

**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 October 31, 2020

**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.)*

**11800 Amber Park Drive, Suite 125**

**Alpharetta, GA 30009**

*(Address of principal executive offices) (Zip Code)*

**(888) 997-8732**

*(Registrant's telephone number, including area code)*

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, \$0.01 par value</b>	<b>STRM</b>	<b>Nasdaq Capital Market</b>

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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.

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 has 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, \$0.01 par value, as of December 8, 2020: 31,663,210

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**PART I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**STREAMLINE HEALTH SOLUTIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

(rounded to the nearest thousand dollars, except share and per share information)

(Unaudited)

ASSETS	As of	
	October 31, 2020	January 31, 2020
Current assets:		
Cash and cash equivalents	\$ 3,031,000	\$ 1,649,000
Accounts receivable, net of allowance for doubtful accounts of \$80,000 and \$96,000, respectively	937,000	2,016,000
Contract receivables	746,000	803,000
Prepaid and other current assets	571,000	501,000
Current assets of discontinued operations	168,000	1,585,000
Total current assets	<u>5,453,000</u>	<u>6,554,000</u>
Non-current assets:		
Property and equipment, net	105,000	98,000
Right-of use asset for operating lease	432,000	—
Capitalized software development costs, net of accumulated amortization of \$3,137,000 and \$7,283,000, respectively	6,200,000	5,782,000
Intangible assets, net of accumulated amortization of \$4,652,000 and \$4,282,000, respectively	745,000	1,115,000
Goodwill	10,712,000	10,712,000
Other	1,670,000	611,000
Long-term assets of discontinued operations	28,000	6,826,000
Total non-current assets	<u>19,892,000</u>	<u>25,144,000</u>
Total assets	<u>\$ 25,345,000</u>	<u>\$ 31,698,000</u>

See accompanying notes to condensed consolidated financial statements.

**STREAMLINE HEALTH SOLUTIONS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(rounded to the nearest thousand dollars, except share and per share information)

(Unaudited)

	As of	
	October 31, 2020	January 31, 2020
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 267,000	\$ 756,000
Accrued expenses	1,094,000	1,395,000
Accrued income taxes	91,000	—
Current portion of term loan, less deferred financing cost	1,480,000	3,872,000
Deferred revenues	1,977,000	3,593,000
Royalty liability	500,000	969,000
Current portion of operating lease obligation	196,000	—
Current liabilities of discontinued operations	208,000	5,053,000
<b>Total current liabilities</b>	<b>5,813,000</b>	<b>15,638,000</b>
Non-current liabilities:		
Term loan payable, less current portion	820,000	—
Deferred revenues, less current portion	71,000	55,000
Operating lease obligation, less current portion	266,000	—
Total non-current liabilities	1,157,000	55,000
<b>Total liabilities</b>	<b>6,970,000</b>	<b>15,693,000</b>
Stockholders' equity:		
Common stock, \$.01 par value per share, 45,000,000 shares authorized; 31,577,692 and 30,530,643 shares issued and outstanding, respectively	316,000	305,000
Additional paid in capital	95,989,000	95,113,000
Accumulated deficit	(77,930,000)	(79,413,000)
<b>Total stockholders' equity</b>	<b>18,375,000</b>	<b>16,005,000</b>
	<b>\$ 25,345,000</b>	<b>\$ 31,698,000</b>

See accompanying notes to condensed consolidated financial statements.

**STREAMLINE HEALTH SOLUTIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(rounded to the nearest thousand dollars, except share and per share information)

(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
<b>Revenues:</b>				
System sales	\$ 19,000	\$ 636,000	234,000	968,000
Professional services	180,000	444,000	540,000	1,102,000
Audit services	491,000	517,000	1,498,000	1,266,000
Maintenance and support	1,070,000	1,328,000	3,556,000	4,053,000
Software as a service	881,000	594,000	2,544,000	1,783,000
<b>Total revenues</b>	<b>2,641,000</b>	<b>3,519,000</b>	<b>8,372,000</b>	<b>9,172,000</b>
<b>Operating expenses:</b>				
Cost of system sales	183,000	455,000	385,000	547,000
Cost of professional services	295,000	374,000	852,000	1,262,000
Cost of audit services	425,000	325,000	1,158,000	949,000
Cost of maintenance and support	160,000	201,000	528,000	504,000
Cost of software as a service	416,000	226,000	1,177,000	472,000
Selling, general and administrative expense	2,283,000	2,762,000	6,859,000	7,585,000
Research and development	753,000	501,000	1,946,000	1,750,000
Executive transition cost	—	481,000	—	621,000
Loss on exit of membership agreement	—	—	105,000	—
<b>Total operating expenses</b>	<b>4,515,000</b>	<b>5,325,000</b>	<b>13,010,000</b>	<b>13,690,000</b>
<b>Operating loss</b>	<b>(1,874,000)</b>	<b>(1,806,000)</b>	<b>(4,638,000)</b>	<b>(4,518,000)</b>
<b>Other income (expense):</b>				
Interest expense	(12,000)	(91,000)	(39,000)	(239,000)
Miscellaneous income (expense)	14,000	(80,000)	(68,000)	(199,000)
<b>Loss from continuing operations before income taxes</b>	<b>(1,872,000)</b>	<b>(1,977,000)</b>	<b>(4,745,000)</b>	<b>(4,956,000)</b>
Income tax benefit	803,000	454,000	1,536,000	1,134,000
<b>Loss from continuing operations</b>	<b>(1,069,000)</b>	<b>(1,523,000)</b>	<b>(3,209,000)</b>	<b>(3,822,000)</b>
<b>Income from discontinued operations:</b>				
Gain on sale of discontinued operations	—	—	6,013,000	—
Income from discontinued operations	64,000	1,825,000	305,000	4,513,000
Income tax expense	(50,000)	(466,000)	(1,626,000)	(1,150,000)
<b>Income from discontinued operations, net of tax</b>	<b>14,000</b>	<b>1,359,000</b>	<b>4,692,000</b>	<b>3,363,000</b>
<b>Net (loss) income</b>	<b>\$ (1,055,000)</b>	<b>\$ (164,000)</b>	<b>\$ 1,483,000</b>	<b>\$ (459,000)</b>
<b>Add: Redemption of Series A Preferred Stock</b>	<b>—</b>	<b>4,894,000</b>	<b>—</b>	<b>4,894,000</b>
<b>Net (loss) income from continuing operations attributable to common shareholders</b>	<b>\$ (1,069,000)</b>	<b>\$ 3,371,000</b>	<b>\$ (3,209,000)</b>	<b>\$ 1,072,000</b>
<b>Basic Earnings Per Share:</b>				
Continuing operations	\$ (0.04)	\$ 0.16	\$ (0.11)	\$ 0.05
Discontinued operations	-	0.06	0.16	0.15
<b>Net income</b>	<b>\$ (0.04)</b>	<b>\$ 0.22</b>	<b>\$ 0.05</b>	<b>\$ 0.20</b>
Weighted average number of common shares – basic	30,286,197	21,598,146	30,026,890	20,435,055
<b>Diluted Earnings Per Share:</b>				
Continuing operations	\$ (0.04)	\$ (0.07)	\$ (0.11)	\$ (0.19)
Discontinued operations	-	0.06	0.15	0.14
<b>Net loss per common share – diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.01)</b>	<b>\$ 0.04</b>	<b>\$ (0.05)</b>
Weighted average number of common shares – diluted	30,892,526	24,334,221	30,450,572	23,412,022

See accompanying notes to condensed consolidated financial statements.

**STREAMLINE HEALTH SOLUTIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(rounded to the nearest thousand dollars, except share information)  
(Unaudited)

	Common stock shares	Common Stock	Additional paid in capital	Accumulated deficit	Total stockholders' equity
<b>Balance at January 31, 2019</b>	20,767,708	\$ 208,000	\$ 82,544,000	\$ (76,550,000)	\$ 6,202,000
Restricted stock issued	140,000	1,000	(1,000)	—	—
Restricted stock forfeited	(5,367)	—	—	—	—
Share-based compensation	—	—	269,000	—	269,000
Net income	—	—	—	313,000	313,000
<b>Balance at April 30, 2019</b>	20,902,341	\$ 209,000	\$ 82,812,000	\$ (76,237,000)	\$ 6,784,000
Stock issued pursuant to ESPP	5,072	—	4,000	—	4,000
Restricted stock issued	222,518	2,000	(2,000)	—	—
Restricted stock forfeited	(318,750)	(3,000)	3,000	—	—
Surrender of shares	(21,708)	—	(31,000)	—	(31,000)
Share-based compensation	—	—	160,000	—	160,000
Capital contribution	—	—	16,000	—	16,000
Net income	—	—	—	(608,000)	(608,000)
<b>Balance at July 31, 2019</b>	20,789,473	\$ 208,000	\$ 82,962,000	\$ (76,845,000)	\$ 6,325,000
Restricted stock issued	550,000	5,000	(6,000)	—	(1,000)
Restricted stock forfeited	(32,060)	—	1,000	—	1,000
Issuance of common stock, net of \$681,000 offering expenses	9,473,691	95,000	8,887,000	—	8,982,000
Redemption of Series A Preferred Stock	—	—	2,873,000	—	2,873,000
Surrender of stock	(13,665)	—	(37,000)	—	(37,000)
Share-based compensation expense	—	—	290,000	—	290,000
Net loss	—	—	—	(164,000)	(164,000)
<b>Balance at October 31, 2019</b>	30,767,439	\$ 308,000	\$ 94,970,000	\$ (77,009,000)	\$ 18,269,000
<b>Balance at January 31, 2020</b>	30,530,643	\$ 305,000	\$ 95,113,000	\$ (79,413,000)	\$ 16,005,000
Restricted stock issued	440,000	4,000	(4,000)	—	—
Restricted stock forfeited	(34,790)	—	—	—	—
Surrender of shares	(21,027)	—	(22,000)	—	(22,000)
Share-based compensation	—	—	263,000	—	263,000
Net income	—	—	—	3,673,000	3,673,000
<b>Balance at April 30, 2020</b>	30,914,826	\$ 309,000	\$ 95,350,000	\$ (75,740,000)	\$ 19,919,000
Restricted stock issued	855,543	9,000	(9,000)	—	—
Restricted stock forfeited	(100,000)	(1,000)	1,000	—	—
Surrender of shares	(33,704)	(1,000)	(35,000)	—	(36,000)
Share-based compensation	—	—	349,000	—	349,000
Net loss	—	—	—	(1,135,000)	(1,135,000)
<b>Balance at July 31, 2020</b>	31,636,665	\$ 316,000	\$ 95,656,000	\$ (76,875,000)	\$ 19,097,000
Restricted stock issued	7,331	—	—	—	—
Restricted stock forfeited	(10,000)	—	—	—	—
Surrender of shares	(56,304)	—	(109,000)	—	(109,000)
Share-based compensation	—	—	442,000	—	442,000
Net loss	—	—	—	(1,055,000)	(1,055,000)
<b>Balance at October 31, 2020</b>	31,577,692	\$ 316,000	\$ 95,989,000	\$ (77,930,000)	\$ 18,375,000

See accompanying notes to condensed consolidated financial statements.

