014, we had master agreements and purchase orders from clients and remarketing partners for systems and related services that have not been delivered or installed which, if fully performed, would generate future revenues of $75,909,000 compared with $55,011,000 at October 31, 2013.

Our proprietary software backlog consists primarily of signed agreements to purchase software licenses and term licenses. The increase in backlog is primarily due to a a new multi-year term license for our Looking Glass® Clinical Analytics solution and to a new master service agreement with a new channel partner for our Abstracting workflow, which is part of our HIM, Coding & CDI solution suite.

Third-party hardware and software consists of signed agreements to purchase third-party hardware or third-party software licenses that have not been delivered to the client. These are products that we resell as components of the

solution a client purchases. The increase in backlog is primarily due to an increase in agreements for third-party sales as opposed to the prior comparable period. These items are expected to be delivered in the next twelve months as implementations commence.

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Professional services backlog consists of signed contracts for services that have yet to be performed. Typically, backlog is recognized within twelve months of the contract signing. The increase in professional services backlog results from several large contracts booked during the quarter.
Maintenance and support backlog consists of maintenance agreements for licenses of our proprietary software and third-party hardware and software with clients and remarketing partners for which either an agreement has been signed or a purchase order under a master agreement has been received. We include in backlog the signed agreements through their respective renewal dates. Typical maintenance contracts are for a one-year term and are renewed annually. Clients typically prepay maintenance and support which is billed 30 to 60 days prior to the beginning of the maintenance period. Maintenance and support backlog at October 31, 2014 was $21,657,000 as compared to $28,234,000 at October 31, 2013. A significant portion of this decrease is due to an increased focus on converting clients to both SaaS contracts and term licenses.
At October 31, 2014, we were a party to SaaS agreements that are expected to generate revenues of $24,928,000 through their respective renewal dates in fiscal years 2014 through 2019. Typical SaaS terms are one to seven years in length. The commencement of revenue recognition for SaaS varies depending on the size and complexity of the system, the implementation schedule requested by the client, and ultimately the official go-live on the system. Therefore, it is difficult for us to accurately predict the revenue it expects to achieve in any particular period.
All of our master agreements are generally non-cancelable but provide that the client may terminate its agreement upon a material breach by us, or may delay certain aspects of the installation. There can be no assurance that a client will not cancel all or any portion of a master agreement or delay portions of the agreement. A termination or delay in one or more phases of an agreement, or our inability to obtain additional agreements, could have a material adverse effect on our financial condition, and results of operations.

Use of Non-GAAP Financial Measures
To provide investors with greater insight, and to allow for a more comprehensive understanding of the information used by management and the board of directors in its financial and operational decision-making, we may supplement the Condensed Consolidated Financial Statements presented on a GAAP basis in this quarterly report on Form 10-Q with the following non-GAAP financial measures: EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EBITDA per diluted share.
These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. We compensate for such limitations by relying primarily on our GAAP results and using non-GAAP financial measures only as supplemental data. We also provide a reconciliation of non-GAAP to GAAP measures used. Investors are encouraged to review carefully this reconciliation. In addition, because these non-GAAP measures are not measures of financial performance under GAAP and are susceptible to varying calculations, these measures, as defined by us, may differ from and may not be comparable to similarly titled measures used by other companies.
EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EBITDA per diluted share
We define: (i) EBITDA as net earnings (loss) before net interest expense, income tax expense (benefit), depreciation and amortization; (ii) Adjusted EBITDA as net earnings (loss) before net interest expense, income tax expense (benefit), depreciation, amortization, stock-based compensation expense, and transaction expenses and other expenses that do not relate to our core operations; (iii) Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of net revenue; and (iv) Adjusted EBITDA per diluted share as Adjusted EBITDA divided by adjusted diluted shares outstanding. EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA per diluted share are used to facilitate a comparison of our operating performance on a consistent basis from period to period and provide for a more complete understanding of factors and trends affecting our business than GAAP measures alone. These measures assist management and the board and may be useful to investors in comparing our operating performance consistently over time as they remove the impact of our capital structure (primarily interest charges), asset base (primarily depreciation and amortization), items outside the control of the management team (taxes), and expenses that do not relate to our core operations including: transaction-related expenses (such as professional and advisory services), corporate restructuring expenses (such as severances), and other operating costs that are expected to be

non-recurring. Adjusted EBITDA removes the impact of share-based compensation expense, which is another non-cash item. Adjusted EBITDA per diluted share includes incremental shares in the share count that are considered anti-dilutive in a GAAP net loss position.

The board of directors and management also use these measures as (i) one of the primary methods for planning and forecasting overall expectations and for evaluating, on at least a quarterly and annual basis, actual results against such expectations; and (ii) as a performance evaluation metric in determining achievement of certain executive and associate incentive compensation programs.

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Our lender uses an EBITDA measurement that is similar to the Adjusted EBITDA measurement described herein to assess our operating performance. The lender under our credit agreement requires delivery of compliance reports certifying compliance with financial covenants, certain of which are based on this EBITDA measurement that is similar to the Adjusted EBITDA measurement reviewed by our management and board of directors.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are not measures of liquidity under GAAP, or otherwise, and are not alternatives to cash flow from continuing operating activities, despite the advantages regarding the use and analysis of these measures as mentioned above. EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EBITDA per diluted share as disclosed in this quarterly report on Form 10-Q, have limitations as analytical tools, and you should not consider these measures in isolation, or as a substitute for analysis of our results as reported under GAAP; nor are these measures intended to be measures of liquidity or free cash flow for our discretionary use. Some of the limitations of EBITDA, and its variations are:

- EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect the interest expense, or the cash requirements to service interest or principal payments under our credit agreement;
- EBITDA does not reflect income tax payments we are required to make; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

Adjusted EBITDA has all the inherent limitations of EBITDA. To properly and prudently evaluate our business, we encourage readers to review the GAAP financial statements included elsewhere in this quarterly report on Form 10-Q, and not rely on any single financial measure to evaluate our business. We also strongly urge readers to review the reconciliation of GAAP net earnings (loss) to Adjusted EBITDA, and GAAP earnings (loss) per diluted share to Adjusted EBITDA per diluted share in this section, along with the Condensed Consolidated Financial Statements included elsewhere in this quarterly report on Form 10-Q.

