
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2018

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: 000-28132

STREAMLINE HEALTH SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

31-1455414
*(I.R.S. Employer
Identification No.)*

**1230 Peachtree Street, NE, Suite 600,
Atlanta, GA 30309**
(Address of principal executive offices) (Zip Code)
(888) 997-8732
(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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the Registrant's Common Stock, \$.01 par value, as of August 30, 2018: 20,039,893

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PART I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)**

	As of	
	July 31, 2018	January 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,246,395	\$ 4,619,834
Accounts receivable, net of allowance for doubtful accounts of \$267,221 and \$349,058, respectively	2,238,088	3,001,170
Contract receivables	826,277	223,791
Prepaid hardware and third-party software for future delivery	—	5,858
Prepaid client maintenance contracts	560,004	506,911
Other prepaid assets	828,257	742,232
Other current assets	367,326	546,885
Total current assets	<u>8,066,347</u>	<u>9,646,681</u>
Non-current assets:		
Property and equipment:		
Computer equipment	2,876,707	2,852,776
Computer software	704,562	730,950
Office furniture, fixtures and equipment	662,157	683,443
Leasehold improvements	582,271	729,348
	<u>4,825,697</u>	<u>4,996,517</u>
Accumulated depreciation and amortization	<u>(3,956,221)</u>	<u>(3,834,153)</u>
Property and equipment, net	<u>869,476</u>	<u>1,162,364</u>
Contract receivables, less current portion	683,031	—
Capitalized software development costs, net of accumulated amortization of \$19,304,635 and \$18,658,183, respectively	5,190,076	4,307,351
Intangible assets, net of accumulated amortization of \$7,438,679 and \$6,968,786, respectively	5,365,257	5,835,151
Goodwill	15,537,281	15,537,281
Other	378,672	642,226
Total non-current assets	<u>28,023,793</u>	<u>27,484,373</u>
	<u>\$ 36,090,140</u>	<u>\$ 37,131,054</u>

See accompanying notes to condensed consolidated financial statements.

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

	As of	
	July 31, 2018	January 31, 2018
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 789,239	\$ 421,425
Accrued compensation	883,386	342,351
Accrued other expenses	1,402,972	609,582
Current portion of term loan	596,984	596,984
Deferred revenues	8,273,251	9,481,807
Other	37,135	—
Total current liabilities	<u>11,982,967</u>	<u>11,452,149</u>
Non-current liabilities:		
Term loan, net of current portion and deferred financing cost of \$92,808 and \$128,275, respectively	3,638,328	3,901,353
Royalty liability	874,437	2,469,193
Deferred revenues, less current portion	882,672	332,645
Other	316,514	274,128
Total non-current liabilities	<u>5,711,951</u>	<u>6,977,319</u>
Total liabilities	<u>17,694,918</u>	<u>18,429,468</u>
Series A 0% Convertible Redeemable Preferred Stock, \$.01 par value per share, \$8,686,392 and \$8,849,985 redemption value, 4,000,000 shares authorized, 2,895,464 and 2,949,995 shares issued and outstanding, respectively	8,686,392	8,849,985
Stockholders' equity:		
Common stock, \$.01 par value per share, 45,000,000 shares authorized; 20,039,893 and 20,005,977 shares issued and outstanding, respectively	200,399	200,060
Additional paid in capital	82,284,455	81,776,606
Accumulated deficit	<u>(72,776,024)</u>	<u>(72,125,065)</u>
Total stockholders' equity	<u>9,708,830</u>	<u>9,851,601</u>
	<u>\$ 36,090,140</u>	<u>\$ 37,131,054</u>

See accompanying notes to condensed consolidated financial statements.

STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	<u>Three Months Ended July 31,</u>		<u>Six Months Ended July 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:				
Systems sales	\$ 385,875	\$ 328,692	\$ 1,517,549	\$ 707,415
Professional services	271,121	571,812	509,435	991,847
Audit services	247,843	294,441	607,556	639,460
Maintenance and support	3,216,251	3,278,562	6,525,355	6,633,334
Software as a service	1,147,642	1,442,652	2,372,010	2,867,784
Total revenues	<u>5,268,732</u>	<u>5,916,159</u>	<u>11,531,905</u>	<u>11,839,840</u>
Operating expenses:				
Cost of systems sales	289,890	596,799	539,874	1,162,850
Cost of professional services	697,467	543,206	1,403,697	1,258,421
Cost of audit services	300,081	391,439	694,060	832,078
Cost of maintenance and support	566,248	768,140	1,214,587	1,574,662
Cost of software as a service	281,872	285,832	598,259	625,208
Selling, general and administrative	2,518,893	2,790,171	5,767,950	6,163,699
Research and development	1,212,845	1,495,972	2,275,164	3,052,910
Loss on exit of operating lease	806,163	—	806,163	—
Total operating expenses	<u>6,673,459</u>	<u>6,871,559</u>	<u>13,299,754</u>	<u>14,669,828</u>
Operating loss	(1,404,727)	(955,400)	(1,767,849)	(2,829,988)
Other expense:				
Interest expense	(110,385)	(120,377)	(226,603)	(247,645)
Miscellaneous expense	(5,383)	(19,681)	(93,028)	(57,725)
Loss before income taxes	(1,520,495)	(1,095,458)	(2,087,480)	(3,135,358)
Income tax expense	(1,713)	(2,607)	(3,427)	(5,215)
Net loss	<u>\$ (1,522,208)</u>	<u>\$ (1,098,065)</u>	<u>\$ (2,090,907)</u>	<u>\$ (3,140,573)</u>
Net loss per common share - basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.06)</u>	<u>\$ (0.10)</u>	<u>\$ (0.16)</u>
Weighted average number of common shares - basic and diluted	<u>19,971,090</u>	<u>19,834,859</u>	<u>19,978,757</u>	<u>19,765,125</u>

See accompanying notes to condensed consolidated financial statements.

STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Six Months Ended July 31,</u>	
	<u>2018</u>	<u>2017</u>
Operating activities:		
Net loss	\$ (2,090,907)	\$ (3,140,573)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	324,640	403,090
Amortization of capitalized software development costs	646,452	1,143,624
Amortization of intangible assets	469,894	666,114
Amortization of other deferred costs	228,497	161,064
Valuation adjustment for warrants liability	—	(45,831)
Other valuation adjustments	56,211	86,192
Gain on disposal of fixed assets	(1,555)	(720)
Loss on exit of operating lease	806,163	—
Share-based compensation expense	366,906	555,229
Provision for accounts receivable	(64,154)	166,170
Changes in assets and liabilities:		
Accounts and contract receivables	292,442	99,086
Other assets	105,148	(333,401)
Accounts payable	367,814	449,929
Accrued expenses	587,226	(352,132)
Deferred revenues	(1,618,004)	(822,867)
Net cash provided by (used in) operating activities	<u>476,773</u>	<u>(965,026)</u>
Investing activities:		
Purchases of property and equipment	(14,457)	(9,812)
Proceeds from sales of property and equipment	14,225	—
Capitalization of software development costs	(1,529,177)	(844,448)
Net cash used in investing activities	<u>(1,529,409)</u>	<u>(854,260)</u>
Financing activities:		
Principal repayments on term loan	(298,492)	(813,197)
Principal payments on capital lease obligation	—	(68,149)
Payments related to settlement of employee shared-based awards	(57,699)	(37,002)
Proceeds from exercise of stock options and stock purchase plan	35,388	—
Net cash used in financing activities	<u>(320,803)</u>	<u>(918,348)</u>
Net decrease in cash and cash equivalents	(1,373,439)	(2,737,634)
Cash and cash equivalents at beginning of period	4,619,834	5,654,093
Cash and cash equivalents at end of period	<u>\$ 3,246,395</u>	<u>\$ 2,916,459</u>

See accompanying notes to condensed consolidated financial statements.

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

July 31, 2018

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. (“we”, “us”, “our”, “Streamline”, 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 six months ended July 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2019.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are presented in “Note 2 – Significant Accounting Policies” in the fiscal year 2017 Annual Report on Form 10-K. Users of financial information for interim periods are encouraged to refer to the footnotes to the consolidated financial statements 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 variable interest rates being paid on the amounts approximate the market interest rate. Long-term debt is classified as Level 2.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

The table below provides information on our liabilities that are measured at fair value on a recurring basis:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At July 31, 2018				
Royalty liability (1) (3)	\$ 874,000	\$ —	\$ —	\$ 874,000
At January 31, 2018				
Royalty liability (1) (2)	\$ 2,469,000	\$ —	\$ —	\$ 2,469,000

- (1) The initial fair value of royalty liability was determined by management with the assistance of an independent third-party valuation specialist, and by management thereafter. Fair value adjustments are included within miscellaneous expense in the condensed consolidated statements of operations.
- (2) The fair value of the royalty liability was determined based on the probability-weighted revenue scenarios for the Streamline Health® Clinical Analytics™ solution (“Clinical Analytics”) licensed from Montefiore Medical Center (discussed in Note 3 - Acquisitions and Divestitures).
- (3) Following the modification of the Royalty Agreement in the second quarter of fiscal 2018 (discussed in Note 3 - Acquisitions and Divestitures), the royalty liability was significantly reduced as a result of the commitment to fulfill a portion of our obligation by providing incremental maintenance services. The fair value of the royalty liability was determined based on the portion of the modified royalty commitment payable in cash.

Revenue Recognition

We derive revenue from the sale of internally-developed software, either by licensing for local installation or by a software as a service (“SaaS”) delivery model, through our direct sales force or through third-party resellers. Licensed, locally-installed clients on a perpetual model utilize our support and maintenance services for a separate fee, whereas term-based locally installed license fees and SaaS fees include support and maintenance. We also derive revenue from professional services that support the implementation, configuration, training and optimization of the applications, as well as audit services provided to help clients review their internal coding audit processes. Additional revenues are also derived from reselling third-party software and hardware components.

We recognize revenue in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (“ASC 606”), the new revenue recognition standards established by ASU 2014-09. The core principle of ASC 606 is that an entity recognizes 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.

We commence revenue recognition (Step 5 below) in accordance with that core principle after applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

We follow the accounting revenue guidance under ASC 606 to determine whether contracts contain more than one performance obligation. Performance obligations are the unit of accounting for revenue recognition and generally represent the distinct goods or services that are promised to the customer. Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

If we determine that we have not satisfied a performance obligation, we will defer recognition of the revenue until the performance obligation is deemed to be satisfied. 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.

Significant judgment is required to determine the standalone selling price (“SSP”) for each performance obligation, the amount allocated to each performance obligation and whether it depicts the amount that the Company expects to receive in exchange for the related product and/or service. As the selling prices of the Company’s software licenses are highly variable, the Company estimates SSP of its software licenses using the residual approach when the software license is sold with other services and observable SSPs exist for the other services. The Company estimates the SSP for maintenance, professional services, and audit services based on observable standalone sales.

Contract Combination

The Company may execute more than one contract or agreement with a single customer. The Company evaluates whether the agreements were negotiated as a package with a single objective, whether the amount of consideration to be paid in one agreement depends on the price and/or performance of another agreement, or whether the good or services promised in the agreements represent a single performance obligation. The conclusions reached can impact the allocation of the transaction price to each performance obligation and the timing of revenue recognition related to those arrangements.

The Company has utilized the portfolio approach as the practical expedient. We have applied the revenue model to a portfolio of contracts with similar characteristics where we expected that the financial statements would not differ materially from applying it to the individual contracts within that portfolio.

Systems Sales

The Company’s software license arrangements provide the customer with the right to use functional intellectual property. Implementation, support, and other services are typically considered distinct performance obligations when sold with a software license unless these services are determined to significantly modify the software. Revenue is recognized at a point in time. Typically, this is upon shipment of components or electronic download of software.

Maintenance and Support Services

Our maintenance and support obligations include multiple discrete performance obligations, with the two largest being unspecified product upgrades or enhancements, and technical support, which can be offered at various points during a contract period. We believe that the multiple discrete performance obligations within our overall maintenance and support obligations can be viewed as a single performance obligation since both the unspecified upgrades and technical support are activities to fulfill the maintenance performance obligation and are rendered concurrently. Annual maintenance and support agreements entitle clients to technology support, version upgrades, bug fixes and service packs. We recognize maintenance and support revenue over time.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)*Software-Based Solution Professional Services*

The Company provides various professional services to customers with software licenses. These include project management, software implementation and software modification services. Revenues from arrangements to provide professional services are generally distinct from the other promises in the contract and are recognized as the related services are performed. Consideration payable under these arrangements is either fixed fee or on a time-and-materials basis.

Software as a Service

SaaS-based contracts include use of the Company's platform, implementation, support and other services which represent a single promise to provide continuous access to its software solutions. The Company recognizes revenue over time for the life of the contract.

We defer the direct costs, which includes salaries and benefits, for professional services related to SaaS contracts. These deferred costs will be amortized over the identical term as the associated revenues. As of July 31, 2018, and January 31, 2018, we had deferred costs of \$335,000 and \$471,000, respectively, net of accumulated amortization of \$443,000 and \$312,000, respectively. Amortization expense of these costs was \$91,000 and \$43,000 for the three months ended July 31, 2018 and 2017, respectively, and \$193,000 and \$126,000 for the six months ended July 31, 2018 and 2017, respectively.

Audit Services

Audit services are a separate performance obligation. We recognize revenue over time as the services are performed.