**STREAMLINE HEALTH SOLUTIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(rounded to the nearest thousand dollars)  
(Unaudited)

	Nine Months Ended October 31,	
	2020	2019
Net Income (loss)	\$ 1,483,000	\$ (459,000)
LESS: Income from discontinued operations, net of tax	(4,692,000)	(3,363,000)
Loss from continuing operations, net of tax	(3,209,000)	(3,822,000)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	35,000	33,000
Amortization of capitalized software development costs	1,128,000	834,000
Amortization of intangible assets	370,000	424,000
Amortization of other deferred costs	242,000	208,000
Valuation adjustments	31,000	48,000
Provision for income taxes	(1,536,000)	(1,134,000)
Loss on exit of membership agreement	105,000	—
Share-based compensation expense	1,004,000	719,000
Benefit for accounts receivable allowance	(15,000)	(125,000)
Changes in assets and liabilities:		
Accounts and contract receivables	1,151,000	320,000
Other assets	(514,000)	(520,000)
Accounts payable	(489,000)	(593,000)
Accrued expenses and other liabilities	(386,000)	(398,000)
Deferred revenues	(1,600,000)	(1,286,000)
Net cash used in operating activities – continuing operations	(3,683,000)	(5,292,000)
Net cash from operating activities – discontinued operations	(2,319,000)	4,317,000
Cash flows from investing activities:		
Proceeds from sale of ECM Assets	11,288,000	—
Purchases of property and equipment	(42,000)	(51,000)
Capitalization of software development costs	(1,495,000)	(2,139,000)
Net cash provided by (used in) investing activities – continuing operations	9,751,000	(2,190,000)
Net cash from investing activities – discontinued operations	—	(591,000)
Cash flows from financing activities:		
Repayment of bank term loan	(4,000,000)	—
Proceeds from term loan payable	2,301,000	—
Proceeds from issuance of common stock	—	9,663,000
Payments for costs directly attributable to the issuance of common stock	—	(681,000)
Principal payments on term loan	—	(448,000)
Payments related to settlement of employee shared based awards	(168,000)	(50,000)
Redemption of Series A Convertible Preferred Stock	—	(5,791,000)
Fees paid for redemption of Series A Convertible Preferred Stock	—	(22,000)
Payment of deferred financing costs	—	(73,000)
Payment on royalty liability	(500,000)	—
Other	—	2,000
Net cash (used in) provided by financing activities – continuing operations	(2,367,000)	2,600,000
Net increase (decrease) in cash and cash equivalents	1,382,000	(1,156,000)
Cash and cash equivalents at beginning of period	1,649,000	2,376,000
Cash and cash equivalents at end of period	\$ 3,031,000	\$ 1,220,000

See accompanying notes to condensed consolidated financial statements.

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

**October 31, 2020**

**NOTE 1 — BASIS OF PRESENTATION**

Streamline Health Solutions, Inc. and its subsidiary (“we”, “us”, “our”, “Streamline”, or the “Company”) operates in one segment as a provider of healthcare information technology solutions and associated services. The Company provides these capabilities through the licensing of its CDI, Abstracting and eValuator coding analysis platform, and financial management solutions through both licensing arrangements and software as a service (“SaaS”) contracts. The Company also provides audit and coding services to help clients optimize their internal clinical documentation and coding functions, as well as implementation and consulting services to complement its software solutions. The Company’s software and services enable hospitals and integrated healthcare delivery systems in the United States and Canada to capture, store, manage, route, retrieve and process patient clinical, financial and other healthcare provider information related to the patient revenue cycle.

The accompanying unaudited condensed consolidated financial statements have been prepared by us 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. The condensed consolidated financial statements include the accounts of Streamline Health Solutions, Inc. and its wholly-owned subsidiary, Streamline Health, Inc. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our most recent annual report on Form 10-K, Commission File Number 0-28132. Operating results for the nine months ended October 31, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2021.

The Company determined that it has one operating segment and one reporting unit due to the single nature of our products, product development, distribution process, and customer base as a provider of computer software-based solutions and services for healthcare providers.

On February 24, 2020, the Company sold a portion of its business (the ECM Assets). The Company signed the definitive agreement in December 2019 and prepared and filed a proxy statement to obtain shareholder vote on the transaction. We applied the standard of *ASC 205-20-1* to ascertain the timing of accounting for the discontinued operations. Based on *ASC 205-20-1*, the Company determined that it did not have the authority to sell the assets until the date of the shareholder vote which was February 21, 2020. Accordingly, the Company did not present the ECM Assets as held for sale in previously filed financial statements. On February 21, 2020, the Company having the authority and ability to consummate the sale of the ECM Assets, met the criteria to present discontinued operations as described in *ASC 205-20-1*. Accordingly, the Company is reporting the results of operations and cash flows, and related balance sheet items associated with the ECM Assets in discontinued operations in the accompanying condensed consolidated statements of operations, cash flows and balance sheets for the current and comparative prior periods. Refer to Note 8 – Discontinued Operations for details of our discontinued operations.

All amounts in the condensed consolidated financial statements, notes and tables have been rounded to the nearest thousand dollars, except share and per share amounts, unless otherwise indicated. All references to a fiscal year refer to the fiscal year commencing February 1 in that calendar year and ending on January 31 of the following calendar year.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Our significant accounting policies are presented in “Note 2 – Significant Accounting Policies” in the fiscal year 2019 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. On an ongoing basis, management evaluates its estimates and judgments, including those related to the recognition of revenue, stock-based compensation, capitalization of software development costs, intangible assets, the allowance for doubtful accounts, and income taxes. Actual results could differ from those estimates.



## Reclassification

Certain amounts in the preparation of financial statements for the three and nine months ended October 31, 2020, resulted in reclassifications of the three and nine months ended October 31, 2019 and balance sheet as of January 31, 2020. A total of \$47,000 for deferred financing cost related to the revolving credit agreement was reclassified from debt to other assets in the accompanying condensed consolidated balance sheet as of January 31, 2020 to be consistent with the presentation as of October 31, 2020. The Company paid the term loan on February 24, 2020, and accordingly wrote-off the portion of deferred financing cost related to the term loan through discontinued operations.

## 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. 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. There were no transfers of assets or liabilities between Levels 1, 2, or 3 during the nine months ended October 31, 2020 and 2019.

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

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
At October 31, 2020				
Royalty liability (1)	\$ 500,000	\$ —	\$ —	\$ 500,000
At January 31, 2020				
Royalty liability (1)	\$ 969,000	\$ —	\$ —	\$ 969,000

(1) The fair value of the royalty liability was determined based on discounting the portion of the modified royalty commitment payable in cash (refer to Note 7 – Commitments and Contingencies for additional information on our royalty liability). Fair value adjustments are included within miscellaneous expense in the condensed consolidated statements of operations.

## 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"), under the core principle of recognizing 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

Often 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 defer recognition of the revenue until the performance obligation is satisfied. Maintenance and support and SaaS agreements are generally non-cancellable 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.

The determined transaction price is allocated based on the standalone selling price of the performance obligations in contract. 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 goods 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. Maintenance and support agreements entitle clients to technology support, version upgrades, bug fixes and service packs. We recognize maintenance and support revenue over the contract term.

### 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, and is recognized over time as the services are performed.

#### 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 the term of the life of the contract.

#### Audit Services

The Company provides technology-enabled coding audit services to help clients review and optimize their internal clinical documentation and coding functions across the applicable segment of the client's enterprise. Audit services are a separate performance obligation. We recognize revenue as the services are performed.

#### Disaggregation of Revenue

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

	Nine-Months Ended October 31, 2020		
	Recurring Revenue	Non-recurring Revenue	Total
Systems sales	\$ —	\$ 234,000	\$ 234,000
Professional services	—	540,000	540,000
Audit services	—	1,498,000	1,498,000
Maintenance and support	3,556,000	—	3,556,000
Software as a service	2,544,000	—	2,544,000
<b>Total revenue:</b>	<b>\$ 6,100,000</b>	<b>\$ 2,272,000</b>	<b>\$ 8,372,000</b>

#### 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 year first nine months ended October 31, 2020, we recognized approximately \$3.5 million in revenue from deferred revenues outstanding as of January 31, 2020. Revenue allocated to remaining performance obligations was \$9.5 million as of October 31, 2020, of which the Company expects to recognize approximately 53.3% over the next 12 months and the remainder thereafter.

#### Deferred costs (costs to fulfill a contract and contract acquisition costs)

We defer the direct costs, which include salaries and benefits, for professional services related to SaaS contracts as a cost to fulfill a contract. These deferred costs will be amortized on a straight-line basis over the contractual term. As of October 31, 2020, and January 31, 2020, we had deferred costs of \$188,000 and \$144,000, respectively, net of accumulated amortization of \$89,000 and \$332,000, respectively. Amortization expense of these costs was \$27,000 and \$45,000 for the three months ended October 31, 2020 and 2019 respectively and \$89,000 and \$150,000 for the nine months ended October 31, 2020 and 2019, respectively. There were no impairment losses for these capitalized costs for the fiscal years 2020 and 2019.

Contract acquisition costs, which consist 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 the contract term. 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, which are included on the consolidated balance sheets within other non-current assets totaled \$637,000 and \$421,000, respectively, as of October 31, 2020 and January 31, 2020. Amortization expense associated with sales commissions included in selling, general and administrative expenses on the consolidated statements of operations was \$58,000 and \$95,000 for the three months ended October 31, 2020 and 2019, respectively, and \$133,000 and \$150,000 for the nine months ended October 31, 2020 and 2019, respectively. There were no impairment losses for these capitalized costs for these periods.