The following table sets forth a reconciliation of EBITDA and Adjusted EBITDA to net earnings (loss), a comparable GAAP-based measure, as well as earnings (loss) per diluted share to Adjusted EBITDA per diluted share. All of the items included in the reconciliation from net earnings (loss) to EBITDA to Adjusted EBITDA and the related per share calculations are either recurring non-cash items, or items that management does not consider in assessing our on-going operating performance. In the case of the non-cash items, management believes that investors may find it useful to assess our comparative operating performance because the measures without such items are less susceptible to variances in actual performance resulting from depreciation, amortization and other expenses that do not relate to our core operations and more reflective of other factors that affect operating performance. In the case of items that do not relate to our core operations, management believes that investors may find it useful to assess our operating performance if the measures are presented without these items because their financial impact does not reflect ongoing operating performance.

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The following table reconciles net earnings (loss) to EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EBITDA per diluted share for the three and nine months ended October 31, 2014 and 2013 (amounts in thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Adjusted EBITDA Reconciliation | October 31, 2014 | October 31, 2013 | October 31, 2014 | October 31, 2013 |
| Net loss | $(2,256) | $(6,232) | $(7,202) | $(9,770) |
| Interest expense | 181 | 580 | 524 | 1,735 |
| Income tax expense | — | (5) | 2 | 159 |
| Depreciation | 310 | 152 | 671 | 490 |
| Amortization of capitalized software development costs | 905 | 691 | 2,736 | 2,087 |
| Amortization of intangible assets | 346 | 314 | 1,051 | 946 |
| Amortization of other costs | 50 | 23 | 121 | 47 |
| EBITDA | (464) | (4,477) | (2,097) | (4,306) |
| Share-based compensation expense | 421 | 378 | 1,286 | 1,204 |
| Loss on disposal of fixed assets | 27 | — | 111 | — |
| Loss on early extinguishment of debt | 115 | — | 115 | — |
| Associate severances and other costs relating to transactions or corporate restructuring | 255 | — | 831 | 383 |
| Non-cash valuation adjustments to assets and liabilities | (1,061) | 4,514 | (2,206) | 6,223 |
| Transaction related professional fees, advisory fees, and other internal direct costs | 1 | 138 | 176 | 363 |
| Other non-recurring operating expenses | 428 | — | 1,491 | 53 |
| Adjusted EBITDA | $(278) | $553 | $(293) | $3,920 |
| Adjusted EBITDA margin(1) | (4)% | 8% | (1)% | 18% |
| | | | | |
| Loss per share — diluted | $(0.14) | $(0.50) | $(0.44) | $(0.82) |
| Adjusted EBITDA per adjusted diluted share (2) | $(0.02) | $0.03 | $(0.02) | $0.22 |
| Diluted weighted average shares | 18,309,677 | 13,257,943 | 18,210,034 | 12,884,711 |
| Includable incremental shares — adjusted EBITDA(3) | — | 5,058,763 | — | 5,130,937 |
| Adjusted diluted shares | 18,309,677 | 18,316,706 | 18,210,034 | 18,015,648 |

(1) Adjusted EBITDA as a percentage of GAAP revenues.

(2) Adjusted EBITDA per adjusted diluted share for our common stock is computed using the more dilutive of the two-class method or the if-converted method.

(3) The number of incremental shares that would be dilutive under profit assumption, only applicable under a GAAP net loss. If GAAP profit is earned in the current period, no additional incremental shares are assumed.

Application of Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Management considers an accounting policy to be critical if the accounting policy requires management to make particularly difficult, subjective or complex judgments about matters that are inherently uncertain. A summary of our critical accounting policies is included in ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, of Part II, of our Annual Report on Form 10-K for the fiscal year ended January 31, 2014. There have been no material changes to the critical accounting policies disclosed in our Annual Report on Form 10-K

for the fiscal year ended January 31, 2014.

Liquidity and Capital Resources

Our liquidity is dependent upon numerous factors including: (i) the timing and amount of revenues and collection of contractual amounts from clients, (ii) amounts invested in research and development, capital expenditures, and (iii) the level of

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operating expenses, all of which can vary significantly from quarter-to-quarter. Our primary cash requirements include regular payment of payroll and other business expenses, interest payments on debt, and capital expenditures. Capital expenditures generally include computer hardware and computer software to support internal development efforts or infrastructure in the SaaS data center.

Operations are funded by cash generated by operations and borrowings under credit facilities. We believe that cash flows from operations are adequate to fund current obligations for the next twelve months. Cash and cash equivalents balances at October 31, 2014 and January 31, 2014 were $5,945,000 and $17,925,000, respectively. The decrease in cash was primarily the result of the Unibased acquisition. As of October 31, 2014, we had $9,784,000 in accounts receivable, of which $3,389,000 is in deferred revenue and, therefore, is not reflected on the condensed consolidated balance sheet. We believe that with the collection of outstanding accounts receivable, we will maintain liquidity of at least $5,000,000 as required by the debt covenants under our new credit agreement with Wells Fargo Bank, N.A. discussed below.

On November 21, 2014, we entered into a credit agreement with Wells Fargo Bank, N.A., as administrative agent, and other lender parties thereto. Pursuant to the credit agreement, the lenders agreed to provide our primary operating subsidiary with a $10,000,000 senior term loan and a $5,000,000 revolving line of credit. Amounts outstanding under the credit agreement bear interest at variable rates depending on our election, either at a base rate or at LIBOR, in each case, plus an applicable margin. Subject to our leverage ratio, the applicable base rate margin under the credit agreement will vary from 3.25% to 4.25%, and the applicable LIBOR rate margin will vary from 4.25% to 5.25%. In addition, we are also required to pay customary fees and expenses. At closing, we repaid indebtedness under our prior credit facility with Fifth Third Bank, N.A. using approximately $7,400,000 of the proceeds provided by the term loan under the credit agreement with Wells Fargo Bank. The prior credit facility with Fifth Third Bank was terminated concurrent with the entry of the credit agreement with Wells Fargo Bank.