Comparative GAAP Financials

The adoption of the new standard has the following impact to the Company's condensed consolidated statements of operations for the six months ended July 31, 2018:

	Six Months Ended July 31, 2018		
	As reported under ASC 606	Balances without adoption of ASC 606	Adjustments due to ASC 606
Revenues			
Systems sales	\$ 1,518,000	\$ 2,008,000	\$ (490,000)
Maintenance and support	6,525,000	6,529,000	(4,000)
As of July 31, 2018			
	As reported under ASC 606	Balances without adoption of Topic 606	Adjustments due to ASC 606
Assets			
Contract receivables, current	\$ 826,000	\$ 474,000	\$ 352,000
Contract receivables, noncurrent	683,000	190,000	493,000
Liabilities			
Deferred revenues, current	8,273,000	8,414,000	(141,000)
Shareholders' Equity			
Accumulated deficit	\$ (72,776,000)	\$ (73,762,000)	\$ 986,000

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

Disaggregation of Revenue

The following table provides information about disaggregated revenue by type and nature of revenue stream:

	Six Months Ended July 31, 2018		
	Recurring Revenue	Non-recurring Revenue	Total
Systems sales	\$ 166,000	\$ 1,352,000	\$ 1,518,000
Professional services	—	509,000	509,000
Audit services	—	608,000	608,000
Maintenance and support	6,525,000	—	6,525,000
Software as a service	2,372,000	—	2,372,000
Total revenue:	\$ 9,063,000	\$ 2,469,000	\$ 11,532,000

Contract Receivables and Deferred Revenues

The Company receives payments from customers based upon contractual billing schedules. Contract receivables include amounts related to the Company's contractual right to consideration for completed performance obligations not yet invoiced. Deferred revenues include payments received in advance of performance under the contract. Our contract receivables and deferred revenue are reported on an individual contract basis at the end of each reporting period. Contract receivables are classified as current or noncurrent based on the timing of when we expect to bill the customer. Deferred revenue is classified as current or noncurrent based on the timing of when we expect to recognize revenue. In the six-month period ended July 31, 2018, we recognized \$6,791,000 in revenue from deferred revenues outstanding as of January 31, 2018.

The cumulative effect of changes related to the adoption of ASC 606 are reflected in the opening balance of accumulated deficit as shown below:

	As Reported January 31, 2018	Adjustments due to ASC 606	As Adjusted February 1, 2018
ASSETS			
Contract receivables, current	\$ 224,000	\$ 283,000	\$ 507,000
Contract receivables, noncurrent	—	468,000	468,000
LIABILITIES			
Deferred revenues, current	9,482,000	(689,000)	8,793,000
STOCKHOLDERS' EQUITY			
Accumulated deficit	\$ (72,125,000)	\$ 1,440,000	\$ (70,685,000)

Transaction price allocated to the remaining performance obligations

Revenue allocated to remaining performance obligations represents contracted revenue that will be recognized in future periods, which is comprised of deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Revenue allocated to remaining performance obligations was \$23 million as of July 31, 2018, of which the Company expects to recognize approximately 62% over the next 12 months and the remainder thereafter.

Deferred commissions costs (contract acquisition costs)

Contract acquisition costs, which consists of sales commissions paid or payable, is considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial and renewal contracts are deferred and then amortized on a straight-line basis over a period of benefit, which the Company has determined to be

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

the customer life. As a practical expedient, we expense sales commissions as incurred when the amortization period of related deferred commission costs would have been one year or less.

Deferred commissions costs paid and payable are included on the condensed consolidated balance sheets within other prepaid assets and other current assets, respectively. Amortization expense associated with sales commissions is included in selling, general and administrative expenses on the condensed consolidated statements of operations.

Severance

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 July 31, 2018 and 2017, we incurred \$4,000 and \$3,000 in severance expenses, respectively, and \$17,000 and \$58,000 for the six months ended July 31, 2018 and 2017, respectively. At July 31, 2018 and January 31, 2018, we had accrued severance expenses of \$6,000 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 \$144,000 and \$288,000 for the three months ended July 31, 2018 and 2017, respectively, and \$367,000 and \$555,000 for the six months ended July 31, 2018 and 2017, respectively.

The fair value of the stock options granted is 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.

We issue restricted stock awards in the form of our common stock. The fair value of these awards is based on the market closing price per share on the date of grant. We expense the compensation cost of these awards as the restriction period lapses, which is typically a one- to four-year service period to the Company. In the six months ended July 31, 2018, 33,392 shares of common stock were surrendered to the Company to satisfy tax withholding obligations totaling \$58,000 in connection with the vesting of restricted stock awards. Shares surrendered by the restricted stock award recipients in accordance with the applicable plan are deemed canceled, and therefore are not available to be reissued.

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. The Company has recorded \$314,000 and \$286,000 in reserves for uncertain tax positions and corresponding interest and penalties as of July 31, 2018 and January 31, 2018, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)**Net Earnings (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 earnings (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 calculated based on 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 potential dilutive common stock issuances related to options, unvested restricted stock, warrants and convertible preferred stock. Potential common stock dilution related to outstanding stock options, unvested restricted stock and warrants is determined using the treasury stock method, while potential common stock dilution related to Series A Convertible Preferred Stock is 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 not to be participating in losses if there is no obligation to fund such losses. As of July 31, 2018, there were 2,895,464 shares of preferred stock outstanding, each of which is convertible into one share of our common stock. For the three and six months ended July 31, 2018 and 2017, 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. For the three and six months ended July 31, 2018 and 2017, 649,087 and 831,587, respectively, unvested restricted shares of common stock were excluded from the diluted EPS calculation as their effect would have been anti-dilutive.

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

	Three Months Ended	
	July 31, 2018	July 31, 2017
Net loss	\$ (1,522,208)	\$ (1,098,065)
Weighted average shares outstanding - Basic	19,971,090	19,834,859
Stock options, restricted stock, Series A Convertible Preferred Stock and warrants	—	—
Weighted average shares outstanding - Diluted	19,971,090	19,834,859
Basic net loss per share of common stock	\$ (0.08)	\$ (0.06)
Diluted net loss per share of common stock	\$ (0.08)	\$ (0.06)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

	Six Months Ended	
	July 31, 2018	July 31, 2017
Net loss	\$ (2,090,907)	\$ (3,140,573)
Weighted average shares outstanding - Basic	19,978,757	19,765,125
Stock options, restricted stock, Series A Convertible Preferred Stock and warrants	—	—
Weighted average shares outstanding - Diluted	19,978,757	19,765,125
Basic net loss per share of common stock	\$ (0.10)	\$ (0.16)
Diluted net loss per share of common stock	\$ (0.10)	\$ (0.16)

Diluted net loss per share excludes the effect of outstanding stock options that relate to 1,763,795 and 2,239,047 shares of common stock for the three and six months ended July 31, 2018 and 2017, respectively. The inclusion of these stock options would have been anti-dilutive. For the three and six months ended July 31, 2017, 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. The warrants expired on February 16, 2018.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, Topic 606 (“ASC 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. ASU 2014-09 defines a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. 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. In July 2016, the FASB delayed the effective date by one year and the guidance became effective for us on February 1, 2018. The new revenue recognition guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application as an adjustment to retained earnings (modified retrospective method). We have decided to adopt the standard effective February 1, 2018 using the modified retrospective method.

We have completed our assessment of our systems, available data and processes that will be affected by the implementation of this new revenue recognition guidance. The Company’s formal accounting policies have been established. As a result of the implementation of this standard, the Company recorded an adjustment to increase retained earnings as of February 1, 2018 by \$1.4 million, related primarily to the timing of revenue. The most significant impact relates to our accounting for term software license revenue. We expect revenue related to SaaS-based offerings, hardware sales, maintenance and support, and audit services to remain substantially unchanged. For arrangements which include both software license and maintenance and support components, we expect to recognize the revenue attributed to license upfront at a point in time rather than over the term of the contract. We also expect to recognize license revenues upfront rather than be restricted to payment amounts due under extended payment term contracts as required under the previous guidance. Additionally, the new revenue recognition guidance requires the capitalization of all incremental costs of obtaining a contract with a customer that an entity expects to recover. We have already been capitalizing sales commissions associated with new and renewal contracts. We did not identify any other costs that would be eligible for capitalization under the new guidance. As a result, we did not record any additional deferral for such costs upon adoption of the new guidance on February 1, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

about leasing arrangements. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The update will be effective for us on February 1, 2019. Early adoption of the update is permitted. We are currently evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to clarify how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The ASU should be applied using a retrospective transition method to each period presented. The standard became effective for us on February 1, 2018. Early adoption of this update is permitted. The adoption of this ASU did not have a significant impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard became effective for us on February 1, 2018. For the periods included in this report, there was no impact on our financial position or results of operations as a result of the adoption of this update.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which removes Step 2 from the goodwill impairment test. The standard will be effective for us on February 1, 2020. Early adoption of this update is permitted. We do not expect that the adoption of this ASU will have a significant impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting*, to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The update became effective for us on February 1, 2018. For the periods included in this report, there was no impact on our financial position or results of operations as a result of the adoption of this update.

NOTE 3 — ACQUISITIONS AND DIVESTITURES

Acquisition of a Montefiore Medical Center Solution

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 Clinical Analytics solution. In addition, Montefiore assigned to us the existing license agreement with a customer using CLG. As consideration under the Royalty Agreement, we paid Montefiore a one-time initial base royalty fee of \$3,000,000. Additionally, we originally committed that Montefiore would receive at least an additional \$3,000,000 of on-going royalty payments related to future sublicensing of CLG by us within the first six and one-half years of the license term. On July 1, 2018, we entered into a joint amendment to the Royalty Agreement and the existing Software License and Support Agreement with Montefiore to modify the payment obligations of the parties under both agreements. According to the modified provisions, our obligation to pay on-going royalties under the Royalty Agreement was replaced with the obligation to (i) provide maintenance services for 24 months and waive associated maintenance fees, and (ii) pay \$1,000,000 in cash by July 31, 2020. As a result of the commitment to fulfill a portion of our obligation by providing maintenance services at no cost, the royalty liability was significantly reduced, with a corresponding increase to deferred revenues. The fair value of the royalty liability as of July 31, 2018 was determined based on the amount payable in cash. As of July 31, 2018, and January 31, 2018, the present value of this royalty liability was \$874,000 and \$2,469,000, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)*Acquisition of Opportune IT Healthcare Solutions, Inc.*

On September 8, 2016, we completed the acquisition of substantially all of the assets of Opportune IT Healthcare Solutions, Inc. (“Opportune IT”), a provider of coding compliance, recovery audit contractor consulting, and ICD-10 readiness and training to hospitals, physicians and medical groups. As consideration under the asset purchase agreement, we made a cash payment for the total purchase price of \$1,400,000. The Company also assumed certain current operating liabilities of Opportune IT.

NOTE 4 — LEASES

We rent office 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:

	<u>Facilities</u>	<u>Equipment</u>	<u>Fiscal Year Totals</u>
2018 (six months remaining)	\$ 524,000	\$ 4,000	\$ 528,000
2019	967,000	7,000	974,000
2020	504,000	7,000	511,000
2021	519,000	7,000	526,000
2022	445,000	11,000	456,000
Total	<u>\$ 2,959,000</u>	<u>\$ 36,000</u>	<u>\$ 2,995,000</u>

In the second quarter of fiscal 2018, we closed our New York office and subleased the office space for the remaining period of the original lease term. As a result of vacating and subleasing the office, we recorded an \$806,000 loss on exit of the operating lease in the second quarter of fiscal 2018. As of July 31, 2018, the total minimum rentals to be received under this non-cancelable sublease was \$360,000.

Rent and leasing expense for facilities and equipment was \$486,000 and \$312,000 for the three months ended July 31, 2018 and 2017, respectively, and \$803,000 and \$625,000 for the six months ended July 31, 2018 and 2017.

In fiscal 2018, we entered into a new capital lease to finance our equipment purchases. Total cost and accumulated depreciation of fixed assets acquired under our outstanding capital lease were \$67,000 and \$17,000 as of July 31, 2018, respectively. As of January 31, 2018, we had no capital lease obligations outstanding. The current and non-current portions of our capital lease obligation are included in other current and other non-current liabilities, respectively. The amortization expense of the leased equipment was included in depreciation expense.

NOTE 5 — DEBT*Term Loan and Line of Credit*

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 to our primary operating subsidiary. Amounts outstanding under the Credit Agreement bear interest at either LIBOR or the base rate, as elected by the Company, plus an applicable margin. Subject to the Company’s leverage ratio, under the terms of the original Credit Agreement, the applicable LIBOR rate margin varied from 4.25% to 5.25%, and the applicable base rate margin varied from 3.25% to 4.25%. Pursuant to the terms of the amendment to the Credit Agreement entered into as of April 15, 2015, the applicable LIBOR rate margin was amended to vary from 4.25% to 6.25%, and the applicable base rate margin was amended to vary from 3.25% to 5.25%. The term loan and line of credit mature on November 21, 2019 and provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. The outstanding senior term loan is secured by substantially all of our assets. The senior term loan principal balance is payable in quarterly installments, which started in March 2015 and will continue through the maturity date, with the full

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

remaining unpaid principal balance due at maturity. In November 2014, 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 into the Credit Agreement. Financing costs of \$355,000 associated with the new credit facility are being amortized over its term on a straight-line basis, which is not materially different from the effective interest method.

The Credit Agreement includes customary financial covenants, including the requirements that the Company maintain minimum liquidity and achieve certain minimum EBITDA levels (as defined in the Credit Agreement). In addition, the Credit Agreement prohibits the Company from paying dividends on the common and preferred stock. Pursuant to the terms of the third amendment to the Credit Agreement entered into as of June 19, 2017, the Company is required to maintain minimum liquidity of at least (i) \$5,000,000 through January 31, 2018, (ii) \$4,000,000 from February 1, 2018 through and including January 31, 2019, and (iii) \$3,000,000 from February 1, 2019 through and including the maturity date of the credit facility.

The following table shows our minimum trailing four quarter period EBITDA covenant thresholds, as modified by the third amendment to the Credit Agreement:

For the four-quarter period ending	Minimum EBITDA
July 31, 2017	\$ (1,250,000)
October 31, 2017	(1,000,000)
January 31, 2018	(700,000)
April 30, 2018	(35,869)
July 31, 2018	414,953
October 31, 2018	1,080,126
January 31, 2019	1,634,130
April 30, 2019	1,842,610
July 31, 2019	2,657,362
October 31, 2019 and each fiscal quarter thereafter	3,613,810

The Company was in compliance with the applicable financial loan covenants at July 31, 2018.