### **Capitalized Software Development Costs**

Software development costs for software to be sold, leased, or marketed are accounted for in accordance with ASC 985-20, *Software — Costs of Software to be Sold, Leased or Marketed*. Costs associated with the planning and design phase of software development are classified as research and development costs and are expensed as incurred. Once technological feasibility has been established, a portion of the costs incurred in development, including coding, testing and quality assurance, are capitalized until available for general release to clients, and subsequently reported at the lower of unamortized cost or net realizable value. Amortization is calculated on a solution-by-solution basis and is included in Cost of system sales on the consolidated statements of operations. Annual amortization is measured at the greater of a) the ratio of the software product's current gross revenues to the total of current and expected gross revenues or b) straight-line over the remaining economic life of the software (typically three to five years). Unamortized capitalized costs determined to be in excess of the net realizable value of a solution are expensed at the date of such determination.

Internal-use software development costs are accounted for in accordance with ASC 350-40, *Internal-Use Software*. The costs incurred in the preliminary stages of development are expensed as research and development costs as incurred. Once an application has reached the development stage, internal and external costs incurred to develop internal-use software are capitalized and amortized on a straight-line basis over the estimated useful life of the software (typically three to five years). Maintenance and enhancement costs, including those costs in the post-implementation stages, are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the software that result in added functionality, in which case the costs are capitalized and amortized on a straight-line basis over the estimated useful life of the software. The Company reviews the carrying value for impairment whenever facts and circumstances exist that would suggest that assets might be impaired or that the useful lives should be modified. Amortization expense related to capitalized internal-use software development costs is included in Cost of software as a service on the consolidated statements of operations.

The Company recognized an impairment of \$57,000 for cancelled or abandoned enhancement projects during the quarter ended October 31, 2020 that has been recognized within amortization expense. During the three and nine-month periods ended October 31, 2020, the Company capitalized \$13,000 and \$51,000 of non-employee stock compensation to capitalized software development cost reflecting the earned stock awards to 180 Consulting – See Note 9 – Related Party Transactions.

### **Equity Awards**

The Company accounts for share-based payments based on the grant-date fair value of the awards with compensation cost recognized as expense over the requisite service period. For awards to non-employees, the Company recognizes compensation expense in the same manner as if the entity had paid cash for the goods or services. The Company incurred total compensation expense related to stock-based awards of \$442,000 and \$290,000 for the three months ended October 31, 2020 and 2019, respectively, and \$1,054,000 and \$719,000 for the nine months ended October 31, 2020 and 2019, respectively.

The fair value of the stock options granted was estimated at the date of grant using a Black-Scholes option pricing model. Option pricing model input assumptions 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 data (such as, volatility factor, expected term and forfeiture rates). 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.

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

## **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax credit and loss carryforwards. 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, the Company considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The Company establishes a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized. Refer to Note 6 - Income Taxes for further details.

The Company provides 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. At October 31, 2020, the Company believes it has appropriately accounted for any uncertain tax positions.

## **Net Earnings (Loss) Per Common Share**

The Company presents basic and diluted earnings per share ("EPS") data for our common stock. Our Series A Convertible Preferred Stock were considered participating securities under ASC 260, *Earnings Per Share* ("ASC 260") which means the security may participate in undistributed earnings with common stock. The holders of the Series A Convertible Preferred Stock were 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, the Company is required to use the two-class method when computing EPS. 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 (with the exception of the gain on the redemption of our Series A Convertible Preferred Stock, which was allocated in its entirety to the common stock).

Our unvested restricted stock awards are considered non-participating securities because holders are not entitled to non-forfeitable rights to dividends or dividend equivalents during the vesting term. In accordance with ASC 260, securities are deemed not to be participating in losses if there is no obligation to fund such losses. The Series A Convertible Preferred Stock does not participate in losses, and as a result, the Company does not allocate losses to these securities in periods of loss. Diluted EPS for our common stock is computed using the more dilutive of the two-class method or the "if-converted" and treasury stock methods. Refer to Note 5 – Convertible Preferred Stock for further discussion of the redemption of our Series A Convertible Preferred Stock.

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

	<u>Three-Months Ended</u>		<u>Nine-Months Ended</u>	
	<u>October 31, 2020</u>	<u>October 31, 2019</u>	<u>October 31, 2020</u>	<u>October 31, 2019</u>
<b>Basic earnings (loss) per share:</b>				
<b>Continuing operations</b>				
Loss from continuing operations, net of tax	\$ (1,069,000)	\$ (1,523,000)	\$ (3,209,000)	\$ (3,822,000)
Add: Redemption of Series A Preferred Stock	-	4,894,000	-	4,894,000
Net (loss) income from continuing operations	<u>(1,069,000)</u>	<u>3,371,000</u>	<u>(3,209,000)</u>	<u>1,072,000</u>
Basic net (loss) income per share of common stock from continuing operations	<u>\$ (0.04)</u>	<u>\$ 0.16</u>	<u>\$ (0.11)</u>	<u>\$ 0.05</u>
<b>Discontinued operations</b>				
Gain from discontinued operations, net of tax	\$ 14,000	\$ 1,359,000	\$ 4,692,000	\$ 3,362,000
Less: Allocation of earnings to participating securities	-	(139,000)	-	(399,000)
Income available to common shareholders from discontinued operations	<u>\$ 14,000</u>	<u>\$ 1,220,000</u>	<u>\$ 4,692,000</u>	<u>\$ 2,963,000</u>
Basic net earnings per share of common stock from discontinued operations	<u>\$ -</u>	<u>\$ 0.06</u>	<u>\$ 0.16</u>	<u>\$ 0.15</u>
<b>Diluted earnings (loss) per share (2):</b>				
<b>Continuing operations</b>				
Income available to common shareholders from continuing operations	\$ (1,069,000)	\$ (1,523,000)	\$ (3,209,000)	\$ (3,822,000)
Diluted net loss per share of common stock from continuing operations	<u>\$ (0.04)</u>	<u>\$ (0.07)</u>	<u>\$ (0.11)</u>	<u>\$ (0.19)</u>
<b>Discontinued operations</b>				
Income available to common shareholders from discontinued operations	\$ 14,000	\$ 1,359,000	\$ 4,692,000	\$ 3,362,000
Diluted net earnings per share of common stock from discontinued operations	<u>\$ -</u>	<u>\$ 0.06</u>	<u>\$ 0.15</u>	<u>\$ 0.14</u>
Net (loss) income	<u>\$ (1,055,000)</u>	<u>\$ (164,000)</u>	<u>\$ 1,483,000</u>	<u>\$ (459,000)</u>
Weighted average shares outstanding - Basic (1)	30,286,197	21,598,146	30,026,890	20,435,055
Effect of dilutive securities - Stock options, Restricted stock and Series A Convertible Preferred Stock (3)	606,329	2,736,075	423,682	2,976,967
Weighted average shares outstanding – Diluted	<u>30,892,526</u>	<u>24,334,221</u>	<u>30,450,572</u>	<u>23,412,022</u>
Basic net (loss) income per share of common stock	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>
Diluted net (loss) income per share of common stock	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>

- (1) Excludes the effect of unvested restricted shares of common stock, which are considered non-participating securities. As of October 31, 2020 and 2019, there were 1,166,325 and 1,185,918 unvested restricted shares of common stock outstanding, respectively.
- (2) Diluted EPS for our common stock was computed using the if-converted method, which yields the same result as the two-class method. The two-class method has not been used in the current period as a result of the redemption of the participating securities, See Note 5.
- (3) Diluted net loss per share excludes the effect of shares that are anti-dilutive. For the three and nine months ended October 31, 2020, diluted EPS excludes 624,330 outstanding stock options and 1,166,325 unvested restricted shares of common stock for purposes of calculating income (loss) from continuing operations. For the three and nine months ended October 31, 2019, diluted EPS excludes 2,895,464 shares of Series A Convertible Preferred Stock, 938,671 outstanding stock options and 1,185,918 unvested restricted shares of common stock.

## Other Operating Costs

### Loss on Exit of Membership Agreement

As of October 31, 2020, minimum fees due under the shared office arrangement totaled approximately \$32,000. The Company recorded an expense for the minimum future commitment under the agreement and accrued the cost to the accompanying consolidated balance sheet in the first nine months ended October 31, 2020 to reflect the liability at the time it abandoned the space. Refer to Note 3 – Operating Leases.

## Non-Cash Items

The Company had the following items that were non-cash items related to the condensed consolidated statements of cash flows:

	October 31,	
	2020	2019
Escrowed funds from sale of ECM Assets	\$ 800,000	\$ —
Right-of Use Assets from operating lease	540,000	—
Capitalized software purchased with stock (Note 9)	51,000	—

## Recent Accounting Pronouncements

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 became effective for us on February 1, 2020. The adoption of this ASU did not have a significant impact on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, to remove, modify, and add certain disclosure requirements within Topic 820 in order to improve the effectiveness of fair value disclosures in the notes to financial statements. The standard became effective for us on February 1, 2020. The adoption of this ASU did not have a significant impact on our condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for annual periods beginning after December 15, 2020 and interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The standard will become effective for us on February 1, 2021. We are currently evaluating the impact of the new standard on our condensed consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends the impairment model to utilize an expected loss methodology in place of the current incurred loss methodology, which will result in the more timely recognition of losses. For smaller reporting entities, ASU 2016-13 is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. The ASU, including the subsequently issued codification improvements update (“Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,” ASU 2019-04) and the targeted transition relief update (“Financial Instruments-Credit Losses (Topic 326),” ASU 2019-05), is not expected to have a significant impact on the consolidated condensed financial statements.

## **NOTE 3 — OPERATING LEASES**

We determine whether an arrangement is a lease at inception. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the expected lease term. Since our lease arrangements do not provide an implicit rate, we use our incremental borrowing rate for the expected remaining lease term at commencement date for new leases and for existing leases, in determining the present value of future lease payments. Operating lease expense is recognized on a straight-line basis over the lease term. The Company has made the accounting policy election for building leases to not separate non-leases components.

The Company entered into a new lease for office space in Alpharetta, Georgia, on March 1, 2020. The lease terminates on March 31, 2023. At inception, the Company recorded a right-of use asset of \$540,000, and related current and long-term operating lease obligation in the accompanying consolidated balance sheet. As of October 31, 2020, operating lease right-of use assets totaling \$432,000, and the associated lease liability is included in both current and long-term liabilities of \$196,000 and \$266,000, respectively. The Company used a discount rate of 6.5% to determine the lease liability. For the three- and nine-month periods ended October 31, 2020, the Company had operating cost of approximately \$48,000 and \$129,000. In addition, there was \$83,000 paid for amounts included in the measurement of operating cash flows from operating leases as a result of lease incentives and previous pre-paid rent that has been included as an adjustment to the right-of-use asset at lease inception.