The term loan and line of credit under our new credit agreement mature on November 21, 2019 and provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. Amounts outstanding under the credit agreement are limited to a percentage of our maintenance, support term license, hosting, and subscription revenues for the preceding 12 months. The term loan and line of credit have been guaranteed by us and our other subsidiaries and are secured by substantially all of our assets and those of our subsidiaries. The credit agreement includes customary financial covenants, including the requirement that we maintain minimum liquidity of $5,000,000 and the requirement that we achieve certain minimum EBITDA levels. The credit agreement also includes negative covenants limiting, subject to exceptions, certain liens, indebtedness, investments, acquisitions, dispositions of assets, restricted payments and the business activities of the Company, as well as customary representations and warranties, affirmative covenants and events of default, including cross defaults and a change of control default.

Continued expansion may require us to take on additional debt, or raise capital through issuance of equities, or a combination of both. There can be no assurance we will be able to raise the capital required to fund further expansion.

Significant cash obligations

| (in thousands) | As of October 31, 2014 | As of January 31, 2014 |
|---|---|---|
| Term loans (1) | $7,387 | $8,298 |
| Note payable (1) | 600 | 900 |
| Capital leases (1) | 1,568 | 227 |
| Royalty liability (2) | 2,377 | 2,264 |

(1) Reference “Note 5 – Debt” in the Notes to the Condensed Consolidated Financial Statements for additional information.

(2) Reference “Note 3 – Acquisitions and Strategic Agreements” in the Notes to the Condensed Consolidated Financial Statements for additional information.

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Operating cash flow activities

| (in thousands) | Nine Months Ended October 31, 2014 | October 31, 2013 |
|---|---|---|
| Net loss | $(7,202) | $(9,770) |
| Non-cash adjustments to net loss | 4,309 | 11,397 |
| Cash impact of changes in assets and liabilities | 531 | (865) |
| Operating cash flow | $(2,362) | $762 |

The increase in net cash used in operating activities is primarily due to a decrease in profitability with lower non-cash valuation adjustments. The decrease in non-cash adjustments is mainly due to the settlement in fiscal 2013 of the earn-out consideration in connection with the Interpoint acquisition, as well as the warrant liability mark-to-market charges.

Our clients typically have been well-established hospitals or medical facilities or major health information system companies that resell our solutions, which have good credit histories and payments have been received within normal time frames for the industry. However, some healthcare organizations have experienced significant operating losses as a result of limits on third-party reimbursements from insurance companies and governmental entities. Agreements with clients often involve significant amounts and contract terms typically require clients to make progress payments. Adverse economic events, as well as uncertainty in the credit markets, may adversely affect the availability of financing for some of our clients.

Investing cash flow activities

| (in thousands) | Nine Months Ended October 31, 2014 | October 31, 2013 |
|---|---|---|
| Purchases of property and equipment | $(1,863) | $(106) |
| Capitalized software development costs | (503) | (1,048) |
| Payments for acquisitions | (6,059) | (3,000) |
| Investing cash flow | $(8,425) | $(4,154) |

The increase in cash used for investing activities is primarily a result of the cash expended to acquire the Unibased business, as well as, asset purchases related to the expansion of our Atlanta office, partially offset by lower internal software development costs being eligible for capitalization. Many of the programs related to capitalized software development continue to have significant value to our current solutions and those under development, as the concepts, ideas, and software code, are readily transferable and are incorporated into new solutions.

Financing cash flow activities

| (in thousands) | Nine Months Ended October 31, 2014 | October 31, 2013 |
|---|---|---|
| Principal repayments on term loan | $(911) | $(938) |
| Principal repayments on note payable | (300) | — |
| Principal payments on capital lease obligations | (165) | — |
| Payment of deferred financing costs | (256) | — |
| Proceeds from the exercise of stock options and stock purchase plans | 438 | 1,093 |
| Financing cash flow | $(1,194) | $155 |

The increase in cash used in financing activities was primarily the result of a decrease of stock option exercises, principal payments on note payable and capital lease obligations, and the payment of deferred financing costs.

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## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

We had cash and cash equivalents totaling $5,945,000 as of October 31, 2014. The cash and cash equivalents are held for working capital purposes in deposit accounts. We do not enter into investments for trading or speculative purposes. We are not exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates on our deposit accounts given the historical low levels of interest being earned on short-term fixed-rate cash operating accounts.

Our senior credit facility with Fifth Third Bank as of October 31, 2014 consisted of a $7,387,000 outstanding senior term loan and a $5,000,000 revolving line of credit with no amount outstanding. On November 21, 2014, we entered into a new credit agreement with Wells Fargo Bank, N.A. and terminated our prior credit agreement with Fifth Third Bank. Pursuant to the new credit agreement, the lenders agreed to provide our primary operating subsidiary with a $10,000,000 senior term loan and a $5,000,000 revolving line of credit. Amounts outstanding under the credit agreement bear interest at variable rates depending on our election, either at a base rate or at LIBOR, in each case, plus an applicable margin. Subject to our leverage ratio, the applicable base rate margin under the credit agreement will vary from 3.25% to 4.25%, and the applicable LIBOR rate margin will vary from 4.25% to 5.25%. Our exposure to interest rate risk under the facility depends on the extent to which we utilize the facility. Assuming full utilization of our new credit facility, a hypothetical 100 basis point change in interest rates would result in an approximate $100,000 change in annual pre-tax income (loss).

### Foreign Currency Exchange Risk

To date, we have two client agreements denominated in Canadian dollars and therefore we have limited exposure to foreign currency rate fluctuations related to our revenue. We do not currently engage in foreign currency hedging transactions. A hypothetical change of 10% in foreign currency exchange rates would not have a material effect on our consolidated financial condition or results of operations.