As of July 31, 2018, the Company had no outstanding borrowings under the revolving line of credit, and had accrued \$32,000 in unused line fees. Based upon the borrowing base formula set forth in the Credit Agreement, as of July 31, 2018, the Company had access to the full amount of the \$5,000,000 revolving line of credit.

Outstanding principal balances on debt consisted of the following at:

	July 31, 2018	January 31, 2018
Senior term loan	\$ 4,328,000	\$ 4,626,000
Capital lease (1)	67,000	—
Total	4,395,000	4,626,000
Deferred financing cost	(93,000)	(128,000)
Total	4,302,000	4,498,000
Less: Current portion	(634,000)	(597,000)
Non-current portion of debt	\$ 3,668,000	\$ 3,901,000

- (1) The current and non-current portions of our capital lease obligation are included in other current and other non-current liabilities, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

Future principal repayments of debt consisted of the following at July 31, 2018:

<u>Fiscal year</u>	<u>Senior Term Loan (1)</u>
2018	\$ 298,000
2019	4,030,000
Total repayments	\$ 4,328,000

(1) Term loan balance on the condensed consolidated balance sheet is reported net of deferred financing costs of \$93,000.

NOTE 6 — CONVERTIBLE PREFERRED STOCK*Series A Convertible Preferred Stock*

At July 31, 2018, we had 2,895,464 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 10 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, subject to the terms of the Subordination and Intercreditor Agreement among the preferred stockholders, the Company and Wells Fargo, which prohibits the redemption of the Preferred Stock without the consent of Wells Fargo, 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 is 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 six months ended July 31, 2018 and 2017, we recorded federal tax expense of zero. For the six months ended July 31, 2018 and 2017, we recorded state and local tax expense of \$3,000 and \$5,000, respectively.

NOTE 8 — SUBSEQUENT EVENTS

We have evaluated subsequent events occurring after July 31, 2018, and based on our evaluation we did not identify any events that would have required recognition or disclosure in these condensed consolidated financial statements.

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 integration of our solutions, the performance of our channel partner relationships, 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 expressions also are 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;
- entry into new markets;
- new product and services development and commercialization;
- key strategic alliances with vendors and channel partners that resell our products;
- uncertainty in continued relationships with clients due to termination rights;
- our ability to control costs;
- availability, quality and security of products produced and services provided 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;
- the success of our relationships with channel partners;

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- 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 organizations;
- changes in economic, business and market conditions impacting the healthcare industry and the markets in which we operate; 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.

Results of Operations

Revenues

(in thousands):	Three Months Ended			% Change
	July 31, 2018	July 31, 2017	Change	
Systems Sales:				
Proprietary software - perpetual license	\$ 191	\$ 55	\$ 136	247 %
Term license	122	216	(94)	(44)%
Hardware and third-party software	73	57	16	28 %
Professional services	271	572	(301)	(53)%
Audit Services	248	294	(46)	(16)%
Maintenance and support	3,216	3,279	(63)	(2)%
Software as a service	1,148	1,443	(295)	(20)%
Total Revenues	\$ 5,269	\$ 5,916	\$ (647)	(11)%

(in thousands):	Six Months Ended			% Change
	July 31, 2018	July 31, 2017	Change	
System Sales:				
Proprietary software - perpetual license	\$ 1,244	\$ 170	\$ 1,074	632 %
Term license	165	480	(315)	(66)%
Hardware and third-party software	109	58	51	88 %
Professional services	509	992	(483)	(49)%
Audit services	608	639	(31)	(5)%
Maintenance and support	6,525	6,633	(108)	(2)%
Software as a service	2,372	2,868	(496)	(17)%
Total Revenues	\$ 11,532	\$ 11,840	\$ (308)	(3)%

Proprietary software and term licenses — Proprietary software revenue recognized for the three and six months ended July 31, 2018 increased by \$136,000 and \$1,074,000 over the prior comparable periods. These increases are attributable to two perpetual license sales of our Streamline Health® Abstracting™ solution, one in the first and another in the second quarter of fiscal 2018. Term license revenue for the three and six months ended July 31, 2018 decreased \$94,000 and \$315,000, respectively, over the prior comparable periods. These decreases are primarily due to the adoption of the new revenue recognition standards effective February 1, 2018.

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Hardware and third-party software — Revenue from hardware and third-party software sales for the three and six months ended July 31, 2018 increased by \$16,000 and \$51,000, respectively, over the prior comparable periods. Fluctuations from period to period are a function of client demand.

Professional services — For the three- and six-month periods ended July 31, 2018, revenues from professional services decreased by \$301,000 and \$483,000, respectively, from the prior comparable periods. These decreases in professional services revenue are primarily due to the completion of large implementation projects in fiscal 2017.

Audit services — Audit services revenue recognized for the three and six months ended July 31, 2018 decreased by \$46,000 and \$31,000, respectively, over the prior comparable periods. These decreases are primarily due to a reduction in demand from one of our customers.

Maintenance and support — Revenue from maintenance and support for the three and six months ended July 31, 2018 decreased by \$63,000 and \$108,000, respectively, over the prior comparable periods. These decreases are primarily due to cancellation by a customer of our Streamline Health® Enterprise Content Management™ solution. The customer cancellation rate has not exceeded the Company's plan for fiscal 2018.

Software as a Service (SaaS) — Revenue from SaaS for the three and six months ended July 31, 2018 decreased by \$295,000 and \$496,000, respectively, from the prior comparable periods. These decreases resulted primarily from cancellations by a few customers of our Financial Management and Clinical Analytics solutions. The customer cancellation rate has not exceeded the Company's plan for fiscal 2018.

Cost of Sales

(in thousands):	Three Months Ended			% Change	
	July 31, 2018	July 31, 2017	Change		
Cost of systems sales	\$ 290	\$ 597	\$ (307)	(51)%	
Cost of professional services	697	543	154	28 %	
Cost of audit services	300	391	(91)	(23)%	
Cost of maintenance and support	566	768	(202)	(26)%	
Cost of software as a service	282	286	(4)	(1)%	
Total cost of sales	\$ 2,135	\$ 2,585	\$ (450)	(17)%	

(in thousands):	Six Months Ended			% Change	
	July 31, 2018	July 31, 2017	Change		
Cost of system sales	\$ 540	\$ 1,163	\$ (623)	(54)%	
Cost of professional services	1,404	1,258	146	12 %	
Cost of audit services	694	832	(138)	(17)%	
Cost of maintenance and support	1,215	1,575	(360)	(23)%	
Cost of software as a service	598	625	(27)	(4)%	
Total cost of sales	\$ 4,451	\$ 5,453	\$ (1,002)	(18)%	

The decrease in overall cost of sales for the three and six months ended July 31, 2018 from the comparable prior periods is primarily due to the reduction in amortization of capitalized software costs as a result of a few assets becoming fully amortized. In addition, the decrease in overall cost of sales for the six months ended July 31, 2018 from the comparable prior period is further attributed to the reduction in client support personnel costs.

Cost of systems sales includes amortization and impairment of capitalized software expenditures and the cost of third-party hardware and software. The decrease in expense for the three- and six-month periods ended July 31, 2018 from the comparable prior periods was primarily due to the reduction in amortization of capitalized software costs as a result of assets becoming fully amortized, including the internally-developed software acquired from Meta Health Technology, Inc. ("Meta") in 2012 which reached the end of its assigned economic life in the third quarter of fiscal 2017.

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The cost of professional services includes compensation and benefits for personnel and related expenses. The increase in expense for the three- and six-month periods from the prior comparable periods is primarily due to the decrease in professional services related to SaaS implementations, for which costs are deferred and amortized ratably over the estimated life of the SaaS customer relationship, as well as the increase in amortization of these deferred implementation costs upon completion of additional projects.

The cost of audit services includes compensation and benefits for audit services personnel, and related expenses. The decrease in expense for the three- and six-month periods ended July 31, 2018 is attributed to the reduction in personnel costs from synergies resulting from the full integration of the acquired audit services business.

The cost of maintenance and support includes compensation and benefits for client support personnel and the cost of third-party maintenance contracts. The decrease in expense for the three- and six-month periods was primarily due to a decrease in personnel costs and a reduction in third-party maintenance contracts.

The cost of SaaS solutions is relatively fixed, subject to inflation for the goods and services it requires. The expense for the three- and six-month periods ended July 31, 2018 remained consistent with the expense for the prior comparable periods.

Selling, General and Administrative Expense

(in thousands):	Three Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
General and administrative expenses	\$ 1,513	\$ 1,765	\$ (252)	(14)%
Sales and marketing expenses	1,006	1,025	(19)	(2)%
Total selling, general, and administrative expense	\$ 2,519	\$ 2,790	\$ (271)	(10)%

(in thousands):	Six Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
General and administrative expenses	\$ 3,701	\$ 3,993	\$ (292)	(7)%
Sales and marketing expenses	2,067	2,171	(104)	(5)%
Total selling, general, and administrative expense	\$ 5,768	\$ 6,164	\$ (396)	(6)%

General and administrative expenses consist primarily of compensation and related benefits, reimbursable travel and entertainment expenses related to our executive and administrative staff, general corporate expenses, amortization of intangible assets, and occupancy costs. The decrease in general and administrative expenses for the three and six months ended July 31, 2018 from the comparable prior periods is primarily attributed to a reduction in bad debt expense and in amortization of intangible assets, including intangibles from the 2012 Meta acquisition that reached the end of their assigned economic lives in the third quarter of fiscal 2017.

Sales and marketing expenses consist primarily of compensation and related benefits and reimbursable travel and entertainment expenses related to our sales and marketing staff, as well as advertising and marketing expenses, including trade shows. The decrease in sales and marketing expense for the three and six months ended July 31, 2018 from the comparable prior periods was primarily due to a reduction in sales, marketing, and investor relations consultant fees.

Product Research and Development

(in thousands):	Three Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
Research and development expense	\$ 1,213	\$ 1,496	\$ (283)	(19)%
Plus: Capitalized research and development cost	803	458	345	75 %
Total research and development cost	\$ 2,016	\$ 1,954	\$ 62	3 %

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(in thousands):	Six Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
Research and development expense	\$ 2,275	\$ 3,053	\$ (778)	(25)%
Plus: Capitalized research and development cost	1,529	844	685	81 %
Total research and development cost	\$ 3,804	\$ 3,897	\$ (93)	(2)%

Product research and development cost consists primarily of compensation and related benefits, the use of independent contractors for specific near-term development projects, and allocated occupancy expense. Total research and development cost for the three- and six-month periods ended July 31, 2018 remained consistent with the cost incurred in the prior comparable periods. The decrease in research and development expenses is primarily attributed to the increase in capitalized research and development costs, which is a result of increased time dedicated to software development projects as well as additional capitalization of eligible benefits and occupancy costs in fiscal 2018. Research and development expenses for the six months ended July 31, 2018 and 2017, as a percentage of revenues, were 20% and 26%, respectively.

Loss on exit of operating lease

(in thousands):	Three Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
Loss on exit of operating lease	\$ 806	\$ —	\$ 806	100 %

(in thousands):	Six Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
Loss on exit of operating lease	\$ 806	\$ —	\$ 806	100 %

In an effort to reduce our operating expenses, we closed our New York office in the second quarter of fiscal 2018 and subleased the office space for the remaining period of the original lease term, which ends on November 2019. As a result of vacating and subleasing the office, we recorded an \$806,000 loss on exit of the operating lease in the second quarter of fiscal 2018, which captures the net cash flows associated with the vacated premises, including receipts of rent from our sublessee, and the loss incurred on the disposals of fixed assets.

Other Expense

(in thousands):	Three Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
Interest expense	\$ (110)	\$ (120)	\$ 10	(8)%
Miscellaneous expense	(5)	(20)	15	(75)%
Total other expense	\$ (115)	\$ (140)	\$ 25	(18)%

(in thousands):	Six Months Ended			%
	July 31, 2018	July 31, 2017	Change	Change
Interest expense	\$ (227)	\$ (248)	\$ 21	(8)%
Miscellaneous expense	(93)	(58)	(35)	60 %
Total other expense	\$ (320)	\$ (306)	\$ (14)	5 %

Interest expense consists of interest and commitment fees on the line of credit, interest on the term loan, and is inclusive of deferred financing cost amortization expense. Interest expense decreased for the three and six months ended July 31, 2018 from the prior comparable periods primarily due to the reduction in outstanding principal on our term loan. Fluctuation in miscellaneous expense for the three- and six-month periods ended July 31, 2018 from the prior comparable periods is primarily due to revaluation adjustments to our royalty liability and our warrant liability. Our warrants expired in February 2018.

Provision for Income Taxes

We recorded tax expense of \$2,000 and \$3,000, respectively, for the three months ended July 31, 2018 and 2017, and \$3,000 and \$5,000, respectively, for the six months ended July 31, 2018 and 2017, which is comprised of estimated federal, state and local tax provisions.

Backlog

	<u>July 31, 2018</u>	<u>July 31, 2017</u>
Company proprietary software	\$ 53,000	\$ 11,458,000
Third-party hardware and software	—	50,000
Professional services	1,867,000	3,517,000
Audit services	1,019,000	1,454,000
Maintenance and support	11,489,000	16,583,000
Software as a service	8,936,000	13,300,000
Total	<u>\$ 23,364,000</u>	<u>\$ 46,362,000</u>

At July 31, 2018, we had contracts 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 \$23,364,000 compared with \$46,362,000 at July 31, 2017.

The Company's proprietary software backlog consists of signed agreements to purchase either perpetual software licenses or term licenses. Typically, perpetual licenses included in backlog are either not yet generally available or the software is generally available and the client has not taken possession of the software. Term licenses included in backlog consist of signed agreements where the client has already taken possession, but the payment for the software is bundled with maintenance and support fees over the life of the contract. The decrease in backlog is primarily due to the termination of a multi-year term license agreement for our Clinical Analytics solution.