Maturities of operating lease liabilities associated with the Company's operating lease as of October 31, 2020 are as follows for payments due based upon the Company's fiscal year:

2020	\$	50,000
2021		204,000
2022		210,000
2023		35,000
<b>Total lease payments</b>		<b>499,000</b>
Less present value adjustment		(37,000)
<b>Present value of lease liabilities</b>	<b>\$</b>	<b>462,000</b>

Upon signing the new lease in March 2020, the Company abandoned its shared office space in Atlanta and recorded an expense and related liability of \$105,000 for the minimum remaining payments required under the agreement with the landlord. The associated expense is recorded in "Loss on exit of membership agreement" in the accompanying statements of operations and is accrued in "accrued expenses" in the accompanying balance sheet. The membership agreement did not qualify as a lease as the owner had substantive substitution rights.

During fiscal year 2019, we had one operating lease related to our New York office sublease, which expired in November 2019. 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 a \$472,000 loss on exit of the operating lease in fiscal 2018. The associated lease liability reduced the right-of-use asset upon adoption of ASC 842. As of November 2019, the lease had expired and there was no minimum rentals due to our lessor or amounts to be received by us from our sublessee. As of October 31, 2019, operating lease right-of use assets totaling \$17,000 are recorded in Prepaid and other current assets, and the associated lease liability of \$48,000 is included in Accrued expenses within the condensed consolidated balance sheets. The Company used a discount rate of 8% to determine the lease liability. In the nine months ended October 31, 2019, the Company had operating cost, and cash operating cash flows, associated the New York lease of \$171,000, offset by operating lease income of \$216,000.

#### **NOTE 4 — DEBT**

##### *Term Loan and Line of Credit with Wells Fargo*

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, pursuant to the terms of the amendment to the Credit Agreement entered into as of April 15, 2015, the applicable LIBOR rate margin varies from 4.25% to 6.25%, and the applicable base rate margin varies from 3.25% to 5.25%, plus, after the effective date of the amendment to the Credit Agreement entered into as of September 11, 2019, a "paid in kind" rate, or PIK Rate, of 2.75%. Amendments to the Credit Agreement reduced the Company's capacity on the existing revolving credit from \$5,000,000 to \$1,500,000 and extended the original term loan and line of credit maturity date to August 21, 2020. The senior term loan principal balance was payable in quarterly instalments, which started in March 2015 and would continue through the maturity date, with the full remaining unpaid principal balance due at maturity. Financing costs associated with the new credit facility were being amortized over its term on a straight-line basis, which is not materially different from the effective interest method.

The Credit Agreement included 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 prohibited the Company from paying dividends on the common and preferred stock.

In connection with entering into the Loan and Security Agreement with Bridge Bank on December 11, 2019, as discussed below, the Company terminated the Credit Agreement and repaid all outstanding amounts due thereunder.



### Term Loan and Revolving Credit Facility with Bridge Bank

On December 11, 2019, the Company entered into a new Loan and Security Agreement (the “Loan and Security Agreement”) with Bridge Bank, a division of Western Alliance Bank, consisting of a \$4,000,000 term loan and a \$2,000,000 revolving credit facility. The proceeds from the term loan were used to repay all outstanding balances under its existing term loan with Wells Fargo Bank. Amounts outstanding under the new term loan shall bear interest at a per annum rate equal to the higher of (a) the Prime Rate (as published in The Wall Street Journal) plus 1.50% or (b) 6.50%. Under the terms of the Loan and Security Agreement the Company shall make interest-only payments through the twelve-month anniversary date after which the Company shall repay the new term loan in thirty-six equal and consecutive instalments of principal, plus monthly payments of accrued interest. The term loan and revolving credit facility provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. The outstanding term loan is secured by substantially all of our assets. Financing costs associated with the Loan and Security Agreement are being amortized over its term on a straight-line basis, which is not materially different from the effective interest method.

The new revolving credit facility has a maturity date of twenty-four months and advances shall bear interest at a per annum rate equal to the higher of (a) the Prime Rate (as published in The Wall Street Journal) plus 1.25% or (b) 6.25%. The revolving credit facility can be advanced based upon 80% of eligible accounts receivable, as defined in the Loan and Security Agreement.

The Loan and Security Agreement, as amended, includes financial covenant requirements that the Company requirements that it shall not deviate by more than fifteen percent of its revenue projections over a trailing three-month basis or the Company’s recurring revenue shall not deviate by more than twenty percent over a cumulative year-to-date basis of its projections. In addition, the Company’s Bank EBITDA, measured on a monthly basis over a trailing three-month period then ended, shall not deviate by the greater of thirty percent its projected Bank EBITDA or \$150,000. The agreement initially required the Company to maintain a minimum Asset Coverage Ratio. However, the Asset Coverage Ratio was eliminated as a covenant under an amendment dated April 11, 2020.

The Company was in compliance with the foregoing loan covenants at October 31, 2020. Based upon the borrowing base formula set forth in the Credit Agreement, as of October 31, 2020, the Company had access to \$1,400,000 of the full \$2,000,000 revolving line of credit. As of October 31, 2020 and January 31, 2020, the Company had no outstanding borrowings under the revolving credit facility.

As described herein, on February 24, 2020, the Company prepaid the \$4.0 million outstanding term loan with Bridge Bank in full with proceeds from the sale of the ECM Assets, as required under the Loan and Security Agreement. Accordingly, we reclassified the term loan from non-current to current on the consolidated balance sheet as of January 31, 2020. Contemporaneously with the closing of the sale and payment of the term loan, the Company wrote-off approximately \$125,000 of deferred financing cost apportioned to the term loan to discontinued operations. The Company reclassified the remaining amount of deferred financing to other assets in the accompanying consolidated balance sheet.

Outstanding principal balances on debt, other than the PPP loan described below, consisted of the following at:

	October 31, 2020	January 31, 2020
Term loan	\$ —	\$ 4,000,000
Deferred financing cost	—	(128,000)
Total	—	3,872,000
Less: Current portion	—	(3,872,000)
Non-current portion of debt	\$ —	\$ —

### Term Loan related to “The Coronavirus Aid, Relief, and Economic Security Act”

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, was signed into law on March 17, 2020. Among other things, the Cares Act provided for a business loan program known as the Paycheck Protection Act (“PPP”). Qualifying companies are able to borrow, through the SBA, up to two months of payroll. We filed for and obtained \$2,301,000 through the SBA for the PPP loan program. The Company finalized its agreement for the PPP Loan on April 21, 2020 and was funded on the same date.

The PPP loan carries an interest rate of 1.0% per annum. Principal and interest payments are due, beginning on the seventh month from the effective date, sufficient to satisfy the loan on the second anniversary date. However, under certain criteria, the loan may be forgiven. The Company is accruing interest at 1% in the accompanying condensed consolidated financial statements. The future maturities under the loan are \$1,480,000, and \$820,000 in the next two twelve-month periods from October 31, 2020, respectively.

## NOTE 5 — CONVERTIBLE PREFERRED STOCK

### *Redemption of Series A Convertible Preferred Stock*

On October 16, 2019, the Company issued 9,473,691 shares of common stock in consideration for aggregate proceeds of \$9,663,000 in a private placement transaction. Each share of common stock was sold at \$1.02 per share. The proceeds from the sale of common stock were used to redeem all 2,895,464 outstanding shares of Series A Convertible Preferred Stock at \$2.00 per share for a total redemption payment of \$5,813,000, which includes \$22,000 in direct costs associated with the redemption.

Pursuant to the guidance in ASC 260-10-S99-2 for redemptions of preferred stock, the Company compared the difference between the carrying amount of the Series A Convertible Preferred Stock, net of issuance costs, of \$8,686,000 to the fair value of the consideration transferred of \$5,813,000, which was reduced by the commitment date intrinsic value of the conversion option since the redemption included the reacquisition of a previously recognized beneficial conversion feature of \$2,021,000, and added this difference to net income to arrive at income available to common stockholders in the calculation of basic earnings per share. As the carrying value of the Series A Convertible Preferred Stock was \$8,686,000 on the date of redemption, the Company reflected the resulting return from the preferred stockholders of \$4,894,000 as an adjustment to net income (loss) attributable to common stockholders in the Company's basic EPS calculations for year ended January 31, 2020.

Balance at January 31, 2019	\$	8,686,000
Redemption of Series A Convertible Preferred Stock		(5,791,000)
Fees paid for redemption of Series A Convertible Preferred Stock		(22,000)
Previously recognized beneficial conversion feature		2,021,000
Return from the preferred stockholders	\$	<u>4,894,000</u>

Refer to Note 2 for the Company's basic and diluted EPS calculations.

## NOTE 6 — INCOME TAXES

Income taxes consist of the following:

	October 31,	
	2020	2019
Current tax benefit (expense):		
Federal	\$ 997,000	\$ 1,150,000
State	539,000	(16,000)
Total current income tax provision	<u>\$ 1,536,000</u>	<u>\$ 1,134,000</u>

The benefit from income taxes from continuing operations are off-set by taxes on the gain on sale and taxes from operations of discontinued operations. Additionally, certain tax in the nine months of October 31, 2020, will generate benefits in the future quarters of fiscal 2020 such that the Company will have no full-year tax payable.

The effective tax rates for income tax rates on continuing operations for nine months ending October 31, 2020 and 2019 were approximately 32.3% and 22.9%, respectively. The Company maintains a full valuation allowance against the deferred tax assets.

The Company has recorded \$337,000 and \$304,000 in reserves for uncertain tax positions as of October 31, 2020 and 2019, respectively.

The Company and its subsidiary are subject to U.S. federal income tax as well as income taxes in multiple state and local jurisdictions. The Company has concluded all U.S. federal tax matters for years through January 31, 2016. All material state and local income tax matters have been concluded for years through January 31, 2015. The Company is no longer subject to IRS examination for periods prior to the tax year ended January 31, 2016; however, carryforward losses that were generated prior to the tax year ended January 31, 2016 may still be adjusted by the IRS if they are used in a future period.

## **NOTE 7 — COMMITMENTS AND CONTINGENCIES**

### **Membership agreement to occupy shared office space**

In fiscal 2018, the Company entered into a membership agreement to occupy shared office space in Atlanta, Georgia. Our shared office arrangement commenced upon taking possession of the space and ends in November 2020. Fees due under the membership agreement are based on the number of contracted seats and the use of optional office services. The Company abandoned this shared space in March 2020. As of October 31, 2020, minimum fees due under the shared office arrangement totaled \$32,000. Accordingly, we recorded an expense for the minimum future commitment under agreement and accrued the cost to the accompanying consolidated balance sheet. Refer to Note 3 – Operating Leases.