## Item 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures to provide reasonable assurance of achieving the desired objectives of the disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In light of the material weaknesses noted in our annual report on Form 10-K for the fiscal year ended January 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this quarterly report on Form 10-Q.

### Changes in Internal Control over Financial Reporting

Other than the changes described below, there were no material changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

As discussed under Part II, Item 9A of the Company’s Form 10-K for the fiscal year ended January 31, 2014, our management identified certain material weaknesses in our system of internal control over financial reporting in connection with its assessment of the effectiveness of the Company’s internal control over financial reporting as of January 31, 2014.

As part of our efforts to improve our finance and accounting function and to remediate the material weaknesses that existed in our internal control over financial reporting and our disclosure controls and procedures, we developed a remediation plan (the “Remediation Plan”) pursuant to which we have implemented, or plan to implement, a number of measures. The Remediation Plan, among other things, includes the following:

•Staffing: In late July 2014, we hired Michael Halloran to serve as our Controller and new principal accounting officer. In addition, we hired a Director of Revenue Accounting to better ensure compliance with our revenue recognition policies.

•Policies and procedures: We engaged a professional services firm to assist us with enhancing our policies and procedures related to revenue recognition, contracting and other areas reflected in the material weaknesses described under Part II, Item 9A of the Company’s Form 10-K for the fiscal year ended January 31, 2014.

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•Systems: We are currently implementing a series of incremental software solutions to enhance our documentation in critical areas such as revenue recognition and stock-based compensation.

The Remediation Plan is being implemented by our Chief Financial Officer, with significant involvement from our Chief Executive Officer and Controller, as well as other key leaders where appropriate.

We believe that actions taken to date have improved the effectiveness of our internal control over financial reporting, but we have not completed all corrective processes and procedures discussed above. We will continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses, and we will perform any additional necessary procedures, as well as implement any new resources and policies, deemed necessary by management to ensure that our consolidated financial statements continue to be fairly stated in all material respects.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are, from time to time, a party to various legal proceedings and claims, which arise, in the ordinary course of business. We are not aware of any legal matters that are expected to have a material adverse effect on our consolidated results of operations or consolidated financial position and cash flows.

Item 1A. RISK FACTORS

An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock or other securities. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock or other securities could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Our sales have been concentrated in a small number of clients.

Our revenues have been concentrated in a relatively small number of large clients, and we have historically derived a substantial percentage of our total revenues from a few clients. For the fiscal years ended January 31, 2014 and 2013, our five largest clients accounted for 31% and 27% of our total revenues, respectively. There can be no assurance that a client will not cancel all or any portion of a master agreement or delay installations. A termination or installation delay of one or more phases of an agreement, or our failure to procure additional agreements, could have a material adverse effect on our business, financial condition and results of operations.

A significant increase in new SaaS contracts could reduce near term profitability and require a significant cash outlay, which could adversely affect near term cash flow and financial flexibility.

If new or existing clients purchase significant amounts of our SaaS services, we may have to expend a significant amount of initial setup costs and time before those new clients are able to begin using such services, and we cannot begin to recognize revenues from those SaaS agreements until the commencement of such services. Accordingly, we anticipate that our near term cash flow, revenue and profitability may be adversely affected by significant incremental setup costs from new SaaS clients that would not be offset by revenue until new SaaS clients go into production. While we anticipate long-term growth in profitability through increases in recurring SaaS subscription fees and significantly improved profit visibility, any inability to adequately finance setup costs for new SaaS solutions, could result in the failure to put new SaaS solutions into production; and could have a material adverse effect on our liquidity, financial position and results of operations. In addition, this near term cash flow demand could adversely impact our financial flexibility and cause us to forego otherwise attractive business opportunities or investments.

Failure to manage our expenses and efficiently allocate our financial and human capital as we grow could limit our growth potential and adversely impact our results of operation and financial condition.

During periods of growth, our financial and human capital assets can experience significant pressures. We are currently experiencing a period of growth primarily through acquisitions and in our SaaS lines of business, and this could continue to place a significant strain on our cash flow. This growth also adds strain to our services and support operations, sales and administrative personnel and other resources as they are requested to manage the added work load with existing resources. We believe that we must continue to focus on remote hosting services, develop new solutions, enhance existing solutions and serve the needs of our existing and prospective client base. Our ability to manage our planned growth effectively also will require us to continue to improve our operational, management and financial systems and controls, to train, motivate and manage our associates and to judiciously manage our operating expenses in anticipation of increased future revenues. Our failure to properly manage resources may limit our growth potential and adversely impact our results of operation and financial condition.

The potential impact on us of new or changes in existing federal, state and local regulations governing healthcare information could be substantial.

Healthcare regulations issued to date have not had a material adverse effect on our business. However, we cannot predict the potential impact of new or revised regulations that have not yet been released or made final, or any other regulations that might be adopted. The U.S. Congress may adopt legislation that may change, override, conflict with or preempt the currently

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existing regulations and which could restrict the ability of clients to obtain, use or disseminate patient health information. We believe that the features and architecture of our existing solutions are such that we currently support or should be able to make the necessary modifications to our solutions, if required, by legislation or regulations, but there can be no assurances.

The healthcare industry is highly regulated. Any material changes in the political, economic or regulatory healthcare environment that affect the group purchasing business or the purchasing practices and operations of healthcare organizations, or that lead to consolidation in the healthcare industry, could require us to modify our services or reduce the funds available to providers to purchase our solutions and services.
Our business, financial condition and results of operations depend upon conditions affecting the healthcare industry generally and hospitals and health systems particularly. Our ability to grow will depend upon the economic environment of the healthcare industry generally as well as our ability to increase the number of solutions that we sell to our clients. The healthcare industry is highly regulated and is subject to changing political, economic and regulatory influences. Factors such as changes in reimbursement policies for healthcare expenses, consolidation in the healthcare industry, regulation, litigation and general economic conditions affect the purchasing practices, operation and, ultimately, the operating funds of healthcare organizations. In particular, changes in regulations affecting the healthcare industry, such as any increased regulation by governmental agencies of the purchase and sale of medical products, or restrictions on permissible discounts and other financial arrangements, could require us to make unplanned modifications of our solutions and services, or result in delays or cancellations of orders or reduce funds and demand for our solutions and services.
Our clients derive a substantial portion of their revenue from third-party private and governmental payors, including through Medicare, Medicaid and other government-sponsored programs. Our sales and profitability depend, in part, on the extent to which coverage of and reimbursement for medical care provided is available from governmental health programs, private health insurers, managed care plans and other third-party payors. If governmental or other third-party payors materially reduce reimbursement rates or fail to reimburse our clients adequately, our clients may suffer adverse financial consequences, which in turn, may reduce the demand for and ability to purchase our solutions or services.