Third-party hardware and software backlog 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 and are expected to be delivered in the next twelve months as implementations commence.

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 decrease in professional services backlog is a result of the completion of several large projects during fiscal 2017. Our new eValuator solution requires less in terms of professional services efforts; therefore new eValuator bookings did not contribute to our professional services backlog as much as they contributed to our SaaS backlog.

Audit services backlog consists of signed contracts for audit services that have yet to be performed. Typically, backlog is recognized within twelve months of the contract signing. The Company began offering audit services in September 2016, following the acquisition of Opportune IT. As we became more familiar with the changing nature of some audit services engagements, we adjusted the backlog calculation to only include agreements that have clearly definable service periods. The decrease in audit services backlog is primarily due to this adjustment.

Maintenance and support backlog consists of maintenance agreements for perpetual licenses and/or third-party software or hardware, in each case consisting of signed agreements to purchase such services but that represent future performance for the contracted maintenance and support term. Clients typically prepay maintenance and support fees on an annual basis with some monthly pre-payment arrangements existing. Maintenance and support fees are generally billed 30-60 days prior to the beginning of the maintenance period. Maintenance and support backlog at July 31, 2018 was \$11,489,000 as compared to \$16,583,000 at July 31, 2017. The decrease in maintenance and support backlog is primarily due to revenue recognition on multi-year contracts and a cancellation by a customer of our Streamline Health® Enterprise Content Management™ ("ECM") solution.

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Relating specifically to SaaS-model client agreements signed as of July 31, 2018, the Company expects to generate revenues of \$8,936,000 from such SaaS agreements through their respective renewal dates in fiscal years 2018 through 2022. 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 the Company to accurately predict the revenue it expects to recognize in any particular period. The decrease in SaaS backlog is a result of recognition on multi-year contracts exceeding new bookings during the twelve month period ended July 31, 2018, as well as cancellations by a few customers of our Financial Management and Clinical Analytics solutions.

Additional commentary regarding the average duration of client contracts and risks relating to termination can be found in Part II, Item 1A, “Risk Factors” herein.

Termination rights in the Company’s master agreements are generally limited to termination for cause, except for select exceptions. However, there can be no assurance that a client will not cancel all or any portion of an agreement or delay portions of an agreement, as further discussed in Part II, Item 1A, “Risk Factors” herein. Such events could have a material adverse effect on the Company’s ability to recognize amounts and the Company’s financial condition and results of operations.

Use of Non-GAAP Financial Measures

In order to provide investors with greater insight, and allow for a more comprehensive understanding of the information used by management and the Board of Directors in its financial and operational decision-making, the Company has supplemented 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 Company results as reported under GAAP. The Company compensates 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 carefully review 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, transaction expenses and other expenses that do not relate to our core operations; (iii) Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of GAAP 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.

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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.

Our lender uses a 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 a 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 that we may be 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 these non-GAAP financial measures to the most comparable GAAP measure 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 loss, a comparable GAAP-based measure, as well as Adjusted EBITDA per diluted share to net loss per diluted share. All of the items included in the reconciliation from EBITDA and Adjusted EBITDA to net loss 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 are more reflective of other factors that affect operating performance. In the case of items that do not relate to our core operations,

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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.

In thousands, except per share data	Three Months Ended		Six Months Ended	
	July 31, 2018	July 31, 2017	July 31, 2018	July 31, 2017
Net loss	\$ (1,522)	\$ (1,098)	\$ (2,091)	\$ (3,141)
Interest expense	110	120	227	248
Income tax expense	2	3	3	5
Depreciation	153	200	325	403
Amortization of capitalized software development costs	331	572	646	1,144
Amortization of intangible assets	235	333	470	666
Amortization of other costs	91	43	193	126
EBITDA	(600)	173	(227)	(549)
Share-based compensation expense	144	288	367	555
Gain on disposal of fixed assets	—	—	(2)	(1)
Non-cash valuation adjustments to assets and liabilities	5	23	56	40
Loss on exit of operating lease	806	—	806	—
Adjusted EBITDA	\$ 355	\$ 484	\$ 1,000	\$ 45
Adjusted EBITDA margin (1)	7 %	8 %	9 %	— %
Net loss per common share — diluted	\$ (0.08)	\$ (0.06)	\$ (0.10)	\$ (0.16)
Adjusted EBITDA per adjusted diluted share (2)	\$ 0.02	\$ 0.02	\$ 0.04	\$ —
Diluted weighted average shares	19,971,090	19,834,859	19,978,757	19,765,125
Includable incremental shares — adjusted EBITDA (3)	3,053,210	3,378,484	3,064,204	3,322,319
Adjusted diluted shares	23,024,300	23,213,343	23,042,961	23,087,444

- (1) Adjusted EBITDA as a percentage of GAAP net revenue.
- (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 an assumption that the Company is profitable during the reported period, which is only applicable for a period in which the Company reports a GAAP net loss. If a GAAP profit is earned in the reported periods, 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 Note 2 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 31, 2018. 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, 2018, except as described below.

We adopted the new revenue recognition standards (“ASC 606”) effective February 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. ASC 606 superseded nearly all existing revenue recognition guidance under GAAP. The core principle of ASC 606 is to recognize revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Refer to Note 2, “Summary of Significant Accounting Policies,” to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for additional information regarding our revenue recognition policies under the new standard and the impact of adoption on our financial position and results of operations as of and for the six months ended July 31, 2018.

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 and capital expenditures, and (iii) the level of 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, capital expenditures, and principal and interest payments on debt. Capital expenditures generally include computer hardware and computer software to support internal development efforts or infrastructure in the SaaS data center. Operations are funded with cash generated by operations and borrowings under our credit facilities. The Company believes that cash flows from operations and available credit facilities are adequate to fund current obligations for the next twelve months. Cash and cash equivalent balances at July 31, 2018 and January 31, 2018 were \$3,246,000 and \$4,620,000, respectively. The decrease in cash during the current fiscal period was primarily the result of payments made towards our debt and interest thereon, as well as payroll and accounts payable. Continued expansion may require the Company to take on additional debt or raise capital through issuance of equities, or a combination of both. There can be no assurance the Company will be able to raise the capital required to fund further expansion.

The Company has liquidity through the Credit Agreement described in more detail in Note 5 to our condensed consolidated financial statements included herein. The Company's primary operating subsidiary has a \$5,000,000 revolving line of credit that has not been drawn upon as of the date of this report. In order to draw upon the revolving line of credit, the Company's primary operating subsidiary must comply with customary financial covenants, including the requirement that the Company maintain minimum liquidity of at least (i) \$4,000,000 from February 1, 2018 through and including January 31, 2019, and (ii) \$3,000,000 from February 1, 2019 through and including the maturity date of the credit facility. Pursuant to the Credit Agreement's definition, the liquidity of the Company's primary operating subsidiary as of July 31, 2018 was \$8,246,000, which satisfies the minimum liquidity financial covenant in the Credit Agreement.

The Credit Agreement also requires the Company to achieve certain minimum EBITDA levels, calculated pursuant to the Credit Agreement and measured on a quarter-end basis, of at least the required amounts in the relevant table set forth in Note 5 to our condensed consolidated financial statements included in Part I, Item 1 herein for the applicable period set forth therein. Our lender uses a measurement that is similar to Adjusted EBITDA, a non-GAAP financial measure described above. The required minimum EBITDA level for the four-quarter period ended July 31, 2018 was \$414,953.

The Company was in compliance with the applicable loan covenants at July 31, 2018. Based upon the borrowing base formula set forth in the Credit Agreement, as of July 31, 2018, the Company had access to the full amount of the \$5,000,000 revolving line of credit.

The Credit Agreement expressly permits transactions between affiliates that are parties to the Credit Agreement, which includes the Company and its primary operating subsidiary, including loans made between such affiliate loan parties. However, the Credit Agreement prohibits the Company and its subsidiary from declaring or paying any dividend or making any other payment or distribution, directly or indirectly, on account of equity interests issued by the Company if such equity interests: (a) mature or are mandatorily redeemable pursuant to a sinking fund obligation or otherwise (except as a result of a change of control or asset sale so long as any rights of the holders thereof upon the occurrence of a change of control or asset sale event shall be subject to the prior repayment in full of the loans and all other obligations that are accrued and payable upon the termination of the Credit Agreement), (b) are redeemable at the option of the holder thereof, in whole or in part, (c) provide for the scheduled payments of dividends in cash, or (d) are or become convertible into or exchangeable for indebtedness or any other equity interests that would constitute disqualified equity interests pursuant to clauses (a) through (c) hereof, in each case, prior to the date that is 180 days after the maturity date of the Credit Agreement.

Significant cash obligations

<u>(in thousands)</u>	<u>July 31, 2018</u>	<u>January 31, 2018</u>
Term loan (1)	\$ 4,235	\$ 4,498
Royalty liability (2)	874	2,469

(1) Term loan balance is reported net of deferred financing costs of \$93,000 and \$128,000 as of July 31, 2018 and January 31, 2018, respectively. See Note 5 to the condensed consolidated financial statements for additional information.

(2) See Note 3 to the condensed consolidated financial statements for additional information.

Operating cash flow activities

<u>(in thousands)</u>	<u>Six Months Ended</u>	
	<u>July 31, 2018</u>	<u>July 31, 2017</u>
Net loss	\$ (2,091)	\$ (3,141)
Non-cash adjustments to net loss	2,833	3,135
Cash impact of changes in assets and liabilities	(265)	(959)
Net cash provided by (used in) operating activities	<u>\$ 477</u>	<u>\$ (965)</u>

The increase in net cash provided by operating activities is due to two large perpetual license sales of our Streamline Health® Abstracting™ solution, one in the first and another in the second quarter of fiscal 2018, as well as the reduction in our personnel cost and professional fees in the six-month period ended July 31, 2018 as compared to the prior comparable period.

Our typical clients are well-established hospitals, medical facilities and major health information system companies that resell our solutions, which generally have had good credit and payment histories for the industry. However, some healthcare organizations have recently 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 liquidity for some of our clients.

Investing cash flow activities

<u>(in thousands)</u>	<u>Six Months Ended</u>	
	<u>July 31, 2018</u>	<u>July 31, 2017</u>
Purchases of property and equipment	\$ (14)	\$ (10)
Proceeds from sales of property and equipment	14	—
Capitalized software development costs	(1,529)	(844)
Net cash used in investing activities	<u>\$ (1,529)</u>	<u>\$ (854)</u>

The increase in cash used for investing activities in the six months ended July 31, 2018 over the prior comparable period is primarily the result of the increase in capitalized software development costs, which is associated with the higher effort spent on software development projects, as well as additional capitalization of eligible benefits and occupancy costs in fiscal 2018.

Financing cash flow activities

(in thousands)	Six Months Ended	
	July 31, 2018	July 31, 2017
Principal repayments on term loan	\$ (298)	\$ (813)
Principal payments on capital lease obligations	—	(68)
Proceeds from exercise of stock options and stock purchase plan	35	—
Return of shares of common stock in connection with the vesting or exercise of equity incentive awards	(58)	(37)
Net cash used in financing activities	\$ (321)	\$ (918)

The decrease in cash used in financing activities in the six months ended July 31, 2018 as compared to the prior year period was primarily the result of higher prepayments towards the term loan in fiscal 2017, as well as the termination of a capital lease during the third quarter of fiscal 2017.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, we are not required to provide this information.

Item 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that there is reasonable assurance that the information required to be disclosed in the Company’s reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” in Exchange Act Rules 13a-15(e) and 15d-15(e). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, projections of any evaluation of effectiveness of our disclosure controls and procedures to future periods are subject to the risk that controls or procedures may become inadequate because of changes in conditions, or that the degree of compliance with the controls or procedures may deteriorate.

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company’s senior management, including the Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures to provide reasonable assurance of achieving the desired objectives of the disclosure controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

The Company adopted ASC 606, Revenue from Contracts with Customers, on February 1, 2018, which required management to make changes to our policies and processes and to implement new or modify existing internal controls over financial reporting. This included modifications to our existing internal controls over contract reviews and new controls related to the enhanced disclosure requirements.

We have previously disclosed by way of current reports on Form 8-K filed with the SEC that on June 20, 2018, Nicholas A. Meeks, the Company's Chief Financial Officer, left the Company in order to pursue another opportunity. Effective June 18, 2018, Luciana Mullen, Controller, was appointed as the principal accounting officer of the Company to succeed Nicholas Meeks in this capacity. Also effective June 18, 2018, David Sides, President, Chief Executive Officer and a member of the Company's board of directors, was appointed as the interim principal financial officer of the Company to succeed Nicholas Meeks in this capacity. The Company's board of directors appointed Thomas J. Gibson as the Company's Chief Financial Officer effective as of September 10, 2018, on which date Mr. Gibson assumed the role of principal financial officer. These events caused a change that was reasonably likely to materially affect our internal control over financial reporting during the quarter ended July 31, 2018.

There were no other 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.

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 could have a material adverse effect on the Company's consolidated results of operations, financial position, or 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, 2018 and 2017, our five largest clients accounted for 29% and 30% of our total revenues, respectively. If one or more clients terminate all or any portion of a master agreement, delay installations or if we fail to procure additional agreements, there could be 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.

Our eValuator platform, coding audit services and associated software and technologies represent a new market for the Company, and we may not see the anticipated market interest or growth due to being a new player in the industry.

The Company is currently investing in the eValuator platform as well as in new software-based technologies relating to high automation and machine-based analytics regarding a client's coding audit process. The return on this investment requires that the product developments continue to be defined and completed in a timely and cost-effective manner, there remains general interest in the marketplace (for both existing and future clients) for this technology, the demand for the product generates sufficient revenue in light of the development costs and that the Company is able to execute a successful product launch for these technologies. If the Company is unable to meet these requirements when launching these technologies, or if there is a delay in the launch process, the Company may not see an increase in revenue to offset the current development costs or otherwise translate to added growth and revenue for the Company.