### **Royalty Liability**

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 October 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. As of October 31, 2020 and January 31, 2020, we had \$0- and \$345,000, respectively, in deferred revenues associated with this modified royalty liability. The fair value of the royalty liability was determined based on the amount payable in cash. As of October 31, 2020 and January 31, 2020, the present value of this royalty liability was \$500,000 and \$969,000, respectively.

The Company agreed with Montefiore on October 1, 2020, that it would pay in cash, \$500,000 upon signing a settlement and release agreement, and \$490,000 on November 1, 2020. The difference between the \$990,000 in payment and the \$1,000,000 obligation was settlement of outstanding costs made on behalf of the Company for Montefiore. The Company executed the settlement and release shortly after October 1, 2020 and made the scheduled payments. The Company retains the exclusive licensing rights for the underlying software through the term of the original agreement (2028).

### **COVID-19**

As reported nationally, near the end of the Company’s fiscal year ended January 31, 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. Additionally, there was a number of cases in the United States by the balance sheet date, January 31, 2020. The Company serves acute care hospitals throughout the United States. These hospitals have been materially impacted by the increased rates of illness based upon the respective geography. The Company has not been materially impacted by the “shelter in place” movements of local and state governments across the United States. Although it is not possible to reliably estimate the length or severity of the pandemic, it could have an adverse financial impact on the Company’s financial condition.

## **NOTE 8 – DISCONTINUED OPERATIONS**

On February 24, 2020, the Company consummated the previously-announced sale of the Company’s legacy Enterprise Content Management business (the “ECM Assets”) pursuant to that certain Asset Purchase Agreement, dated December 17, 2019, as amended (the “Asset Purchase Agreement”), to Hyland Software, Inc. (the “Purchaser”),

Pursuant to the Asset Purchase Agreement, the Purchaser has acquired the ECM Assets and assumed certain liabilities of the Seller for a purchase price of \$16.0 million, subject to certain adjustments for customer prepayments as set forth in the Asset Purchase Agreement.

At closing, the Company realized approximately \$5.4 million in net proceeds after (i) repaying the \$4.0 million Company’s term loan with Bridge Bank, (ii) adjusting for certain customer prepayments, (iii) the escrow funds of \$800,000 and (iv) certain transaction cost. The gain on the sale of assets is summarized as follows:

<b>Net Proceeds, including escrowed funds</b>	<b>\$ 12,088,000</b>
Net tangible assets sold:	
Accounts Receivable	(1,130,000)
Prepaid Expenses	(576,000)
Deferred Revenues	4,010,000
Net tangible assets sold	<u>2,304,000</u>
Capitalized software development costs	(1,772,000)
Goodwill	(4,825,000)
Transaction cost	(1,782,000)
<b>Gain on sale of discontinued operations</b>	<b>\$ 6,013,000</b>

The transaction costs were primarily broker cost and cost of legal and accounting to affect the transaction. The Company allocated \$4,825,000 in goodwill to the sale of the ECM Assets using a valuation of the ECM Assets and the remaining, go-forward business, to bifurcate its existing goodwill as of February 24, 2020. The amount of goodwill to be included in that carrying amount was based on the relative fair values of the business to be disposed of and the portion of the reporting unit that will be retained. Further, in accordance ASC 350-20-35-3A, when only a portion of goodwill is allocated to a business to be disposed of, the remaining portion of the goodwill associated with the reporting unit to be retained was tested for impairment and no impairment was recognized.

The Company recorded the following into discontinued operations on the accompanying consolidated balance sheets:

	As of	
	October 31, 2020	January 31, 2020
<b>Current assets of discontinued operations:</b>		
Accounts receivable	\$ 168,000	\$ 1,150,000
Contract receivables	—	17,000
Prepaid Assets	—	418,000
Current assets of discontinued operations	<u>\$ 168,000</u>	<u>\$ 1,585,000</u>
<b>Long-term assets of discontinued operations:</b>		
Property and equipment, net	\$ 28,000	\$ 54,000
Capitalized software development cost, net	—	1,816,000
Goodwill	—	4,825,000
Other	—	131,000
Long-term assets of discontinued operations	<u>\$ 28,000</u>	<u>\$ 6,826,000</u>
<b>Current liabilities of discontinued operations:</b>		
Accounts payable	\$ —	\$ 514,000
Accrued expenses	40,000	142,000
Deferred revenues	168,000	4,397,000
Current liabilities of discontinued operations	<u>\$ 208,000</u>	<u>\$ 5,053,000</u>

For the three- and nine- months ended October 31, 2020 and 2019, the Company recorded the following into discontinued operations in the accompanying consolidated statements of operations:

	Three Months Ended		Nine Months Ended	
	October 31, 2020	October 31, 2019	October 31, 2020	October 31, 2019
<b>Revenues:</b>				
System sales	\$ -	\$ 32,000	\$ -	\$ 78,000
Professional services	-	182,000	-	513,000
Maintenance and support	-	1,499,000	412,000	4,484,000
Software as a service	-	556,000	138,000	1,691,000
Transition service fees	121,000	-	278,000	-
Total revenues	<u>\$ 121,000</u>	<u>\$ 2,269,000</u>	<u>\$ 828,000</u>	<u>\$ 6,766,000</u>
<b>Expenses:</b>				
Cost of Sales	2,000	181,000	292,000	1,433,000
Selling, general and administrative expenses	-	38,000	-	160,000
Research and development	-	225,000	-	635,000
Transition service cost	55,000	-	103,000	-
Deferred financing cost	-	-	128,000	-
Other expenses	-	-	-	25,000
Total expenses	<u>57,000</u>	<u>444,000</u>	<u>523,000</u>	<u>2,253,000</u>
<b>Income from discontinued operations</b>	<u>\$ 64,000</u>	<u>\$ 1,825,000</u>	<u>\$ 305,000</u>	<u>\$ 4,513,000</u>

We entered into an agreement with the Purchaser of the ECM Assets to maintain the current data center through a transition period that is expected to be approximately seven months. The Company will continue to pay the rent and maintain the servers within the data center during the transition services period and these amounts will continue to be presented as discontinued operations in future periods throughout fiscal year 2020. In consideration of these transition services, the Company maintained rights to certain customer contracts that provides a revenue stream of approximately \$40,000 per month. Therefore, during the transition period as defined in the sale agreement, the Company will receive approximately \$40,000 in revenue per month and have cost of approximately \$30,000. The transition services does not have a finite ending date, however, the goals of both the Purchaser and the Company is to complete the transition as quickly as possible. The cost to maintain the data center can be eliminated upon the completion of the transition services as described in the Asset Purchase Agreement. Our on-going cost to maintain the data center includes rent, cost of the servers, certain third-party software arrangements, and depreciation of the servers. The property and equipment on the Company's balance sheet in discontinued operations is the net book value for the related servers in the data center.

#### **NOTE 9 - RELATED PARTY TRANSACTIONS**

In the second quarter of fiscal year 2019, in connection with the appointment of Wyche T. "Tee" Green, III, Chairman of the Board of the Company and Managing Member of 121G, LLC ("121G"), as interim President and Chief Executive Officer of the Company, we entered into a consulting agreement with 121G Consulting, LLC ("121G Consulting"), to provide an assessment of the Company's innovation and growth teams and strategies and to develop a set of prioritized recommendations to be consolidated into a strategic plan for the Company's leadership team. Mr. Green is a "member" of 121G Consulting, and, accordingly, has a financial interest in that entity. In October 2019, Mr. Green was appointed as President and Chief Executive Officer of the Company on a full-time basis.

For the year ended January 31, 2020, 121G Consulting fees totaled \$276,000. Of that amount, \$88,000 was included in executive transition cost and \$188,000 was included in the Company's operating cost in the accompanying consolidated statements of operations. As of January 31, 2020, consulting fees payable to 121G Consulting totaled \$40,000 and are included in accounts payable in the accompanying consolidated balance sheet. There were no amounts outstanding as of October 31, 2020.

On March 19, 2020, the Company entered into a Master Services Agreement (the "MSA") with 180 Consulting, LLC ("180 Consulting"), pursuant to which 180 Consulting will provide a variety of consulting services including product management, internal systems platform integration and software engineering services, among others, through separate statements of work ("SOWs"). Contemporaneously, the Company entered into three SOWs under the MSA and entered into two more, SOW #4 and SOW #2A on June 8, 2020 and July 21, 2020, respectively. While no related person has a direct or indirect material interest in this MSA or the related SOWs, individuals providing services to us under the MSA and the SOWs may share workspace and administrative costs with 121G Consulting.

During the first nine-month period ended October 31, 2020, the Company incurred total fees of \$425,000 under the terms of the MSA related to 180 Consulting. Of those fees, approximately \$75,000 was related to capitalized software development, and the remaining \$375,000 was operating cost. In addition to the cash compensation, under these agreements with 180 Consulting, the Company issued 7,331 shares of restricted stock during the quarter and 73,043 shares subsequent to the end of the quarter. Cumulatively, the Company has issued an aggregate of 237,672 shares of common stock to 180 Consulting during the nine months ended October 31, 2020 and in the period subsequent to October 31, 2020. Accordingly, the Company recognized approximately \$225,000 in non-employee stock compensation during the nine months ended October 31, 2020, of which \$51,000 was reported in capitalized software development cost. Of the 237,672 shares issued under the MSA, the Company has recognized stock compensation expense for 174,583 shares. The remaining shares will be recognized into stock compensation as the work is performed (work is expected to be completed by January 31, 2021).

#### **NOTE 10 — SUBSEQUENT EVENTS**

We have evaluated subsequent events occurring after October 31, 2020, 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. This Report, therefore, contains statements about future events and expectations which are forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended (the "Securities Act"), and 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). 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" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 and in our subsequent filings with the Securities Exchange Commission, and include among others, 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;
- fluctuations in operating results;
- our future cash needs;
- the consummation of resources in researching acquisitions, business opportunities or financings and capital market transactions;
- the failure to adequately integrate past and future acquisitions into our business;

- 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;
- our ability to maintain compliance with the terms of our credit facilities; and
- our ability to maintain compliance with the continued listing standards of the Nasdaq Global Market.

Some of these factors and risks have been, and may further be, exacerbated by the COVID-19 pandemic.