We face significant competition, including from companies with significantly greater resources.
We currently compete with many other companies for the licensing of similar software solutions and related services. Several companies historically have dominated the clinical information systems software market and several of these companies have either acquired, developed or are developing their own content management, analytics and coding/clinical documentation improvement solutions as well as the resultant workflow technologies. The industry is undergoing consolidation and realignment as companies position themselves to compete more effectively. Many of these companies are larger than us and have significantly more resources to invest in their business. In addition, information and document management companies serving other industries may enter the market. Suppliers and companies with whom we may establish strategic alliances also may compete with us. Such companies and vendors may either individually, or by forming alliances excluding us, place bids for large agreements in competition with us. A decision on the part of any of these competitors to focus additional resources in any one of our three solutions stacks (content management, analytics and coding/clinical documentation improvement), workflow technologies and other markets addressed by us could have a material adverse effect on us.

The healthcare industry is evolving rapidly, which may make it more difficult for us to be competitive in the future.
The U.S. healthcare system is under intense pressure to improve in many areas, including modernization, universal access and controlling skyrocketing costs of care. We believe that the principal competitive factors in our market are client recommendations and references, company reputation, system reliability, system features and functionality (including ease of use), technological advancements, client service and support, breadth and quality of the systems, the potential for enhancements and future compatible solutions, the effectiveness of marketing and sales efforts, price and the size and perceived financial stability of the vendor. In addition, we believe that the speed with which

companies in our market can anticipate the evolving healthcare industry structure and identify unmet needs are important competitive factors. There can be no assurance that we will be able to keep pace with changing conditions and new developments such that we will be able to compete successfully in the future against existing or potential competitors.

Rapid technology changes and short product life cycles could harm our business.
The market for our solutions and services is characterized by rapidly changing technologies, regulatory requirements, evolving industry standards and new product introductions and enhancements that may render existing solutions obsolete or less competitive. As a result, our position in the healthcare information technology market could change rapidly due to unforeseen changes in the features and functions of competing products, as well as the pricing models for such products. Our future success will depend, in part, upon our ability to enhance our existing solutions and services and to develop and introduce

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new solutions and services to meet changing requirements. Moreover, competitors may develop competitive products that could adversely affect our operating results. We need to maintain an ongoing research and development program to continue to develop new solutions and apply new technologies to our existing solutions but may not have sufficient funds with which to undertake such required research and development. If we are not able to foresee changes or to react in a timely manner to such developments, we may experience a material, adverse impact on our business, operating results and financial condition.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our solutions and services.
Our intellectual property, which represents an important asset to us, has some protection against infringement through copyright and trademark law. We do not have any patent protection on any of our software. We rely upon license agreements, employment agreements, confidentiality agreements, nondisclosure agreements and similar agreements to maintain the confidentiality of our proprietary information and trade secrets. Notwithstanding these precautions, others may copy, reverse engineer or design independently, technology similar to our solutions. If we fail to protect adequately our intellectual property through trademarks and copyrights, license agreements, employment agreements, confidentiality agreements, nondisclosure agreements or similar agreements, our intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate our technology or may otherwise limit any competitive technology advantage we may have. It may be necessary to litigate to enforce or defend our proprietary technology or to determine the validity of the intellectual property rights of others. Any litigation could be successful or unsuccessful, may result in substantial cost and require significant attention by management and technical personnel.
Due to the rapid pace of technological change, we believe our future success is likely to depend upon continued innovation, technical expertise, marketing skills and client support and services rather than on legal protection of our property rights. However, we have in the past, and intend in the future, to assert aggressively our intellectual property rights when necessary.

We could be subjected to claims of intellectual property infringement, which could be expensive to defend.
While we do not believe that our solutions and services infringe upon the intellectual property rights of third parties, the potential for intellectual property infringement claims continually increases as the number of software patents and copyrighted and trademarked materials continues to rapidly expand. Any claim for intellectual property right infringement, even if not meritorious, would be expensive to defend. If we were to become liable for infringing third party intellectual property rights, we could be liable for substantial damage awards, and potentially be required to cease using the technology, to produce non-infringing technology or to obtain a license to use such technology. Such potential liabilities or increased costs could be materially adverse to us.

Over the last several years, we have completed a number of acquisitions and may undertake additional acquisitions in the future. Any failure to adequately integrate past and future acquisitions into our business could have a material adverse effect on us.
Over the last several years, we have completed several acquisitions of businesses through asset and stock purchases. We expect that we will make additional acquisitions in the future.
Acquisitions involve a number of risks, including, but not limited to:

- the potential failure to achieve the expected benefits of the acquisition, including the inability to generate sufficient revenue to offset acquisition costs, or the inability to achieve expected synergies or cost savings;

- unanticipated expenses related to acquired businesses or technologies and its integration into our existing businesses or technology;

- the diversion of financial, managerial, and other resources from existing operations;

- the risks of entering into new markets in which we have little or no experience or where competitors may have stronger positions;
- potential write-offs or amortization of acquired assets or investments;
- the potential loss of key employees, clients, or partners of an acquired business;

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- delays in client purchases due to uncertainty related to any acquisition;

- potential unknown liabilities associated with an acquisition; and

- the tax effects of any such acquisitions.