Clients may exercise termination rights within their contracts, which may cause uncertainty in anticipated and future revenue streams.

The Company generally does not allow for termination of a client's agreement except at the end of the agreed upon term or for cause. However, certain of the Company's client contracts provide that the client may terminate the contract without cause prior to the end of the term of the agreement by providing written notice, sometimes with relatively short notice periods. The Company also provides trial or evaluation periods for certain clients, especially for new products and services. Furthermore, there can be no assurance that a client will not cancel all or any portion of an agreement, even without an express early termination right. And, the Company may face additional costs or hardships collecting on amounts owed if a client terminates an agreement without such a right. Whether resulting from termination for cause or the limited termination for convenience rights discussed above, the existence of contractual relationships with these clients is not an assurance that we will continue to provide services for our clients through the entire term of their respective agreements. If clients representing a significant portion of our revenue terminated their agreements unexpectedly, we may not, in the short-term, be able to replace the revenue and income from such contracts and this would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. In addition, client contract terminations could harm our reputation within the industry, especially any termination for cause, which could negatively impact our ability to obtain new clients.

Changes in healthcare regulations impacting coding, payers and other aspects of the healthcare regulatory cycle could have substantial impact on our financial performance, growth and operating costs.

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. Unanticipated regulatory changes could materially impact the need for and/or value of our solutions. For example, 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. 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 also directly impact the capabilities our solutions and services provide and the pricing arrangements we are required to offer to be competitive in the market. Similarly, the U.S. Congress may adopt legislation that may change, override, conflict with or preempt the currently existing regulations and which could restrict the ability of clients to obtain, use or disseminate patient health information and/or impact the value of the functionality our products and services provide.

These situations would, in turn, reduce the demand for our solutions or services and/or the ability for a client to purchase our solutions or services. This could have a material impact on our financial performance. In addition, the speed with which the Company can respond to and address any such changes when compared with the response of other companies in the same market (especially companies who may accurately anticipate the evolving healthcare industry structure and identify unmet needs) are important competitive factors. If the Company is not able to address the modifications in a timely manner compared with our competition, that may further reduce demand for our solutions and services.

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 existing regulations and which could restrict the ability of clients to obtain, use or disseminate patient health information. Although the features and architecture of our existing solutions can be modified, it may be difficult to address the changing regulation of healthcare information.

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, 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 to 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 is an important competitive factor. If we are unable to keep pace with changing conditions and new developments, we will not 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 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 generally have little patent protection on 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 independently design 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, 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 intellectual property rights. However, we have aggressively asserted our intellectual property rights when necessary and intend to do so in the future.

We could be subjected to claims of intellectual property infringement that 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, could be expensive to defend. If we were held liable for infringing third-party intellectual property rights, we could incur substantial damage awards, and potentially be required to cease using the technology, produce non-infringing technology or obtain a license to use such technology. Such potential liabilities or increased costs could be material 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 their 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;
- 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 securities.

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 these types of claims, 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, 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-model 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 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 or 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 support our growth, execute our business plans and remain competitive in our markets. We may have no or limited availability to such external capital, 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 maintain compliance 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 November 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 to our primary operating subsidiary. The Credit Agreement includes customary financial covenants, including the requirements that the Company maintain certain minimum liquidity and achieve certain minimum EBITDA levels.

In order to draw upon its revolving line of credit, pursuant to the terms of the third amendment to the Credit Agreement entered into as of June 19, 2017, the Company is required to maintain minimum liquidity of at least (i) \$5,000,000 through January 31, 2018, (ii) \$4,000,000 from February 1, 2018 through and including January 31, 2019, and (iii) \$3,000,000 from February 1, 2019 through and including the maturity date of the credit facility. The Company was in compliance with the applicable loan covenants at July 31, 2018.

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 lenders. 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 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. Subject to the terms of the Subordination and Intercreditor Agreement, 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 redeem the preferred stock could subject us to decreased liquidity and other negative impacts on our business, results of operations, and financial condition. Under the terms of the Subordination and Intercreditor Agreement among the preferred stockholders, the Company and Wells Fargo, our obligation to redeem the preferred stock is subordinated to our obligations under the senior term loan and the preferred stock may not be redeemed without the consent of Wells Fargo. For additional information regarding the terms, rights and preferences of the preferred stock, see Note 14 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2018 and our other SEC filings.

Economic conditions in the U.S. and globally may have significant effects on our clients and suppliers that could result in material adverse effects on our business, operating results and stock price.

Economic conditions in the U.S. and globally could deteriorate and cause the worldwide economy to enter into a stagnant period that could 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. Challenging economic conditions also would 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 a deterioration of 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. Any of the foregoing effects could have a material adverse effect on our business, results of operations, and financial condition and could adversely affect the market price of our common stock and other securities.

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 clients' financial conditions 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 this report and our other filings with the SEC.

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

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. 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 exchange rate risk.

In connection with our expansion into foreign markets, which primarily consists of Canada, we sometimes receive payment in 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 from our non-U.S. dollar denominated revenue, as expressed in U.S. dollars. There is also a risk that we will have to adjust the pricing of solutions denominated in foreign currencies when there has been significant volatility in foreign currency exchange rates.

We may have increases in tax expenses and uncertain future tax liabilities due to the recent enactment of the Tax Cuts and Jobs Act.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was enacted and contains significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35 percent to 21 percent and creates new taxes focused on foreign-sourced earnings and related-party payments. The Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 22, 2017, which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of July 31, 2018, in accordance with SAB 118. As the Company collects and prepares necessary data, and interprets the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, the Company may make adjustments to the provisional amounts during fiscal 2019. Those adjustments may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made and could impact our net income and our earnings per share, as well as our consolidated cash flows and liquidity.

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;

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- 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 Stock 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. Further, as a result of our relatively small public float, our common stock may be less liquid, and the trading price for our common stock may be more affected by relatively small volumes of trading than is the case for the common stock of companies with a broader public ownership. These factors may cause the market price of our common stock to decline, regardless of our operating performance or financial condition.

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 market price of our common 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 a 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 common stock.

We are generally not restricted from issuing in public or private offerings additional shares of common stock or preferred stock (except for certain restrictions under the terms of our outstanding preferred stock), and other 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, 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 rights and preferences over the shares of common stock with respect to dividends or upon our dissolution, winding-up or 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 or 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 our common stock could be adversely affected.

As of July 31, 2018, we had 2,895,464 shares of preferred stock outstanding. For additional information regarding the terms, rights and preferences of such stock, see Note 14 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2018 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. The trading price of our common stock could decline and you could lose all or part of your investment.

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.

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 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 market 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 2. ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth information with respect to our repurchases of common stock during the three months ended July 31, 2018:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
May 1 - May 31	6,616	\$ 1.48	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	714	1.41	—	—
Total	7,330	\$ 1.47	—	—

(1) Amount represents shares surrendered by employees to satisfy tax withholding obligations resulting from restricted stock that vested during the three months ended July 31, 2018.

Item 5. OTHER INFORMATION**Amendment to Software License and Royalty Agreement**

On October 25, 2013, we entered into the Royalty Agreement with Montefiore pursuant to which Montefiore granted us an exclusive, worldwide 15-year license of Montefiore’s proprietary clinical analytics platform solution, CLG, now known as our Clinical Analytics solution. In addition, Montefiore assigned to us the existing license agreement with a customer using CLG. As consideration under the Royalty Agreement, we paid Montefiore a one-time initial base royalty fee of \$3,000,000. Additionally, we originally committed that Montefiore would receive at least an additional \$3,000,000 of on-going royalty payments related to future sublicensing of CLG by us within the first six and one-half years of the license term. On July 1, 2018, we entered into a joint amendment to the Royalty Agreement and the existing Software License and Support Agreement with Montefiore to modify the payment obligations of the parties under both agreements. According to the modified provisions, our obligation to pay on-going royalties under the Royalty Agreement was replaced with the obligation to (i) provide maintenance services for 24 months and waive associated maintenance fees, and (ii) pay \$1,000,000 in cash by July 31, 2020.

Employment Agreement with Thomas J. Gibson

On September 10, 2018, the Company entered into an employment agreement with Mr. Gibson when he was appointed Senior Vice President and Chief Financial Officer of the Company. The initial term of Mr. Gibson’s employment agreement is one year, after which it renews for successive one-year terms unless either party elects not to renew. Mr. Gibson’s employment agreement provides for an annual base salary of \$275,000 (subject to increase at the discretion of the Compensation Committee) and provides that Mr. Gibson will be eligible for an annual cash bonus with a target amount of 40% of his annual base salary, based on the achievement of certain performance objectives. In addition, Mr. Gibson’s employment agreement contains standard non-competition and non-solicitation provisions. Mr. Gibson’s employment agreement further provides for standard expense reimbursement, vacation time, and other standard executive benefits.

The Company also granted to Mr. Gibson on September 10, 2018 100,000 restricted stock units (the “Initial RSUs”). The Initial RSUs were granted outside of the Company’s Amended and Restated 2013 Stock Incentive Plan (the “Equity Plan”) as inducement grants. Additionally, per the terms of his employment agreement, the Company will grant Mr. Gibson, effective as of February 1, 2019, an additional 50,000 RSUs (the “2019 RSUs” and, together with the Initial RSUs, the “Equity Awards”). The Equity Awards will vest in three substantially equal annual installments over the first three years of employment. The grants of the Equity Awards were approved by the Company’s Compensation

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Committee and were granted as an inducement material to Mr. Gibson entering into employment with the Company in accordance with Nasdaq Listing Rule 5635(c)(4).

Mr. Gibson's employment agreement provides assurances to the Company with regard to the availability of Mr. Gibson's services, provides protection for the Company's confidential information and trade secrets, and restricts the ability of Mr. Gibson to compete with the Company during his employment and for a specified period after his termination. In return, Mr. Gibson is provided assurances with regard to salary, other compensation and benefits, as well as severance benefits if his employment is terminated by the Company other than for "good cause." For this purpose, "good cause" includes the current use of illegal drugs, conviction of any crime which involves moral turpitude, fraud or misrepresentation, commission of any act which would constitute a felony and which adversely impacts the business or reputation of the Company, fraud, misappropriation or embezzlement of Company funds or property; wrongful conduct which is materially injurious to the reputation, business or business relationships of the Company; material violation or default on any of the provisions of the employment agreement, and the material and continuous failure to meet reasonable performance criteria or reasonable standards of conduct as established from time to time by the board of directors.

In addition, Mr. Gibson is provided additional assurances following a change of control of the Company. In such a situation, he would receive enhanced severance benefits, but only if his employment were terminated without "good cause" or if he chooses to terminate his employment for "good reason." This additional "double trigger" change of control protection has been provided to Mr. Gibson because he is considered vulnerable in a change of control context due to his position with the Company, his relative levels of equity ownership and the stage of his career.

Item 6. EXHIBITS

See Index to Exhibits.

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1*	Employment Agreement dated September 10, 2018 by and between Streamline Health Solutions, Inc. and Thomas J. Gibson.
10.2*	Joint Amendment, dated July 1, 2018, to the Software License and Support Agreement and the Software License and Royalty Agreement by and between Streamline Health Solutions, Inc. and Montefiore Medical Center.
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 July 31, 2018 filed with the SEC on September 12, 2018, formatted in XBRL includes: (i) Condensed Consolidated Balance Sheets at July 31, 2018 and January 31, 2018, (ii) Condensed Consolidated Statements of Operations for three- and six-month periods ended July 31, 2018 and 2017, (iii) Condensed Consolidated Statements of Cash Flows for the six-month periods ended July 31, 2018 and 2017, and (iv) Notes to the Condensed Consolidated Financial Statements.

* 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.

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.

DATE: September 12, 2018	By: <u>STREAMLINE HEALTH SOLUTIONS, INC.</u> <u>/s/ David W. Sides</u> David W. Sides <i>Chief Executive Officer</i>
DATE: September 12, 2018	By: <u>/s/ Thomas J. Gibson</u> Thomas J. Gibson <i>Chief Financial Officer</i>



EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (together with Exhibit A, the “Agreement”) is entered as of September 10th, 2018, by and between Streamline Health Solutions, Inc., a Delaware corporation with its headquarters in Atlanta, Georgia (the “Company”), and Thomas J. Gibson, a resident of the state of Georgia (“Executive”).

RECITALS:

WHEREAS, the Company and Executive hereby agree that Executive will serve as an officer of the Company pursuant to the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the agreements contained herein, and for other good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, the parties agree as follows:

1. EMPLOYMENT

The Company hereby agrees to employ Executive, and Executive, in consideration of such employment and other consideration set forth herein, hereby accepts employment, upon the terms and conditions set forth herein.

2. POSITION AND DUTIES

During the Term (as defined in Section 10 of this Agreement), Executive will be employed as Senior Vice President, Chief Financial Officer of the Company and may also serve as an officer or director of affiliates of the Company for no additional compensation, as part of Executive’s services to the Company hereunder. While employed hereunder, Executive will do all things necessary, legal and incident to the above positions, and otherwise will perform such executive-level functions, as the Chief Executive Officer of the Company (the “CEO”), to whom Executive will report, or the Board of Directors of the Company (the “Board”) may establish from time to time.

3. COMPENSATION AND BENEFITS

Subject to such modifications as may be contemplated by Exhibit A and approved from time to time by the Board or the Compensation Committee of the Board (the “Committee”), and unless otherwise consented to by Executive, Executive will receive the compensation and benefits listed on the attached Exhibit A, which is incorporated herein and expressly made a part of this Agreement. Such compensation and benefits will be paid and provided by the Company in accordance with the Company’s regular payroll, compensation and benefits policies.