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	% Change
	October 31, 2020	October 31, 2019		
System sales	\$ 19	\$ 636	\$ (617)	(97)%
Professional services	180	444	(264)	(59)%
Audit services	491	517	(26)	(5)%
Maintenance and support	1,070	1,328	(258)	(19)%
Software as a service	881	594	287	48%
Total Revenues	\$ 2,641	\$ 3,519	\$ (878)	(25)%

  

(in thousands):	Nine-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
System sales	\$ 234	\$ 968	\$ (734)	(76)%
Professional services	540	1,102	(562)	(51)%
Audit services	1,498	1,266	232	18%
Maintenance and support	3,556	4,053	(497)	(12)%
Software as a service	2,544	1,783	761	43%
Total Revenues	\$ 8,372	\$ 9,172	\$ (800)	(9)%

Proprietary software and term licenses — Proprietary software revenue recognized for the three months ended and nine months ended October 31, 2020 decreased by \$617,000 and \$734,000 over their respective prior comparable periods. The Company is able to influence sales of these products; however, the timing is difficult to manage as sales generally result from our distribution partners, certain delays in contracting for systems sales are a result of the COVID-19. The Company is unable to ascertain the extent of the impact of COVID-19 on the Company's on-going performance relative to perpetual software sales.

**Professional services** — For the three- and nine-month periods ended October 31, 2020, revenues from professional services decreased by \$264,000 and \$562,000 from the prior comparable period. This decrease in professional services revenue is primarily due to the timing of completion of a few, large, professional services agreements in fiscal year 2019. Additionally, the lower professional services in the current period was a result of COVID-19 as it delayed customers' ability to staff projects during 2020. The Company is unable to ascertain the extent of the impact of COVID-19 on the Company's ongoing performance relative to professional services.

**Audit services** — Audit services revenue for the three-month period ended October 31, 2020 decreased by \$26,000, and for the nine-month period ended October 31, 2020, increased by \$232,000 over the prior comparable periods. The Company realized higher demand for audit services in the fourth quarter of 2019, and that higher demand continued into the first half of 2020. The Company's expertise, demonstrated and supported by eValuator, and the fact that our professional staff is onshore is believed to be a competitive advantage with regard to the audit services. We did experience a temporary reduction in volumes for approximately 45 days from certain customers that were primarily physician based, as a result of COVID-19. This occurred late in the first quarter and early in the second quarter of fiscal 2020. Volumes showed signs of recovery toward the end of the second quarter and continued through the third quarter of fiscal 2020 with some customers increasing the number of requested encounters to be audited. The Company has customer opportunities in the market combining the eValuator technology with audit services to provide customers with a comprehensive solution ("a technology enabled service").

**Maintenance and support** — Revenue from maintenance and support for the three- and nine-month periods ended October 31, 2020 decreased by \$258,000 and \$497,000, respectively. The Company is expecting lower revenue for the full year 2020, over prior comparable periods, due to pricing pressure and cancellations by certain customers of our legacy products, primarily clinical analytics. The Company's agreement for Clinical Analytics with Montefiore terminated on June 30, 2020. Accordingly, the Company recognized \$206,000 and \$275,000 lower revenue from Clinical Analytics in the respective three months and nine months ended October 31, 2020 as compared with the same period in 2019. The customer pricing differences and rate of customer cancellations has not exceeded the Company's budget for fiscal 2020.

**Software as a Service (SaaS)** — Revenue from SaaS for the three- and nine-month periods ended October 31, 2020 increased by \$287,000 and \$761,000, respectively, from the prior comparable periods. The increase continues to be a result of new customers of our growth product, eValuator. The Company's legacy product, Financial Management Systems, has been consistent and is not expected to see a material shortfall in fiscal 2020. The eValuator SaaS revenue base should continue to grow in fiscal 2020 as we experience go-lives on already sold eValuator customers, and sales of new eValuator customers that will go-live later in fiscal 2020. We have experienced slower final contract signing as result of COVID-19. While we have seen some positive activity, we are unable to estimate the impact of COVID-19 on future contracting processes with our customers.

#### Cost of Sales

(in thousands):	Three-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
Cost of system sales	\$ 183	\$ 455	\$ (272)	(60)%
Cost of professional services	295	374	(79)	(21)%
Cost of audit services	425	325	100	31%
Cost of maintenance and support	160	201	(41)	(20)%
Cost of software as a service	416	226	190	84%
Total cost of sales	\$ 1,479	\$ 1,581	\$ (102)	(6)%

(in thousands):	Nine-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
Cost of system sales	\$ 385	\$ 547	\$ (162)	(30)%
Cost of professional services	852	1,262	(410)	(32)%
Cost of audit services	1,158	949	209	22%
Cost of maintenance and support	528	504	24	5%
Cost of software as a service	1,177	472	705	149%
Total cost of sales	\$ 4,100	\$ 3,734	\$ 366	10%

The decrease in overall cost of sales for the three months ended October 31, 2020 from the comparable prior period is primarily due to the lower capitalized software amortization expense in the prior period related to adjustments correcting immaterial errors. Refer to *Immaterial Correction of Errors* section of the October 31, 2019 FORM 10-Q for further discussion on these corrections.



The increase in overall cost of sales for the nine months ended October 31, 2020 from the comparable prior period is primarily due to the increase in amortization of software development for the Company's eValuator product. The Company placed larger amounts of software development into service during first nine months of fiscal 2020 resulting in higher rates of amortization for fiscal 2020.

Cost of system sales includes amortization and impairment of capitalized software expenditures and the cost of third-party software. The decrease in expense for the three- and nine-month periods ended October 31, 2020 from the comparable prior period was primarily due to the decrease in amortization of capitalized software costs related to adjustments made to correct immaterial errors in fiscal 2019. Refer to *Immaterial Correction of Errors* section of the October 31, 2019 FORM 10-Q for further discussion on these corrections.

The cost of professional services includes compensation and benefits for personnel and related expenses. The decrease in expense for the three- and nine-month periods from the prior comparable periods is primarily due to lower rates of professional services required for SaaS type implementations. The Company previously announced an employee rationalization on January 31, 2020, which professional services personnel were impacted. The SaaS solutions are more efficient to implement as compared to the legacy on-premise software implementations. On-premise implementations, as was the case with legacy software products implementations, took longer and involved substantially more cost.

The cost of audit services includes compensation and benefits for audit services personnel, and related expenses. The increase in expense for the three- and nine-month periods ended October 31, 2020 is attributed to the higher volumes of coding transaction processed, and the related higher revenue. The Company's audit services personnel utilize eValuator and it is believed that the product makes them more productive and efficient.

The cost of maintenance and support includes compensation and benefits for client support personnel. The decrease in expense for the three month period ended October 31, 2020 was primarily due to reduction in headcount. The expense for the nine-month period ended October 31, 2020 was consistent with the comparable prior period.

The cost of SaaS solutions is relatively fixed, subject to inflation for the goods and services it requires. The increase in expense for the three- and nine-month periods ended October 31, 2020 was primarily due to the amortization of capitalized software development costs and the movement of headcount to support this growth product.

#### **Selling, General and Administrative Expense**

<b>(in thousands):</b>	<b>Three-Months Ended</b>			<b>%</b>
	<b>October 31, 2020</b>	<b>October 31, 2019</b>	<b>Change</b>	<b>Change</b>
General and administrative expenses	\$ 1,557	\$ 1,587	\$ (30)	(2)%
Sales and marketing expenses	726	1,175	(449)	(38)%
<b>Total selling, general, and administrative expense</b>	<b>\$ 2,283</b>	<b>\$ 2,762</b>	<b>\$ (479)</b>	<b>(17)%</b>

<b>(in thousands):</b>	<b>Nine-Months Ended</b>			<b>%</b>
	<b>October 31, 2020</b>	<b>October 31, 2019</b>	<b>Change</b>	<b>Change</b>
General and administrative expenses	\$ 4,609	\$ 4,733	\$ (124)	(3)%
Sales and marketing expenses	2,250	2,852	(602)	(21)%
<b>Total selling, general, and administrative expense</b>	<b>\$ 6,859</b>	<b>\$ 7,585</b>	<b>\$ (726)</b>	<b>(10)%</b>

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 nine-months ended October 31, 2020 from the comparable prior period is primarily attributed to a reduction in salaries and benefits and professional fees associated with the company's annual audit and annual shareholders meeting. The Company previously announced, at the end of fiscal year ended January 31, 2020, a rationalization to better match expenses with its lower revenues as a result of the sale of the ECM Assets. The rationalization impacted personnel beyond that of those directly attributable to the ECM Assets. The Company records a disproportionate amount of professional fees in the first quarter of each fiscal year related to the annual audit and the Company's annual shareholder meeting. This disproportionate amount of professional fees occurred in both nine-month periods ended October 31, 2020 and 2019.

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 nine months ended October 31, 2020 from the comparable prior period was primarily due to reduction in salaries and benefits as positions vacated in the latter half of fiscal 2019 were not backfilled, Travel and entertainment expenses and marketing trade show expenses have also decreased during the nine-months ended October 31, 2020 over the prior comparable period as an impact of the novel COVID-19. The Company has temporarily stopped travel until its employee safety can be assured. There is no anticipated date to re-institute travel for its sales, and other personnel. The Company has been productive using web-based meeting media to continue its sales and customer service processes.

## Research and Development

(in thousands):	Three-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
Research and development expense	\$ 753	\$ 501	\$ 252	50%
Plus: Capitalized research and development cost	414	596	(182)	(30)%
Total research and development cost	\$ 1,167	\$ 1,097	\$ 70	6%

(in thousands):	Nine-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
Research and development expense	\$ 1,946	\$ 1,750	\$ 196	11%
Plus: Capitalized research and development cost	1,545	2,139	(594)	(28)%
Total research and development cost	\$ 3,491	\$ 3,889	\$ (398)	(19)%

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. The three- and nine-month periods ended October 31, 2020 include \$13,000 and \$51,000, respectively, of capitalized non-employee stock compensation as explained in Note 9 – Related Party Transactions. Total research and development cost for the three-month period ended October 31, 2020 included increased spend with our development partner. Total research and development cost for the nine-month period ended October 31, 2020 was lower than that from the prior comparable period. The Company previously announced an employee rationalization on January 31, 2020, which research and development personnel were impacted. The Company has continued to be more efficient in research and development while focusing on its growth products, primarily eValuator. The Company is spending fewer dollars on enhancements for its legacy products as these have attained maturity in the marketplace. The Company is expecting that total research and development expenses will continue at the third quarter 2020 levels for the remainder fiscal year 2020. For the nine months ended October 31, 2020 and 2019, as a percentage of revenues, total research and development costs were 42% and 40%, respectively.