If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses, which could have an adverse effect on our business and financial condition.
Finally, if we finance acquisitions by issuing equity or convertible or other debt securities, our existing stockholders may be diluted, or we could face constraints related to the terms of and repayment obligations related to the incurrence of indebtedness. This could adversely affect the market price of our common stock.

Third party products are essential to our software.
Our software incorporates software licensed from various vendors into our proprietary software. In addition, third party, stand-alone software is required to operate some of our proprietary software modules. The loss of the ability to use these third party products, or ability to obtain substitute third party software at comparable prices, could have a material adverse effect on our ability to license our software.

Our solutions may not be error-free and could result in claims of breach of contract and liabilities.
Our solutions are very complex and may not be error-free, especially when first released. Although we perform extensive testing, failure of any solution to operate in accordance with its specifications and documentation could constitute a breach of the license agreement and require us to correct the deficiency. If such deficiency is not corrected within the agreed upon contractual limitations on liability and cannot be corrected in a timely manner, it could constitute a material breach of a contract allowing the termination thereof and possibly subjecting us to liability. Also, we sometimes indemnify our clients against third-party infringement claims. If such claims are made, even if they are without merit, they could be expensive to defend. Our license and SaaS agreements generally limit our liability arising from claims such as described in the foregoing sentences, but such limits may not be enforceable in some jurisdictions or under some circumstances. A significant uninsured or under-insured judgment against us could have a material adverse impact on us.

We could be liable to third parties from the use of our solutions.
Our solutions provide access to patient information used by physicians and other medical personnel in providing medical care. The medical care provided by physicians and other medical personnel are subject to numerous medical malpractice and other claims. We attempt to limit any potential liability of ours to clients by limiting the warranties on our solutions in our agreements with our clients (i.e., healthcare providers). However, such agreements do not protect us from third-party claims by patients who may seek damages from any or all persons or entities connected to the process of delivering patient care. We maintain insurance, which provides limited protection from such claims, if such claims result in liability to us. Although no such claims have been brought against us to date regarding injuries related to the use of our solutions, such claims may be made in the future. A significant uninsured or under-insured judgment against us could have a material adverse impact on us.

Our SaaS and support services could experience interruptions.
We provide SaaS for many clients, including the storage of critical patient, financial and administrative data. In addition, we provide support services to clients through our client support organization. We have redundancies, such as backup generators, redundant telecommunications lines and backup facilities built into our operations to prevent disruptions. However, complete failure of all generators or impairment of all telecommunications lines or severe casualty damage to the primary building or equipment inside the primary building housing our hosting center or client support facilities could cause a temporary disruption in operations and adversely affect clients who depend on the application hosting services. Any interruption in operations at our data center or client support facility could cause us

to lose existing clients, impede our ability to obtain new clients, result in revenue loss, cause potential liability to our clients and increase our operating costs.

Our SaaS solutions are provided over an internet connection. Any breach of security or confidentiality of protected health information could expose us to significant expense and harm our reputation.
We provide remote SaaS solutions for clients, including the storage of critical patient, financial and administrative data. We have security measures in place to prevent or detect misappropriation of protected health information. We must maintain

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facility and systems security measures to preserve the confidentiality of data belonging to clients as well as their patients that resides on computer equipment in our data center, which we handle via application hosting services, or that is otherwise in our possession. Notwithstanding efforts undertaken to protect data, it can be vulnerable to infiltration as well as unintentional lapse. If confidential information is compromised, we could face claims for contract breach, penalties and other liabilities for violation of applicable laws or regulations, significant costs for remediation and re-engineering to prevent future occurrences and serious harm to our reputation.

The loss of key personnel could adversely affect our business.
Our success depends, to a significant degree, on our management, sales force and technical personnel. We must recruit, motivate and retain highly skilled managers, sales, consulting and technical personnel, including solution programmers, database specialists, consultants and system architects who have the requisite expertise in the technical environments in which our solutions operate. Competition for such technical expertise is intense. Our failure to attract and retain qualified personnel could have a material adverse effect on us.

Our future success depends upon our ability to grow, and if we are unable to manage our growth effectively, we may incur unexpected expenses and be unable to meet our clients' requirements.
We will need to expand our operations if we successfully achieve greater demand for our products and services. We cannot be certain that our systems, procedures, controls and human resources will be adequate to support expansion of our operations. Our future operating results will depend on the ability of our officers and employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. We may not be able to expand and upgrade our systems and infrastructure to accommodate these increases. Difficulties in managing any future growth, including as a result of integrating any prior or future acquisition with our existing businesses, could cause us to incur unexpected expenses, render us unable to meet our clients' requirements, and consequently have a significant negative impact on our business, financial condition and operating results.

We may not have access to sufficient or cost efficient capital to support our growth, execute our business plans and remain competitive in our markets.
As our operations grow and as we implement our business strategies, we expect to use both internal and external sources of capital. In addition to cash flow from normal operations, we may need additional capital in the form of debt or equity to operate and to support our growth, execute our business plans and remain competitive in our markets. We may be limited as to the availability of such external capital or may not have any availability, in which case our future prospects may be materially impaired. Furthermore, we may not be able to access external sources of capital on reasonable or favorable terms. Our business operations could be subject to both financial and operational covenants that may limit the activities we may undertake, even if we believe they would benefit our company.

Potential disruptions in the credit markets may adversely affect our business, including the availability and cost of short-term funds for liquidity requirements and our ability to meet long-term commitments, which could adversely affect our results of operations, cash flows and financial condition.
If internally generated funds are not available from operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs. Our access to funds under our revolving credit facility or pursuant to arrangements with other financial institutions is dependent on the financial institution's ability to meet funding commitments. Financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience high volumes of borrowing requests from other borrowers within a short period of time.

We must maintain compliance with the terms of our existing credit facilities or receive a waiver for any non-compliance. The failure to do so could have a material adverse effect on our ability to finance our ongoing operations and we may not be able to find an alternative lending source if a default occurs.