4. EXPENSES

The Company will pay or reimburse Executive for all travel and out-of-pocket expenses reasonably incurred or paid by Executive in connection with the performance of Executive’s duties as an employee of the Company upon compliance with the Company’s procedures for expense reimbursement, including the presentation of expense statements or receipts or such other supporting documentation as the Company may reasonably require. All expenses eligible for reimbursements in connection with the Executive’s employment with the Company must be incurred by Executive during the term of employment and must be in accordance with the Company’s expense reimbursement policies. The amount of reimbursable expenses incurred in one taxable year will not affect the expenses eligible for reimbursement in any other taxable year. Each category of reimbursement will be paid as soon as administratively practicable, but in no event will any such reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. No right to reimbursement is subject to liquidation or exchange for other benefits.



5. BINDING AGREEMENT

The Company warrants and represents to Executive that the Company, acting by the officer executing this Agreement on its behalf of the Company, has the full right and authority to enter into this Agreement and to perform all of its obligations hereunder.

6. OUTSIDE EMPLOYMENT

Executive will devote Executive's full time and attention to the performance of the duties incident to Executive's position with the Company, and will not have any other employment with any other enterprise or substantial responsibility for any enterprise which would be inconsistent with Executive's duty to devote Executive's full time and attention to Company matters; *provided, however,* that the foregoing will not prevent Executive from participation in any charitable or civic organization or, subject to CEO consent, which consent will not be unreasonably withheld, from service in a non-executive capacity on the boards of directors of up to two other companies that does not interfere with Executive's performance of the duties and responsibilities to be performed by Executive under this Agreement.

7. CONFIDENTIAL INFORMATION AND TRADE SECRETS

The Company is in the business of providing solutions, including comprehensive suites of health information solutions relating to enterprise content management, computer assisted coding, business analytics, clinical analytics, patient scheduling and integrated workflow systems, that help hospitals, physician groups and other healthcare organizations improve efficiencies and business processes across the enterprise to enhance and protect revenues, offering a flexible, customizable way to optimize the clinical and financial performance of any healthcare organization (the "Business").

For the purpose of this Agreement, "Confidential Information" will mean any written or unwritten information which relates to or is used in the Company's Business (including, without limitation, the Company's services, processes, patents, systems, equipment, creations, designs, formats, programming, discoveries, inventions, improvements, computer programs, data kept on computers, engineering, research, development, applications, financial information, information regarding services and products in development, market information, including test marketing or localized marketing, other information regarding processes or plans in development, trade secrets, training manuals, know-how of the Company, and the customers, clients, suppliers and others with whom the Company does or has in the past done, business (including any information about the identity of the Company's customers or suppliers and written customer lists and customer prospect lists), or information about customer requirements, transactions, work orders, pricing policies, plans or any other Confidential Information, which the Company deems confidential and proprietary and which is generally not known to others outside the Company and which gives or tends to give the Company a competitive advantage over persons who do not possess such information or the secrecy of which is otherwise of value to the Company in the conduct of its business — regardless of when and by whom such information was developed or acquired, and regardless of whether any of these are described in writing, reduced to practice, copyrightable or considered copyrightable, patentable or considered patentable; *provided, however,* that "Confidential Information" will not include general industry information or information which is publicly available or is otherwise in the public domain without breach of this Agreement, information which Executive has lawfully acquired from a source other than through his employment with the Company, or information which is required to be disclosed pursuant to any law, regulation or rule of any governmental body or authority or court order (in which event Executive will immediately notify the Company of such requirement or order so as to give the Company an opportunity to seek a protective order or other manner of protection prior to production or disclosure of the information). Executive acknowledges that Confidential Information is novel and proprietary to and of considerable value to the Company.

Confidential Information will also include confidential information of third parties, clients or prospective clients that has been provided to the Company or to Executive in conjunction with Executive's employment, which information



the Company is obligated to treat as confidential. Confidential Information does not include information voluntarily disclosed to the public by the Company, except where such public disclosure has been made by the Executive without authorization from the Company, or which has been independently developed and disclosed by others, or which has otherwise entered the public domain through lawful means.

Executive acknowledges that all Confidential Information is the valuable, unique and special asset of the Company and that the Company owns the sole and exclusive right, title and interest in and to this Confidential Information.

(a) To the extent that the Confidential Information rises to the level of a trade secret under applicable law, then Executive will, during Executive's employment and for as long thereafter as the Confidential Information remains a trade secret (or for the maximum period of time otherwise allowed under applicable law) protect and maintain the confidentiality of these trade secrets and refrain from disclosing, copying or using the trade secrets without the Company's prior written consent, except as necessary in Executive's performance of Executive's duties while employed with the Company.

(b) To the extent that the Confidential Information defined above does not rise to the level of a trade secret under applicable law, Executive will not, during Executive's employment and thereafter for a period of two (2) years, disclose, or cause to be disclosed in any way, Confidential Information, or any part thereof, to any person, firm, corporation, association or any other operation or entity, or use the Confidential Information on Executive's own behalf, for any reason or purpose except as necessary in the performance of his duties while employed with the Company. Executive further agrees that, during Executive's employment and thereafter for a period of two (2) years, Executive will not distribute, or cause to be distributed, Confidential Information to any third person or permit the reproduction of Confidential Information, except on behalf of the Company in Executive's capacity as an employee of the Company. Executive will take all reasonable care to avoid unauthorized disclosure or use of the Confidential Information. Executive agrees that all restrictions contained in this Section 7 are reasonable and valid under the circumstances and hereby waives all defenses to the strict enforcement thereof by the Company.

Executive agrees that, upon the request of the Company, or in any event immediately upon termination of his employment for whatever reason, Executive will immediately deliver up to the Company or its designee all Confidential Information in Executive's possession or control, and all notes, records, memoranda, correspondence, files and other papers, and all copies thereof, relating to or containing Confidential Information. Executive does not have, nor can Executive acquire, any property or other rights in Confidential Information.

8. PROPERTY OF THE COMPANY

All ideas, inventions, discoveries, proprietary information, know-how, processes and other developments and, more specifically, improvements to existing inventions, conceived by Executive, alone or with others, during the term of Executive's employment with the Company, whether or not during working hours and whether or not while working on a specific project, that are within the scope of the Company's Business operations or that relate to any work or projects of the Company, are and will remain the exclusive property of the Company. Inventions, improvements and discoveries relating to the Business of the Company conceived or made by Executive, either alone or with others, while employed with the Company are conclusively and irrefutably presumed to have been made during the period of employment and are the sole property of the Company. The Executive will promptly disclose in writing any such matters to the Company but to no other person without the consent of the Company. Executive hereby assigns and agrees to assign all right, title and interest in and to such matters to the Company. Executive will, upon request of the Company, execute such assignments or other instruments and assist the Company in the obtaining, at the Company's sole expense, of any patents, trademarks or similar protection, if available, in the name of the Company.

9. PROTECTIVE COVENANTS

(a) Non-Solicitation of Customers or Clients. During Executive's employment and for a period of two (2) years following the date of any voluntary or involuntary termination of Executive's employment for any reason, Executive agrees not to solicit, directly or indirectly (including by assisting others), any business from any of the Company's customers or clients, including actively sought prospective customers or clients, with whom Executive has had material contact during Executive's employment with the Company, for the purpose of providing products or services that are competitive with those provided by the Company. As used in this paragraph, "material contact" means the contact



between Executive and each customer, client or vendor, or potential customer, client or vendor (i) with whom or which Executive dealt on behalf of the Company, (ii) whose dealings with the Company were coordinated or supervised by Executive, (iii) about whom Executive obtained confidential information in the ordinary course of business as a result of Executive's association with the Company, or (iv) who receives products or services authorized by the Company, the sale or provision of which products or services results or resulted in compensation, commissions or earnings for Executive within two years prior to the date of the Executive's termination.

(b) Non-Piracy of Employees. During Executive's employment and for a period of two (2) years following the date of any voluntary or involuntary termination of Executive's employment for any reason, Executive covenants and agrees that Executive will not, directly or indirectly, within the Territory, as defined below: (i) solicit, recruit or hire (or attempt to solicit, recruit or hire) or otherwise assist anyone in soliciting, recruiting or hiring, any employee or independent contractor of the Company who performed work for the Company and worked with Executive within the last year of Executive's employment with the Company, or (ii) otherwise encourage, solicit or support any such employee or independent contractor to leave his or her employment or engagement with the Company.

(c) Non-Compete. During Executive's employment with the Company and for a period of two (2) years following the date of any voluntary or involuntary termination of Executive's employment for any reason, and provided that the Company is not in default of its obligations specified in Sections 11 and 13 hereof, Executive agrees not to, directly or indirectly, compete with the Company, as an officer, director, member, principal, partner, shareholder, owner, manager, supervisor, administrator, employee, consultant or independent contractor, by working for a competitor to, or engaging in competition with, the Business, in the Territory, in a capacity in which Executive performs duties and responsibilities that are the same as or similar to the duties performed by Executive while employed by the Company, provided that the foregoing will not prohibit Executive from owning not more than 5% of the outstanding stock of a corporation subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The "Territory" will be defined to be that geographic area comprised of the following states in the United States of America, the District of Columbia, the Canadian provinces of Quebec and Alberta:

Alabama	Indiana	Nebraska	South Carolina
Alaska	Iowa	Nevada	South Dakota
Arizona	Kansas	New Hampshire	Tennessee
Arkansas	Kentucky	New Jersey	Texas
California	Louisiana	New Mexico	Utah
Colorado	Maine	New York	Vermont
Connecticut	Maryland	North Carolina	Virginia
Delaware	Massachusetts	North Dakota	Washington
Florida	Michigan	Ohio	West Virginia
Georgia	Minnesota	Oklahoma	Wisconsin
Hawaii	Mississippi	Oregon	Wyoming
Idaho	Missouri	Pennsylvania	
Illinois	Montana	Rhode Island	

; provided, however, that the Territory described herein is a good faith estimate of the geographic area that is now applicable as the area in which the Company does or will do business during the term of Executive's employment, and the Company and Executive agree that this non-compete covenant will ultimately be construed to cover only so much of such Territory as relates to the geographic areas in which the Executive does business for and on behalf of the Company within the two-year period preceding termination of Executive's employment.

10. TERM

Unless earlier terminated pursuant to Section 11 herein, the term of this Agreement will be for a period beginning on the start date specified in Exhibit A and ending on September 10th, 2019 (the "Initial Term"). Upon expiration of the Initial Term, this Agreement will automatically renew in successive one-year periods (each a "Renewal Period"), unless Executive or the Company notifies the other party at least 60 days prior to the end of the Initial Term or the applicable Renewal Period that this Agreement will not be renewed. The Initial Term, and, if this Agreement is renewed in



accordance with this Section 10, each Renewal Period, will be included in the definition of “Term” for purposes of this Agreement. Unless waived in writing by the Company, the requirements of Section 7 (Confidential Information and Trade Secrets), Section 8 (Property of the Company) and Section 9 (Protective Covenants) will survive the expiration or termination of this Agreement or Executive’s employment for any reason.

11. TERMINATION

(a) Death. This Agreement and Executive’s employment hereunder will be terminated on the death of Executive, effective as of the date of Executive’s death. In such event, the Company will pay to the estate of Executive the sum of (i) accrued but unpaid base salary earned prior to Executive’s death (to be paid in accordance with normal practices of the Company) and (ii) expenses incurred by Executive prior to his death for which Executive is entitled to reimbursement under (and paid in accordance with) Section 4 herein, and Executive will be entitled to no severance or other post-termination benefits.

(b) Continued Disability. This Agreement and Executive’s employment hereunder may be terminated, at the option of the Company, upon a Continued Disability (as defined herein) of Executive. For the purposes of this Agreement, and unless otherwise required under Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), “Continued Disability” will be defined as the inability or incapacity (either mental or physical) of Executive to continue to perform Executive’s duties hereunder for a continuous period of one hundred twenty (120) working days, or if, during any calendar year of the Term hereof because of disability, Executive will have been unable to perform Executive’s duties hereunder for a total period of one hundred eighty (180) working days regardless of whether or not such days are consecutive. The determination as to whether Executive is unable to perform the essential functions of Executive’s job will be made by the Board or the Committee in its reasonable discretion; *provided, however*, that if Executive is not satisfied with the decision of the Board or the Committee, Executive will submit to examination by three competent physicians who practice in the metropolitan area in which the Company maintains its principal executive office, one of whom will be selected by the Company, another of whom will be selected by Executive, with the third to be selected by the physicians so selected. The determination of a majority of the physicians so selected will supersede the determination of the Board or the Committee and will be final and conclusive. In the event of the termination of Executive’s employment due to Continued Disability, the Company will pay to Executive the sum of (i) accrued but unpaid base salary earned prior to the date of the Executive’s termination of employment due to Continued Disability (paid in accordance with the normal practices of the Company), and (ii) expenses incurred by Executive prior to his termination of employment for which Executive is entitled to reimbursement under (and paid in accordance with) Section 4 herein, and Executive will be entitled to no severance or other post-termination benefits.

(c) Termination by the Company for Good Cause, by Executive Other Than for Good Reason, or upon Non-Renewal of the Term by Executive. Notwithstanding any other provision of this Agreement, the Company may at any time terminate this Agreement and Executive’s employment hereunder for Good Cause, Executive may at any time terminate his employment other than for Good Reason (as defined in Section 11(d) herein), or Executive may notify the Company that he will not renew the Term. For this purpose, “Good Cause” will include the following: the current use of illegal drugs; conviction of any crime which involves moral turpitude, fraud or misrepresentation; commission of any act which would constitute a felony or which adversely impacts the business or reputation of the Company; fraud; misappropriation or embezzlement of Company funds or property; willful misconduct or grossly negligent or reckless conduct which is materially injurious to the reputation, business or business relationships of the Company; material violation or default on any of the provisions of this Agreement; or material and continuous failure to meet reasonable performance criteria or reasonable standards of conduct as established from time to time by the Board, which failure continues for at least 30 days after written notice from the Company to Executive. Notice of a termination by the Company for Good Cause will be delivered in writing to Executive stating the Good Cause for such action. If the employment of Executive is terminated by the Company for Good Cause, if Executive terminates employment for any reason other than for Good Reason (including, but not limited to, resignation), or if Executive notifies the Company he will not renew

the Term, then, the Company will pay to Executive the sum of (i) accrued but unpaid salary through the termination date (paid in accordance with the normal practices of the Company), and (ii) expenses incurred by Executive prior to his termination date for which Executive is entitled to reimbursement under (and paid in accordance with) Section 4 herein, and Executive will be entitled to no severance or other post-termination benefits.