### Executive transition cost

(in thousands):	Three-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
Executive transition cost	\$ —	481	(481)	(100)%

(in thousands):	Nine-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
Executive transition cost	\$ —	621	(621)	(100)%

We recorded \$481,000 in cost related to replacing the Company's CEO in the third quarter of fiscal 2019. These costs, which included placement fees, retention bonuses for existing key personnel and certain required consulting cost. Each of these costs are directly attributable to the successful placement of a new CEO with the Company. All executive transition costs were recorded throughout fiscal 2019 and none were incurred during fiscal 2020.

### Loss on exit of operating lease

(in thousands):	Nine-Months Ended		Change	% Change
	October 31, 2020	October 31, 2019		
Loss on exit of operating lease	\$ 105	\$ —	105	100%

Refer to Note 3 – Operating Leases. We recorded \$105,000 in cost related to the remaining payments required under the agreement with the landlord on shared office space in Atlanta that was abandoned when the Company entered a new lease for office space in Alpharetta, Georgia.

## Other Expense

(in thousands):	Three-Months Ended		Change	%
	October 31, 2020	October 31, 2019		Change
Interest expense	\$ (12)	\$ (91)	79	(87)%
Miscellaneous expense	14	(80)	94	(118)%
Total other expense	\$ 2	\$ (171)	173	(101)%

  

(in thousands):	Nine-Months Ended		Change	%
	October 31, 2020	October 31, 2019		Change
Interest expense	\$ (39)	\$ (239)	200	(84)%
Miscellaneous expense	(68)	(199)	131	(66)%
Total other expense	\$ (107)	\$ (438)	331	(76)%

Interest expense consists of interest and commitment fees on the line of credit, interest on the term loan, the Company's PPP Loan and is inclusive of deferred financing cost amortization expense. Interest expense decreased for the three and nine months ended October 31, 2020 from the prior comparable period primarily due to the reduction in outstanding principal on our term loan. The Company re-paid its term loan with Bridge bank on February 24, 2020, upon closing the sale of the ECM Assets.

The components of miscellaneous expense for the three and nine-month periods ended October 31, 2020 and 2019 is primarily the valuation allowance on the Montefiore liability and foreign currency transaction adjustments. Miscellaneous expense for the nine-month period ended October 31, 2020 includes each of (i) a \$37,000 impact for currency transaction revaluation, and (ii) \$31,000 for Montefiore valuation adjustment. Miscellaneous expense for the nine-month period ended October 31, 2019 includes (i) valuation adjustment for Montefiore, (ii) certain foreign currency transactions, and (iii) a \$74,000, one-time expense, for a failed refinancing effort.

## Provision for Income Taxes

We recorded an income tax benefit of \$803,000 and \$454,000 for the three months ended October 31, 2020 and 2019, which is comprised of estimated federal, state and local income tax provisions. The income tax benefit is partially off-set by an income tax from discontinued operations. The Company has a substantial amount of net operating losses for federal and state income tax purposes. We do not anticipate any tax from the sale of the ECM Assets, or income from continuing or discontinued operations for the full year fiscal 2020. The net income tax expense from continuing and discontinued operations will continue to reverse out of the Company's statement of operations through the fiscal year 2020.

## 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 related expenses and other expenses that do not relate to our core operations such as severances and impairment charges; (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.

The Board of Directors and management also use these measures (i) as 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 Loan and Security 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 Loan and Security 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, the Company encourages 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 above.

The following table reconciles EBITDA and Adjusted EBITDA to net loss, and Adjusted EBITDA per diluted share to loss per diluted share for the three- and nine-months ended October 31, 2020 and 2019 (amounts in thousands, except per share data). 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 the Company's 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, 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		Nine Months Ended	
	October 31, 2020	October 31, 2019	October 31, 2020	October 31, 2019
<b>Adjusted EBITDA Reconciliation</b>				
Loss from continuing operations	\$ (1,069)	\$ (1,523)	\$ (3,209)	\$ (3,822)
Interest expense	12	91	39	239
Income tax benefit	(803)	(454)	(1,536)	(1,134)
Depreciation	4	11	35	33
Amortization of capitalized software development costs	477	598	1,128	834
Amortization of intangible assets	123	139	370	424
Amortization of other costs	89	72	242	208
EBITDA	<u>(1,167)</u>	<u>(1,066)</u>	<u>(2,931)</u>	<u>(3,218)</u>
Share-based compensation expense	442	290	1,054	719
Non-cash valuation adjustments	-	17	31	48
Loss on exit of operating lease	-	-	105	-
Other non-recurring operating expenses	-	-	-	-
Other non-recurring expenses	-	-	-	-
Adjusted EBITDA	<u>\$ (725)</u>	<u>\$ (759)</u>	<u>\$ (1,741)</u>	<u>\$ (2,451)</u>
Adjusted EBITDA margin (1)	<u>(27)%</u>	<u>(22)%</u>	<u>(21)%</u>	<u>(27)%</u>
<b>Adjusted EBITDA per Diluted Share Reconciliation</b>				
Loss from continuing operations per common share — diluted	\$ (0.04)	\$ (0.07)	\$ (0.11)	\$ (0.19)
Net loss per common share — diluted	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>
Adjusted EBITDA per adjusted diluted share (2)	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>	<u>\$ (0.12)</u>
Diluted weighted average shares (3)	30,286,197	21,598,146	30,026,890	20,435,055
Includable incremental shares — adjusted EBITDA (4)	606,329	2,736,075	423,682	2,976,967
Adjusted diluted shares	<u>30,892,526</u>	<u>24,334,221</u>	<u>30,450,572</u>	<u>23,412,022</u>

(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) Diluted EPS for our common stock was computed using the if-converted method, which yields the same result as the two-class method.

(4) 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, 2020. 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, 2020.

## Liquidity and Capital Resources

The Company's 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. The Company's primary cash requirements include regular payment of payroll and other business expenses, principal and interest payments on debt and capital expenditures. Capital expenditures generally include computer hardware and computer software to support internal development efforts or SaaS data center infrastructure. Operations are funded with cash generated by operations and borrowings under credit facilities. As discussed in Note 8 – Discontinued Operations of the financial statements, the Company closed on its agreement to sell the legacy ECM Assets to Hyland Software, Inc on February 24, 2020. The Company used the proceeds to pay off its term loan with Bridge Bank and to fund the continuing development and incremental investment in sales and marketing in support of its eValuator™ cloud-based pre- and post-bill coding analysis platform. The Company generated over \$5.4 million in proceeds from the sale of the ECM Assets, after repaying its \$4.0 million term loan.

The Company believes that cash flows from operations, the cash from the sale of the ECM Assets and available credit facilities are adequate to fund current obligations for the next twelve months from issuance of these financial statements. Cash and cash equivalent balances at October 31, 2020 and January 31, 2020 were \$3,031,000 and \$1,649,000, respectively. 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 Loan and Security Agreement described in more detail in Note 4 - Debt of our condensed consolidated financial statements. The Company has a \$2,000,000 revolving credit facility, which can be advanced based upon 80% of eligible accounts receivable, as defined in the Loan and Security Agreement. In order to draw upon the revolving credit facility, the Company's must comply with certain financial covenants, including the requirement that the Company maintain certain minimum recurring revenue and Bank EBITDA levels, calculated pursuant to the Loan and Security Agreement, measured on a monthly basis over a trailing three-month period and year-to-date then ended, and which shall not deviate by the greater of (i) thirty percent of its projected Bank EBITDA or (ii) \$150,000, or 15% or 20% of the Company's recurring revenue for the trailing three and twelve-month period then ended, respectively. Our lender uses a measurement that is similar to the Adjusted EBITDA, a non-GAAP financial measure described above. The bank uses an Adjusted EBITDA that is further reduced by the Company's spend on capitalized software development for the period. The bank agreement initially required the Company to maintain a minimum Asset Coverage Ratio. However, the Asset Coverage Ratio was eliminated as a covenant under an amendment dated April 11, 2020.

The Company was in compliance with the foregoing loan covenants at October 31, 2020. Based upon the borrowing base formula set forth in the Credit Agreement, as of October 31, 2020, the Company had access to \$1,400,000 of the full \$2,000,000 revolving line of credit. As of October 31, 2020, there were no outstanding borrowings under the line of credit.

The Loan and Security Agreement prohibits the Company 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 Loan and Security 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 Loan and Security Agreement.

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, was signed into law on March 17, 2020. Among other things, the Cares Act provided for a business loan program known as the Paycheck Protection Act ("PPP"). Companies are able to borrow, through the SBA, up to two months of payroll expenses. The Company received approximately \$2,301,000 through the SBA under the PPP loan program. These funds are utilized by the Company to fund payroll expenses and avoid further staffing reductions during the slowdown resulting from COVID-19. The loan requires principal payments, beginning after the seventh month anniversary, and must be fully paid in two years. The PPP loan bears an interest rate of 1.0% per annum.

### Significant cash obligations

<u>(in thousands)</u>	<u>October 31, 2020</u>	<u>January 31, 2020</u>
Term loan (1)	\$ 2,301	\$ 3,872
Royalty liability (2)	500	969

(1) Term loan balance is reported net of deferred financing costs of \$ - and \$128,000 as of October 31, 2020 and January 31, 2020, respectively. Refer to Note 4 - Debt to the condensed consolidated financial statements for additional information. The term loan balance as of October 31, 2020 is the Company's PPP loan. The term loan payable as of January 31, 2020 was bank term debt.

(2) Refer to Note 7- Commitments and Contingencies to the condensed consolidated financial statements for additional information.

### Operating cash flow activities

<u>(in thousands)</u>	<u>Nine Months Ended</u>	
	<u>October 31, 2020</u>	<u>October 31, 2019</u>
Net loss from continuing operations	\$ (3,209)	\$ (3,822)
Non-cash adjustments to net loss	1,364	1,007
Cash impact of changes in assets and liabilities	(1,838)	(2,477)
Net cash used in operating activities	<u>\$ (3,683)</u>	<u>\$ (5,292)</u>

The use of cash from operating activities is due to the loss from operations for the third quarter ended October 31, 2020 as well as certain non-recurring cost paid in the first quarter of fiscal year 2020. We had some \$600,000 of non-recurring cost accrued at the end of fiscal 2019, that were funded in the first quarter ended April 30, 2020. These were inclusive of approximately \$300,000 of severance liabilities for an employee rationalization that occurred on January 31, 2020.