In December 2013, we amended and restated our previously outstanding senior credit agreement and amended the subordinated credit agreement to increase the senior term loan to $8,500,000, reduce the interest rates, and extend the maturity of the senior term loan and the revolving line of credit to December 1, 2018 and December 1, 2015, respectively. In January 2014, the subordinated term loan was paid in full. The outstanding senior term loan is secured by substantially all of our assets.

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We are subject to certain financial and operational covenants pursuant to the senior term loan and line of credit facilities. The significant financial covenants are that we must (i) maintain certain minimum levels of EBITDA tested on a quarterly basis; and (ii) maintain at all times a minimum liquidity of $5,000,000.
If we do not maintain compliance with all of the continuing covenants and other terms and conditions of the credit facility or secure a waiver for any non-compliance, we could be required to repay outstanding borrowings on an accelerated basis, which could subject us to decreased liquidity and other negative impacts on our business, results of operations and financial condition. Furthermore, if we needed to do so, it may be difficult for us to find an alternative lending source. In addition, because our assets are pledged as a security under our credit facilities, if we are not able to cure any default or repay outstanding borrowings, our assets are subject to the risk of foreclosure by our lender. Without a sufficient credit facility, we would be adversely affected by a lack of access to liquidity needed to operate our business. Any disruption in access to credit could force us to take measures to conserve cash, such as deferring important research and development expenses, which measures could have a material adverse effect on us.

Our outstanding preferred stock and warrants have significant redemption and repayment rights that could have a material adverse effect on our liquidity and available financing for our ongoing operations.
In August 2012, we completed a private offering of preferred stock, warrants and convertible notes to a group of investors for gross proceeds of $12 million. In November 2012, the convertible notes converted into shares of preferred stock. The preferred stock is redeemable at the option of the holders thereof anytime after August 31, 2016 if not previously converted into shares of common stock. We may not achieve the thresholds required to trigger automatic conversion of the preferred stock and, alternatively, holders may not voluntarily elect to convert the preferred stock into common stock. The election of the holders of our preferred stock to call for redemption of the preferred stock could subject us to decreased liquidity and other negative impacts on our business, results of operations, and financial condition. For additional information regarding the terms, rights and preferences of the preferred stock and warrants, see Note 15 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2014 and our other SEC filings.

Current economic conditions in the United States and globally may have significant effects on our clients and suppliers that would result in material adverse effects on our business, operating results and stock price.
Current economic conditions in the United States and globally and the concern that the worldwide economy may enter into a prolonged recessionary period may materially adversely affect our clients' access to capital or willingness to spend capital on our solutions and services or their levels of cash liquidity with which to pay for solutions that they will order or have already ordered from us. Continuing adverse economic conditions would also likely negatively impact our business, which could result in: (1) reduced demand for our solutions and services; (2) increased price competition for our solutions and services; (3) increased risk of collectability of cash from our clients; (4) increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable; (5) reduced revenues; and (6) higher operating costs as a percentage of revenues.
All of the foregoing potential consequences of the current economic conditions are difficult to forecast and mitigate. As a consequence, our operating results for a particular period are difficult to predict, and, therefore, prior results are not necessarily indicative of future results to be expected in future periods. Any of the foregoing effects could have a material adverse effect on our business, results of operations, and financial condition and could adversely affect our stock price.

The variability of our quarterly operating results can be significant.
Our operating results have fluctuated from quarter-to-quarter in the past, and we may experience continued fluctuations in the future. Future revenues and operating results may vary significantly from quarter-to-quarter as a result of a number of factors, many of which are outside of our control. These factors include: the relatively large size of client agreements; unpredictability in the number and timing of system sales and sales of application hosting services; length of the sales cycle; delays in installations; changes in client's financial condition or budgets; increased competition; the development and introduction of new products and services; the loss of significant clients or

remarketing partners; changes in government regulations, particularly as they relate to the healthcare industry; the size and growth of the overall healthcare information technology markets; any liability and other claims that may be asserted against us; our ability to attract and retain qualified personnel; national and local general economic and market conditions; and other factors discussed in any other filings by us with the SEC.

The preparation of our financial statements requires the use of estimates that may vary from actual results.



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The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make significant estimates that affect the financial statements. One of our most critical estimates is the capitalization of software development costs. Due to the inherent nature of these estimates, we may be required to significantly increase or decrease such estimates upon determination of the actual results. Any required adjustments could have a material adverse effect on us and our results of operations.

Failure to improve and maintain the quality of internal control over financial reporting and disclosure controls and procedures or other lapses in compliance could materially and adversely affect our ability to provide timely and accurate financial information about us or subject us to potential liability.

In connection with the preparation of the consolidated financial statements for each of our fiscal years, our management conducts a review of our internal control over financial reporting. We are also required to maintain effective disclosure controls and procedures. At January 31, 2014, we identified material weaknesses in our internal control over financial reporting. These material weaknesses are discussed further within Item 9A "Controls and Procedures" of the Annual Report on Form 10-K for the fiscal year ended January 31, 2014. Management cannot be certain that other deficiencies will not arise in the future or be identified or that we will be able to correct and maintain adequate controls over financial processes and reporting and disclosure controls and procedures in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm operating results, or cause failure to meet reporting obligations in a timely and accurate manner.

Our operations are subject to foreign currency risk.
In connection with our expansion into foreign markets, which currently consists of Canada, we are a receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect our net sales and gross margins as expressed in U.S. dollars. There is also a risk that we will have to adjust local currency solution pricing due to competitive pressures when there has been significant volatility in foreign currency exchange rates.

Risks Relating to an Investment in Our Securities

The market price of our common stock is likely to be highly volatile as the stock market in general can be highly volatile.
The public trading of our common stock is based on many factors that could cause fluctuation in the price of our common stock. These factors may include, but are not limited to:

- General economic and market conditions;
- Actual or anticipated variations in annual or quarterly operating results;
- Lack of or negative research coverage by securities analysts;
- Conditions or trends in the healthcare information technology industry;
- Changes in the market valuations of other companies in our industry;
- Announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- Announced or anticipated capital commitments;

- Ability to maintain listing of our common stock on The Nasdaq Capital Market;

- Additions or departures of key personnel; and

- Sales and repurchases of our common stock by us, our officers and directors or our significant stockholders, if any.