(d) Termination by the Company without Good Cause or by Executive for Good Reason. The Company may terminate this Agreement and Executive's employment at any time, including for reasons other than Good Cause (as "Good Cause" is defined in Section 11(c) above), Executive may terminate his employment at any time, including for Good Reason, or the Company may elect not to renew the Term. For the purposes herein, "Good Reason" will mean (i) a material diminution of Executive's base salary; (ii) a material diminution in Executive's authority, duties, or responsibilities; (iii) a material change in geographic location at which the Executive must primarily perform services, from Metropolitan Atlanta, Georgia; or (iv) any other action or inaction that constitutes a material breach of the terms of this Agreement; provided that Executive's termination will not be treated as for Good Reason unless Executive provides the Company with notice of the existence of the condition claimed to constitute Good Reason within 90 days of the initial existence of such condition and the Company fails to remedy such condition within 30 days following the Company's receipt of such notice. In the event that (i) the Company terminates the employment of Executive during the Term for reasons other than for Good Cause, death or Continued Disability or (ii) Executive terminates employment for Good Reason, then the Company will pay Executive the sum of (A) accrued but unpaid salary through the termination date (paid in accordance with the normal practices of the Company), (B) expenses incurred by Executive prior to his termination date for which Executive is entitled to reimbursement under (and paid in accordance with) Section 4 herein, and (C) provided that Executive is not in default of his obligations under Section 7, 8, or 9 herein, an amount equal to (x) six months' base salary or (y) if such termination occurs in the Initial Term, the amount of base salary for the period commencing on the effective date of termination and ending on the last day of said term, whichever is greater ((A) through (C), being hereinafter referred to, collectively, as the "Separation Benefits"). In such event, the payments described in (C) in the preceding sentence will be made following Executive's execution (and non-revocation) of a form of general release of claims as is acceptable to the Board or the Committee if the general release form is provided to the Executive within one month of the Executive's date of termination, in accordance with the normal payroll practices of the Company; provided that the portion of the severance payment described in clause (C) above that exceeds the "separation pay limit," if any, will be paid to the Executive in a lump sum payment within thirty (30) days following the date of Executive's termination of employment (or such earlier date following the date of Executive's termination of employment, if any, as may be required under applicable wage payment laws), but in no event later than the fifteenth (15th) day of the third (3rd) month following the Executive's date of termination. The "separation pay limit" will mean two (2) times the lesser of: (1) the sum of Executive's annualized compensation based upon the annual rate of pay for services provided to the Company for the calendar year immediately preceding the calendar year in which Executive's date of termination of employment occurs (adjusted for any increase during that calendar year that was expected to continue indefinitely if Executive had not terminated employment); and (2) the maximum dollar amount of compensation that may be taken into account under a tax-qualified retirement plan under Code Section 401(a)(17) for the year in which his termination of employment occurs. The lump-sum payment to be made to Executive pursuant to this Section 4(a)(ii) is intended to be exempt from Code Section 409A under the exemption found in Regulation Section 1.409A-1(b)(4) for short-term deferrals. The remaining portion of the severance payment described in clause (C) above will be paid in periodic installments over the 15-month period commencing on the first post-termination payroll date following expiration of the revocation period described above and will be paid in accordance with the normal payroll practices of the Company. Notwithstanding the foregoing, in no event will such remaining portion of the severance payment described in clause (C) above be paid to Executive later than December 31 of the second calendar year following the calendar year in which Executive's date of termination of employment occurs. The payments to be made to Executive pursuant to the immediately preceding sentence are intended to be exempt from Code Section 409A under the exemption found in Regulation Section 1.409A-1(b)(9)(iii) for separation pay plans (*i.e.*, the so-called "two times" pay exemption). For the sake of clarity, no election by the Company not to renew the Term will trigger any rights to severance or other benefits.

(e) Payment of COBRA Premiums. In the event that the Company terminates Executive's employment for any reason other than Good Cause or Executive terminates his employment for Good Reason, then, provided that Executive timely elects to receive continued coverage under the Company's group medical and dental insurance plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"), for the period commencing on the date of Executive's termination and continuing until the earlier of the end of the six-month

period following his termination date or the first of the month immediately following the Company's receipt of notice from Executive terminating such coverage, Executive (and any qualified dependents) will be entitled to coverage under such plans (as may be amended during the period of coverage) in which Executive was participating immediately prior to the date of his termination of employment (the "COBRA Coverage"). The cost of the premiums for such coverage will be borne by the Company, except that Executive will reimburse the Company for premiums becoming due each month with respect to such coverage in an amount equal to the difference between the amount of such premiums and the portion thereof currently being paid by Executive. Executive's portion of such premiums will be payable by the first of each month commencing the first month following the month in which his termination of employment occurs. The period during which Executive is being provided with health insurance under this Agreement at the Company's expense will be credited against Executive's period of COBRA coverage, if any. Further, if at any time during the period Executive is entitled to premium payments under this Section 11(e), Executive becomes entitled to receive health insurance from a subsequent employer, the Company's obligation to continue premium payments to Executive shall terminate immediately.

12. ADVICE TO PROSPECTIVE EMPLOYERS

If Executive seeks or is offered employment by any other company, firm or person during his employment or during the post-termination restricted periods, he will notify the prospective employer of the existence and terms of the non-competition and confidentiality agreements set forth in Sections 7 and 9 of this Agreement. Executive may disclose the language of Sections 7 and 9 but may not disclose the remainder of this Agreement.

13. CHANGE IN CONTROL

(a) In the event of a Change in Control (as defined herein) of the Company, (i) all stock options, restricted stock, and all other equity awards granted to Executive prior to the Change in Control will immediately vest in full, (ii) if, within 90 days prior to a Change in Control, the Company terminates the employment of Executive for reasons other than for Good Cause, death or Continued Disability, or Executive terminates employment for Good Reason, then, the Company will (x) pay the Executive the sum of (A) accrued but unpaid salary through the termination date (paid in accordance with the normal practices of the Company), (B) expenses incurred by Executive prior to his termination date for which Executive is entitled to reimbursement under (and paid in accordance with) Section 4 herein, and (C) provided that Executive is not in default of his obligations under Section 7, 8, or 9 herein, an amount equal to twelve months' base salary ((A) through (C), being hereinafter referred to, collectively, as the "Change in Control Separation Benefits") and (y) provide the COBRA Coverage, and all other stock options, restricted stock, and other equity awards granted to Executive will immediately vest in full as of the date of termination and will remain exercisable until the earlier of the end of the applicable option period or one hundred and eighty (180) days from the date of Executive's termination of employment, and (iii) if, within 12 months following a Change in Control, the Company terminates the employment of Executive for reasons other than for Good Cause, death or Continued Disability or Executive terminates employment for Good Reason, then (a) the Company will provide the Change in Control Separation Benefits and the COBRA Coverage, and (b) all stock options, restricted stock, and other equity awards granted to Executive will immediately vest in full as of the date of termination and will remain exercisable until the earlier of the end of the applicable option period or one hundred and eighty (180) days from the date of Executive's termination of employment. In the event Executive seeks to terminate his employment for Good Reason, such termination will not be treated for purposes of this Section 13 as a termination for Good Reason unless Executive provides the Company with notice of the existence of the condition claimed to constitute Good Reason within 90 days of the initial existence of such condition and the Company fails to remedy such condition within 30 days following the Company's receipt of such notice.

(b) For purposes of this Agreement, "Change in Control" means any of the following events:

(i) A change in control of the direction and administration of the Company's business of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act, as in effect on the date hereof and any successor provision of the regulations under the Exchange Act, whether or not the Company is then subject to such reporting requirements; or

(ii) Any "person" (as such term is used in Section 13(d) and Section 14(d)(2) of the Exchange Act but excluding any employee benefit plan of the Company) is or becomes the "beneficial owner" (as defined in Rule

13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than one half of the combined voting power of the Company's outstanding securities then entitled to vote for the election of directors; or

(iii) The Company sells all or substantially all of the assets of the Company; or

(iv) The consummation of a merger, reorganization, consolidation or similar business combination that constitutes a change in control as defined in the Company's 2013 Stock Incentive Plan or other successor stock plan or results in the occurrence of any event described in Sections 13(b) (i), (ii) or (iii) above.

(c) Notwithstanding anything to the contrary contained in this Agreement, in the event any amounts payable hereunder would be considered to be excess parachute payments for purposes of the amount payable following the occurrence of a Change of Control that is treated as a "change in the ownership or effective control" of the Company or "in the ownership of a substantial portion of the assets" of the Company for purposes of Code Sections 280G and 4999, those payments that are treated for purposes of Code Section 280G as being contingent on a "change in the ownership or effective control" (as that phrase is used for purposes of Code Section 280G) of the Company will be reduced, if and to the extent necessary, so that no payments under this Agreement are treated as excess parachute payments.

14. ACKNOWLEDGEMENTS

The Company and Executive each hereby acknowledge and agree as follows:

(a) The covenants, restrictions, agreements and obligations set forth herein are founded upon valuable consideration, and, with respect to the covenants, restrictions, agreements and obligations set forth in Sections 7, 8 and 9 hereof, are reasonable in duration, the activities proscribed, and geographic scope;

(b) In the event of a breach or threatened breach by Executive of any of the covenants, restrictions, agreements and obligations set forth in Sections 7, 8 or 9 hereof, monetary damages or the other remedies at law that may be available to the Company for such breach or threatened breach will be inadequate and, without prejudice to the Company's right to pursue any other remedies at law or in equity available to it for such breach or threatened breach, including, without limitation, the recovery of damages from Executive, the Company will be entitled to injunctive relief from a court of competent jurisdiction or the arbitrator; and

(c) The time period, proscribed activities, and geographical area set forth in Section 9 hereof are each divisible and separable, and, in the event that the covenants not to compete contained therein are judicially held invalid or unenforceable as to such time period, scope of activities, or geographical area, they will be valid and enforceable to such extent and in such geographical area(s) and for such time period(s) which the court determines to be reasonable and enforceable. Executive agrees that in the event any court of competent jurisdiction determines that the above covenants are invalid or unenforceable to join with the Company in requesting that court to construe the applicable provision by limiting or reducing it so as to be enforceable to the extent compatible with the then applicable law. Furthermore, any period of restriction or covenant herein stated will not include any period of violation or period of time required for litigation to enforce such restriction or covenant.

15. NOTICES

Any notice or communication required or permitted hereunder will be given in writing and will be sufficiently given if delivered personally or sent by telecopy to such party addressed as follows:

(a) In the case of the Company, if addressed to it as follows:

Streamline Health Solutions, Inc. 1230 Peachtree Street NE
Suite 600
Atlanta, Georgia 30309
Attn: Chief Executive Officer

(b) In the case of Executive, if addressed to Executive at the most recent address on file with the Company.

Any such notice delivered personally will be deemed to have been received on the date of such delivery. Any address for the giving of notice hereunder may be changed by notice in writing.

16. ASSIGNMENT, SUCCESSORS AND ASSIGNS

This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective legal representatives, successors and assigns. The Company may assign or otherwise transfer its rights under this Agreement to any successor or affiliated business or corporation (whether by sale of stock, merger, consolidation, sale of assets or otherwise), but this Agreement may not be assigned, nor may his duties hereunder be delegated, by Executive. In the event that the Company assigns or otherwise transfers its rights under this Agreement to any successor or affiliated business or corporation (whether by sale of stock, merger, consolidation, sale of assets or otherwise), for all purposes of this Agreement, the "Company" will then be deemed to include the successor or affiliated business or corporation to which the Company, assigned or otherwise transferred its rights hereunder.

17. MODIFICATION

This Agreement may not be released, discharged, abandoned, changed or modified in any manner, except by an instrument in writing signed by each of the parties hereto.

18. SEVERABILITY

The invalidity or unenforceability of any particular provision of this Agreement will not affect any other provisions hereof, and the parties will use their best efforts to substitute a valid, legal and enforceable provision, which, insofar as practical, implements the purpose of this Agreement. If the parties are unable to reach such agreement, then the provisions will be modified as set forth in Section 14(c) above. Any failure to enforce any provision of this Agreement will not constitute a waiver thereof or of any other provision hereof.

19. COUNTERPARTS

This Agreement may be signed in counterparts (and delivered via facsimile transmission or by digitally scanned signature delivered electronically), and each of such counterparts will constitute an original document and such counterparts, taken together, will constitute one and the same instrument.

20. ENTIRE AGREEMENT

This constitutes the entire agreement among the parties with respect to the subject matter of this Agreement and supersedes all prior and contemporaneous agreements, understandings, and negotiations, whether written or oral, with respect to such subject matter.

21. DISPUTE RESOLUTION

Except as set forth in Section 14 above, any and all disputes arising out of or in connection with the execution, interpretation, performance or non-performance of this Agreement or any agreement or other instrument between, involving or affecting the parties (including the validity, scope and enforceability of this arbitration clause), will be submitted to and resolved by arbitration. The arbitration will be conducted pursuant to the terms of the Federal Arbitration Act and the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association. Either party may notify the other party at any time of the existence of a controversy potentially requiring arbitration by certified mail, and the parties will attempt in good faith to resolve their differences within fifteen (15) days after the receipt of such notice. If the dispute cannot be resolved within the fifteen-day period, either party may file a written demand for arbitration with the American Arbitration Association. The place of arbitration will be Atlanta, Georgia.