### Investing cash flow activities

<u>(in thousands)</u>	<u>Nine-Months Ended</u>	
	<u>October 31, 2020</u>	<u>October 31, 2019</u>
Purchases of property and equipment	\$ (42)	\$ (51)
Proceeds from sale of ECM Assets	11,288	—
Capitalized software development costs	(1,495)	(2,139)
Net cash provided by (used in) investing activities	<u>\$ 9,751</u>	<u>\$ (2,190)</u>

The improvement in the cash used in investing activities in the nine months ended October 31, 2020 over the prior comparable period is primarily due to the proceeds from our sale of the ECM Assets, and lower capitalized software development costs. Refer to Note 8 – Discontinued Operations for more information on the sale of the ECM Assets. Operationally, the Company has a more focused effort on the spend for software development projects. See discussion and analysis in “Research and development costs” above. The proceeds from the sale of the ECM Assets are net of direct transaction expenses.

### Financing cash flow activities

<u>(in thousands)</u>	<u>Nine-Months Ended</u>	
	<u>October 31, 2020</u>	<u>October 31, 2019</u>
Proceeds from term loan	\$ 2,301	—
Principal repayments on term loan	(4,000)	\$ (448)
Proceeds from issuance of common stock	—	9,663
Payments for costs directly attributable to the issuance of common stock	—	(681)
Payments related to settlement of employee shared-based awards	(168)	(50)
Redemption of Series A Convertible Preferred Stock	—	(5,791)
Fees paid for redemption of Series A Convertible Preferred Stock	—	(22)
Payment of deferred financing costs	—	(73)
Payment of royalty liability	(500)	—
Other	—	2
Net cash (used in) provided by financing activities	<u>\$ (2,367)</u>	<u>\$ 2,600</u>

The cash used in financing activities in the nine months ended October 31, 2020 was primarily the result of the repayment of the Company's term loan on February 24, 2020, upon the closing the sale of the ECM Assets. The Company was required to repay the term loan at close and funding of the sale of the ECM Assets. Additionally, the Company filed for, and received, a PPP loan in the amount of \$2,301,000. Refer to Note 4 – Debt.

## Item 2. ISSUER OF EQUITY SECURITIES

The following table sets forth information with respect to our repurchases of common stock during the three months ended October 31, 2020:

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs</b>
August 1 – August 31	19,221	\$ 1.24	—	—
September 1 - September 30	37,083	1.68	—	—
October 1 - October 31	—	\$ —	—	—
<b>Total</b>	<b>56,304</b>	<b>\$ 1.53</b>	<b>—</b>	<b>—</b>

(1) Amount represents shares surrendered by employees to satisfy tax withholding obligations resulting from restricted stock that vested during the three months ended October 31, 2020.

## 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

Our President (who serves as our principal executive officer) and our Senior Vice President (who serves as our principal financial officer) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of October 31, 2020. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of October 31, 2020.

### Changes in Internal Control over Financial Reporting

During the three and nine months periods ended October 31, 2020, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that have materially affected, or are reasonably likely to materially affect, our internal control. We have not experienced any material impact to our internal controls over financial reporting due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.



## PART II. OTHER INFORMATION

### 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 in our Annual Report on Form 10-K for the year ended January 31, 2020 which Report includes a detailed discussion of the Company’s risk factors. There have been no material changes to the risk factors as disclosed in our Annual Report, except as set forth below. Nevertheless, many of the risk factors disclosed in Item 1A of our Annual Report have been, and we expect will continue to intensify or be aggravated by the impact of the COVID-19 pandemic. If any of the risks develop 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.

*The ongoing COVID-19 pandemic and resulting adverse economic conditions has had and will likely continue to have an adverse affect on our business, results of operations and financial condition.*

The global outbreak of the coronavirus disease (COVID-19), which the World Health Organization has characterized as a “pandemic” in March 2020, has resulted in a crisis affecting economies and financial markets worldwide. The pandemic, and its attendant economic damage, has had an adverse impact on our revenue and may continue to adversely affect our business, results of operations and financial condition. The ultimate extent of its impact on us will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the pandemic and actions taken to contain or prevent its further spread, among others. These and other potential impacts of COVID-19 could therefore continue to materially and adversely affect our business, results of operations and financial condition.

Prolonged unfavorable economic conditions which arose in response to COVID-19, by local, state and federal and numerous non-US governmental authorities imposing, among other restrictions, travel bans, business closures and other quarantine measures to practice social distancing, and other factors such as recession or slowed economic growth, may continue to result in considerable uncertainty regarding the impact the pandemic will have on our workforce and continued operations.

We have adjusted our business practices to combat the effects by closing the Company’s primary corporate office, restricting employee travel, implementing social distancing and additional sanitary measures. These actions are being taken in response to recommendations issued by local, state and national government authorities. There has been no further reduction in the workforce as a result of the COVID-19 since these initial adjustments but we are not certain as to whether any additional reductions may be necessary in order to combat the effects of COVID-19-related closures or economic downturns. We do not know of the extent and the duration of the pandemic and these interruptions may go on for an uncertain time, which could adversely impact the Company’s business, results of operations and financial condition.

#### 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. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the nine months ended October 31, 2020, we issued an aggregate of 164,629 shares of common stock and subsequent to October 31, 2020 we issued an additional 73,043 shares of common stock, for a total of 237,672 shares of common stock to 180 Consulting, LLC as compensation for services provided pursuant to the Master Services Agreement, effective March 19, 2020, by and between Streamline Health Solutions, Inc. and 180 Consulting, LLC and related statements of work. The shares were issued in a private placement in reliance on the exemption from registration available under Section 4(a)(2) of the Securities Act, including Regulation D promulgated thereunder and the certificate representing such shares has a legend imprinted on it stating that the shares have not been registered under the Securities Act and cannot be transferred until properly registered under the Securities Act or pursuant to an exemption from such registration.

## Item 6. EXHIBITS

See Index to Exhibits.

### INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
3.1	<a href="#">Certificate of Incorporation of Streamline Health Solutions, Inc. f/k/a LanVision Systems, Inc., as amended through August 19, 2014 (Incorporated by reference from Exhibit 3.1 of the Form 10-Q, filed September 15, 2014).</a>
3.2	<a href="#">Bylaws of Streamline Health Solutions, Inc., as amended and restated through March 28, 2014 (Incorporated by reference from Exhibit 3.1 of Form 8-K, filed April 3, 2014).</a>
10.1	<a href="#">Streamline Health Solutions, Inc. Third Amended and Restated 2013 Stock Incentive Plan (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed April 22, 2020).</a>
10.2	<a href="#">Master Services Agreement, effective March 19, 2020, by and between Streamline Health Solutions, Inc. and 180 Consulting, LLC (Incorporated by reference from Exhibit 10.1 of the Form 8-K, filed March 25, 2020).</a>
10.3	<a href="#">Statement of Work #1 by and between Streamline Health Solutions, Inc. and 180 Consulting, LLC (Incorporated by reference from Exhibit 10.2 to the Form 8-K, filed March 25, 2020).</a>
10.4	<a href="#">Statement of Work #2 by and between Streamline Health Solutions, Inc. and 180 Consulting, LLC (Incorporated by reference from Exhibit 10.3 to the Form 8-K, filed March 25, 2020).</a>
10.5	<a href="#">Statement of Work #3 by and between Streamline Health Solutions, Inc. and 180 Consulting, LLC (Incorporated by reference from Exhibit 10.4 to the Form 8-K, filed March 25, 2020).</a>
10.6*	<a href="#">Statement of Work #4 by and between Streamline Health Solutions, Inc. and 180 Consulting, LLC (Incorporated by reference from Exhibit 10.6 to the Form 10-Q, filed September 10, 2020).*</a> †
10.7	<a href="#">Operating Lease for Alpharetta, Georgia (Incorporated by reference from Exhibit 10.6 to the Form 10-Q, filed June 11, 2020).</a>
31.1*	<a href="#">Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.</a>
31.2*	<a href="#">Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.</a>
32.1*	<a href="#">Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350.</a>
32.2*	<a href="#">Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350.</a>
101	The following financial information from Streamline Health Solutions, Inc.'s Quarterly Report on Form 10-Q for the nine-month period ended October 31, 2020 filed with the SEC on December 10, 2020, formatted in XBRL includes: (i) Condensed Consolidated Balance Sheets at October 31, 2020 and January 31, 2020, (ii) Condensed Consolidated Statements of Operations for the three- and nine-month periods ended October 31, 2020 and 2019, (iii) Condensed Consolidated Statements of Shareholders' Equity for the nine-month periods ended October 31, 2020 and 2019, (iv) Condensed Consolidated Statements of Cash Flows for the nine-month periods ended October 31, 2020 and 2019, and (v) Notes to the Condensed Consolidated Financial Statements.

\* Filed herewith.

† Certain portions of the exhibit have been omitted pursuant to Regulation S-K Item 601(b)(10)(iv) because they are both (i) not material to investors and (ii) likely to cause competitive harm to the Company if publicly disclosed.

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



CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

I, Wyche "Tee" Green, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Streamline Health Solutions, Inc.;
2. 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;
3. 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;
4. 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:
  - (a) 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;
  - (b) 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;
  - (c) 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
  - (d) 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
5. 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):
  - (a) 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
  - (b) 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.

Date: December 10, 2020

/s/ Wyche "Tee" Green

Chairman of the Board of Directors, Chief Executive Officer and President

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CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

I, Thomas J. Gibson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Streamline Health Solutions, Inc.;
2. 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;
3. 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;
4. 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:
  - (a) 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;
  - (b) 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;
  - (c) 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
  - (d) 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
5. 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):
  - (a) 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
  - (b) 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.

Date: December 10, 2020

/s/ Thomas J. Gibson  
Chief Financial Officer

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

I, Wyche “Tee” Green, Chairman of the Board of Directors, 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 to my knowledge:

- (1) The quarterly report on Form 10-Q of the Company for the quarter ended October 31, 2020 (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/ Wyche “Tee” Green*

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Wyche “Tee” Green  
Chairman of the Board of Directors, Chief Executive Officer and President  
December 10, 2020

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.

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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 to my knowledge:

- (1) The quarterly report on Form 10-Q of the Company for the quarter ended October 31, 2020 (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*

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Thomas J. Gibson  
Chief Financial Officer  
December 10, 2020

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.

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