Most of these factors are beyond our control. These factors may cause the market price of our common stock to decline, regardless of our operating performance or financial condition.



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If equity research analysts do not publish research reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.
The trading market for our common stock may rely in part on the research and reports that equity research analysts publish about our business and us. We do not control the opinions of these analysts. The price of our stock could decline if one or more equity analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about our business or us. Furthermore, if no equity research analysts conduct research or publish reports about our business and us, the price of our stock could decline.

All of our debt obligations, our existing preferred stock and any preferred stock that we may issue in the future will have priority over our common stock with respect to payment in the event of a bankruptcy, liquidation, dissolution or winding up.
In any bankruptcy, liquidation, dissolution or winding up of the Company, our shares of common stock would rank in right of payment or distribution below all debt claims against us and all of our outstanding shares of preferred stock, if any. As a result, holders of our shares of common stock will not be entitled to receive any payment or other distribution of assets in the event of a bankruptcy or upon the liquidation or dissolution until after all of our obligations to our debt holders and holders of preferred stock have been satisfied. Accordingly, holders of our common stock may lose their entire investment in the event of a bankruptcy, liquidation, dissolution or winding up of our company. Similarly, holders of our preferred stock would rank junior to our debt holders and creditors in the event of a bankruptcy, liquidation, dissolution or winding up of the Company.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our shares of common stock.
We are generally not restricted from issuing in public or private offerings additional common stock or preferred stock (with the exception of certain restrictions under our outstanding preferred stock), including any securities that are convertible into or exchangeable for, or that represent a right to receive, common stock or preferred stock or any substantially similar securities. Such offerings represent the potential for a significant increase in the number of outstanding shares of our common stock. The market price of our common stock could decline as a result of sales of common stock or preferred stock or similar securities in the market made after an offering or the perception that such sales could occur.

In addition to our currently outstanding preferred stock, the issuance of an additional series of preferred stock could adversely affect holders of shares of our common stock, which may negatively impact your investment.
Our Board of Directors is authorized to issue classes or series of preferred stock without any action on the part of the stockholders. The Board of Directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including dividend rights and preferences over the shares of common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over the shares of our common stock with respect to the payment of dividends or upon our dissolution, winding up and liquidation, or if we issue preferred stock with voting rights that dilute the voting power of the shares of our common stock, the rights of the holders of shares of our common stock or the market price of shares of our common stock could be adversely affected.
As of October 31, 2014, we had 2,949,995 shares of preferred stock outstanding. For additional information regarding the terms, rights and preferences of such stock, see Note 15 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2014 and our other SEC filings.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend solely on appreciation in the price of our common stock.
We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not

likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price you paid for your shares.

Sales of shares of our common stock or securities convertible into our common stock in the public market may cause the market price of our common stock to fall.

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The issuance of shares of our common stock or securities convertible into our common stock in an offering from time to time could have the effect of depressing the market price for shares of our common stock. In addition, because our common stock is thinly traded, resales of shares of our common stock by our largest stockholders or insiders could have the effect of depressing market prices for shares of our common stock.

Note Regarding Risk Factors

The risk factors presented above are all of the ones that we currently consider material. However, they are not the only ones facing our company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock or other securities could decline and you could lose all or part of your investment. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Item 6. EXHIBITS

See Index to Exhibits.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | STREAMLINE HEALTH SOLUTIONS, INC. |
|---|---|---|
| DATE: December 9, 2014 | By: | /S/ Robert E. Watson |
| | | Robert E. Watson |
| | | Chief Executive Officer |
| DATE: December 9, 2014 | By: | /S/ Nicholas A. Meeks |
| | | Nicholas A. Meeks |
| | | Chief Financial Officer |

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| Exhibit No. | Description of Exhibit |
| --- | --- |
| 3.1 | Certificate of Incorporation of Streamline Health Solutions, Inc. f/k/a/ LanVision Systems, Inc., as amended through August 19, 2014 (Incorporated by reference from Exhibit 3.1 of the Form 10-Q, as filed with the SEC on September 15, 2014). |
| 10.1* | Employment Agreement dated September 10, 2014 by and between Streamline Health Solutions, Inc. and David Sides. |
| 10.2* | Credit Agreement dated as of November 21, 2014 by and among Wells Fargo Bank, National Association, the lenders that are parties thereto, Streamline Health Solutions, Inc. and Streamline Health, Inc. |
| 10.3 | Streamline Health Solutions, Inc. 2013 Stock Incentive Plan (Incorporated by reference from Appendix A to the Company’s Definitive Proxy Statement on Schedule 14A, as filed with the SEC on July 21, 2014). |
| 10.4 | Form of Restricted Stock Award Agreement for Non-Employee Directors (Incorporated by reference from Exhibit 10.2 of the Form 8-K, as filed with the SEC on August 25, 2014). |
| 10.5 | Form of Restricted Stock Award Agreement for Executives (Incorporated by reference from Exhibit 10.3 of the Form 8-K, as filed with the SEC on August 25, 2014). |
| 10.6 | Form of Stock Option Agreement for Executives (Incorporated by reference from Exhibit 10.4 of the Form 8-K, as filed with the SEC on August 25, 2014). |
| 31.1* | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act. |
| 31.2* | Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act. |
| 32.1* | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 32.2* | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |
| 101 | The following financial information from Streamline Health Solutions, Inc.’s Quarterly Report on Form 10-Q for the three-month period ended October 31, 2014 filed with the SEC on December 9, 2014, formatted in XBRL includes: (i) Condensed Consolidated Balance Sheets at October 31, 2014 and January 31, 2014, (ii) Condensed Consolidated Statements of Operations for three- and nine-month periods ended October 31, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Loss for three- and nine-month periods ended October 31, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows for the three- and nine-month periods ended October 31, 2014 and 2013, and (v) Notes to the Condensed Consolidated Financial Statements. |

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*Filed herewith.

Our SEC file number reference for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 000-28132.