Initialed by Executive Initialed by the Company

22. GOVERNING LAW; FORUM SELECTION

The provisions of this Agreement will be governed by and interpreted in accordance with the internal laws of the State of Georgia and the laws of the United States applicable therein. Executive acknowledges and agrees that Executive is subject to personal jurisdiction in state and federal courts in Fulton County, Georgia, and waives any objection thereto.

23. CODE SECTION 409A

Notwithstanding any other provision in this Agreement to the contrary, if and to the extent that Code Section 409A is deemed to apply to any benefit under this Agreement, it is the general intention of the Company that such benefits will, to the extent practicable, comply with, or be exempt from, Code Section 409A, and this Agreement will, to the extent practicable, be construed in accordance therewith. Deferrals of benefits distributable pursuant to this Agreement that are otherwise exempt from Code Section 409A in a manner that would cause Code Section 409A to apply will not be permitted unless such deferrals follow Code Section 409A. In the event that the Company (or a successor thereto) has any stock which is publicly traded on an established securities market or otherwise and Executive is determined to be a "specified employee" (as defined under Code Section 409A), any payment that is deemed to be deferred compensation under Code Section 409A to be made to the Executive upon a separation from service may not be made before the date that is six months after Executive's separation from service (or death, if earlier). To the extent that Executive becomes subject to the six-month delay rule, all payments that would have been made to Executive during the six months following his separation from service that are not otherwise exempt from Code Section 409A, if any, will be accumulated and paid to Executive during the seventh month following his separation from service, and any remaining payments due will be made in their ordinary course as described in this Agreement. For the purposes herein, the phrase "termination of employment" or similar phrases will be interpreted in accordance with the term "separation from service" as defined under Code Section 409A if and to the extent required under Code Section 409A. Further, (i) in the event that Code Section 409A requires that any special terms, provisions or conditions be included in this Agreement, then such terms, provisions and conditions will, to the extent practicable, be deemed to be made a part of this Agreement, and (ii) terms used in this Agreement will be construed in accordance with Code Section 409A if and to the extent required. Further, in the event that this Agreement or any benefit thereunder will be deemed not to comply with Code Section 409A, then neither the Company, the Board, the Committee nor its or their designees or agents will be liable to any participant or other person for actions, decisions or determinations made in good faith.

24. WITHHOLDING.

The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as will be required to be withheld pursuant to any applicable law or regulation.

[Signature page follows.]

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto effective as of the date first above written.

STREAMLINE HEALTH SOLUTIONS, INC.

By: /s/ David W. Sides

David W. Sides
President and Chief Executive Officer

EXECUTIVE

By: /s/ Thomas J. Gibson

Thomas J. Gibson

**EXHIBIT A TO EMPLOYMENT AGREEMENT (“AGREEMENT”)
DATED AS OF SEPTEMBER 10th, 2018, BETWEEN STREAMLINE
HEALTH SOLUTIONS, INC. AND THOMAS J. GIBSON --
COMPENSATION AND BENEFITS**

1. Start Date. Executive’s start date will be September 10th, 2018.
2. Base Salary. Base Salary will be paid at an annualized rate of \$275,000, which will be subject to annual review and adjustment by the Committee or the Board but will not be reduced below \$275,000. Such amounts will be payable to Executive in accordance with the normal payroll practices of the Company.
3. Annual Bonus. Target annual bonus and target goals will be set by the Committee annually and based on a combination of individual and Company performance. Target annual bonus (prorated for any partial period) will be 40% of Executive’s then current annual base salary. The annual bonus will be paid pursuant to such conditions as are established by the Committee and, to the extent payable under a bonus plan, subject to such terms and conditions as may be set out in such plan. The annual bonus will, if payable, be paid in cash no later than March 14 of the fiscal year following the fiscal year during which Executive’s right to the annual bonus vests.
4. Benefits. Executive will be eligible to participate in the Company’s benefit plans on the same terms and conditions as provided for other Company executives, subject to all terms and conditions of such plans as they may be amended from time to time and will accrue vacation days and personal days totaling an aggregate of 21 days per annum prorated for 2018. In each calendar year starting in 2019, you shall be entitled to accrue vacation days and personal days totaling an aggregate of 24 days per year.
5. Grant of Restricted Stock. Executive will receive the following grants of equity incentives:
 - (a) An inducement grant of 100,000 restricted stock units (“RSUs”) upon your hire date referred to in paragraph 1 above. You will also receive an additional grant of 50,000 RSUs effective February 1st, 2019. The vesting of such RSUs will be in three substantially equal annual installments over the first three years of employment.

JOINT AMENDMENT TO AGREEMENTS

This Joint Amendment ("Amendment") dated as of July 1, 2018 ("Effective Date") is entered into by Streamline Health, Inc. ("Streamline Health") and Montefiore Medical Center ("Montefiore") to both the Software License and Support Agreement between the parties, dated October 25, 2013 (as amended, the "Support Agreement") and the Software License and Royalty Agreement between the parties, dated October 25, 2013 (as amended, the "Software Agreement" and, along with the Support Agreement, each an "Agreement" and collectively the "Agreements"). This Amendment will be effective as of the Effective Date. Capitalized terms used herein but not otherwise defined have the meaning set forth in the respective Agreement. The parties agree the Agreements will be modified as follows:

1. Modification of Maintenance and Support Fees and Obligations. In partial consideration for the adjustments set forth in Section 2 below, the parties agree that: (a) as of the Effective Date and through the remainder of the Current Maintenance Term (as defined below), the hours of Maintenance Services to be provided under Section 8.1 of the Support Agreement will be increased to 1,509 per year, (b) the current License and Support Term will be modified to end on June 30, 2020 ("Current Maintenance Term"), provided that, as described in Section 20.2 of the Support Agreement, the License and Support Term shall nevertheless continue for so long as Montefiore purchases Maintenance Services under the Support Agreement (such term(s), "Renewal Terms"), and (c) Streamline Health hereby waives any on-going Maintenance Services fees from and after the Effective Date through the end of the Current Maintenance Term. Montefiore will continue to pay the Annual Fees (subject to the annual increases authorized under the Support Agreement, as further described in the note on the first page of the Support Agreement) during the Renewal Terms, and the hours of Maintenance Services under Section 8.1 of the Support Agreement will return to 800 hours per year during the Renewal Terms. The current outstanding invoice SIN007261 (which covers January through June 2018) remains payable. Notwithstanding anything to the contrary in the Support Agreement, any Maintenance Services outside of the scope of Section 8 of the Support Agreement will require the separate written agreement of the parties. For clarity, termination of Maintenance Services pursuant to the Support Agreement will not itself terminate the license to the Software granted under the Support Agreement; provided, further, that all such licenses shall remain subject to all license, use, ownership and other such terms and restrictions (and all associated termination rights) provided in the Agreements in the event Maintenance Services terminate.
 2. One-Time Payment. On or before July 31, 2020, Streamline Health shall pay Montefiore in immediately available funds an amount equal to One Million Dollars (\$1,000,000). Such amount will be paid in accordance with the terms of the Agreement. If such amount is not paid when due, Montefiore shall notify Streamline Health of non-payment (which may be via email or formal writing). If such amount still remains unpaid five (5) business days after such notice of non-payment, then (a) it shall bear interest at a rate of 1½% per month until paid, or the highest rate permitted by law, whichever is less, and (b) Montefiore shall be entitled to all reasonable costs of collection including reasonable attorneys' fees.
 3. Modification of Royalty Payment; Payment by Streamline Health. Notwithstanding anything to the contrary in the Agreements, in consideration of the waived maintenance and support fees, increased maintenance and support obligations (as described in Section 1 above), payments already made, the additional one-time payment above and other valuable consideration which the parties agree will be deemed received and sufficient, Montefiore agrees that it will accept the amounts paid through March 31, 2018 as payment in full of all outstanding Ongoing Royalty Fees owed or which would otherwise be owed under the Software Agreement, including without limitation any commitment to pay a total Ongoing Royalty Fee of at least Three Million Dollars (\$3,000,000) which will be deemed to have been paid in full after the payment described in Section 2 above has been received by Montefiore. For clarity, and notwithstanding anything to the contrary in this Amendment or the Agreements, without limiting Streamline Health's obligation to provide the Maintenance Services required under Section 1 above, Streamline Health's payment of the fee under Section 2 above will satisfy in full all obligations relating the Ongoing Royalty Fees under the Software Agreement, and in no event will the amount Streamline Health owes for any Ongoing Royalty Fees not yet paid as of the Effective Date exceed, in total and in the aggregate, One Million Dollars (\$1,000,000). All provisions of the Agreement referencing any such Ongoing Royalty Fees or related amounts will be updated accordingly to reflect the reduced amounts in this Amendment and with payment of the amount above satisfying in full payment of the Three Million Dollar (\$3,000,000) amount previously required. Furthermore, the parties agree that Sections 4.1(d) and 7.4 of the Software Agreement will be deleted in their entirety as of the Effective Date.
 4. Modified Consent for Divestiture of Business Line. In addition to the rights granted under the Agreements, Montefiore agrees that its prior written consent to assign either Agreement will be required if Streamline Health assigns that Agreement to a non-affiliated third party as part of a divestiture of the portion of its business related to the sale and support of the Software licensed under the Agreements (the "CLG Business"); provided that consent shall not be unreasonably withheld or conditioned or delayed. For clarity, a CIC event (as defined below) or other such acquisition, merger, transfer of substantially all assets or similar such change of control event involving Streamline Health itself and/or its parent event and all or a majority of its operating business lines will not be considered a CLG Business event for purposes of this paragraph; provided that any such event shall remain subject to the terms of Section 8.2 of the Software Agreement and Section 23 of the Support Agreement, respectively. Furthermore, in the event
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Streamline Health assigns either Agreement in connection with a CLG Business divestiture, as described above, Streamline Health shall require that Streamline Health's successor expressly assumes all of its obligations under the Agreements in writing in its assignment agreement with that successor; and, provided further, that notwithstanding any of the foregoing to the contrary, subject to the terms of the Agreements, no assignment of rights or delegation of duties under the Agreements pursuant to this paragraph shall relieve party of any of its liabilities hereunder or under the Agreements, to the extent such liabilities arose prior to the effective date of such assignment or delegation.

5. CIC. For purposes of this Amendment, "CIC" means (1) a merger, consolidation or other reorganization of Streamline Health approved by the shareholders of Streamline Health unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor company are immediately thereafter beneficially owned, directly or indirectly, by the same shareholders prior to the CIC, or (2) a shareholder-approved sale, transfer or other disposition of all or substantially all Streamline Health's assets (including the CLG Business) in liquidation or dissolution of Streamline Health or otherwise, or (3) the acquisition, directly or indirectly by any person or related group of persons (other than Streamline Health, a person that directly or indirectly controls, is controlled by, or is under common control with, Streamline Health, of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the outstanding securities of Streamline Health pursuant to a tender or exchange offer made directly to the shareholders of Streamline Health, or (4) a change in the composition of the board of directors of Streamline Health (the "Board") over a period of twelve (12) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of the same Board members as existed prior to the CIC.
6. Public Company Disclosure. Montefiore acknowledges that Streamline Health is part of a publicly traded organization, and certain information required to be disclosed under this Amendment may constitute material non-public information about Streamline Health and/or other "insider information." Montefiore agrees to keep any such information strictly confidential, and Montefiore agrees it will not (and will not authorize or allow any person or entity to) trade or otherwise act on any such information for any personal gain or benefit.
7. Amendment. This Amendment is intended to be a written amendment to the Agreements for purposes of the modifications stated above. Otherwise, the terms of the Agreements remain in effect unmodified. In the event of direct conflict, the terms of this Amendment will control.

[Signature Block Follows]

IN WITNESS WHEREOF, THE PARTIES HAVE CAUSED THEIR DULY AUTHORIZED SIGNATORIES SET FORTH BELOW TO EXECUTE THIS DOCUMENT AS OF THE DATE INDICATED BELOW.

FOR MONTEFIORE

By: /s/ Philip O. Ozuah MD, PhD

(Signature)

Philip O. Ozuah MD, PhD

(Name Typed or Printed)

President, MHS

(Title)

June 19, 2018

(Date)

FOR STREAMLINE HEALTH

By: /s/ David Sides

(Signature)

David Sides

(Name Typed or Printed)

CEO

(Title)

June 19, 2018

(Date)

STREAMLINE HEALTH SOLUTIONS, INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a - 14(a) OR 15(d) - 14(a) OF THE EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David W. Sides, certify that:

I have reviewed this quarterly report on Form 10-Q of Streamline Health Solutions, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 12, 2018

/s/ David W. Sides
Chief Executive Officer and
President

STREAMLINE HEALTH SOLUTIONS, INC.

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a - 14(a) OR 15(d) - 14(a) OF THE EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas J. Gibson, certify that:

I have reviewed this quarterly report on Form 10-Q of Streamline Health Solutions, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 12, 2018

/s/ Thomas J. Gibson
Chief Financial Officer

STREAMLINE HEALTH SOLUTIONS, INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

I, David W. Sides, Chief Executive Officer and President of Streamline Health Solutions, Inc. (the "Company"), certify,
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C Section 1350, that:

- (1) The quarterly report on Form 10-Q of the Company for the quarter ended July 31, 2018 (the "Report") fully
complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition, and
results of operations of the Company.

/s/ David W. Sides

David W. Sides

Chief Executive Officer and

President

September 12, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained
by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

STREAMLINE HEALTH SOLUTIONS, INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

I, Thomas J. Gibson, Chief Financial Officer of Streamline Health Solutions, Inc. (the "Company"), certify, pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C Section 1350, that:

- (1) The quarterly report on Form 10-Q of the Company for the quarter ended July 31, 2018 (the "Report") fully
complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition, and
results of operations of the Company.

/s/ Thomas J. Gibson

Thomas J. Gibson
Chief Financial Officer
September 12, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained
by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
