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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2017

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

1230 Peachtree Street, NE, Suite 600,
Atlanta, GA 30309
(Address of principal executive offices) (Zip Code)
(404) 920-2396
(Registrant's telephone number, including area code)

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

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

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

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

Emerging growth company ☐

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

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of November 30, 2017: 19,984,743

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	As of	
	October 31, 2017	January 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,892,182	$ 5,654,093
Accounts receivable, net of allowance for doubtful accounts of $301,773 and $198,449, respectively	2,532,941	4,489,789
Contract receivables	283,973	466,423
Prepaid hardware and third-party software for future delivery	5,858	5,858
Prepaid client maintenance contracts	587,960	595,633
Other prepaid assets	837,649	732,496
Other current assets	392,449	439
Total current assets	6,533,012	11,944,731
Non-current assets:		
Property and equipment:		
Computer equipment	2,971,361	3,110,274
Computer software	725,700	827,642
Office furniture, fixtures and equipment	683,443	683,443
Leasehold improvements	729,348	729,348
	5,109,852	5,350,707
Accumulated depreciation and amortization	(3,762,821)	(3,447,198)
Property and equipment, net	1,347,031	1,903,509
Capitalized software development costs, net of accumulated amortization of $18,119,290 and $16,544,797, respectively	4,346,694	4,584,245
Intangible assets, net of accumulated amortization of $6,729,799 and $5,807,338, respectively	6,074,137	6,996,599
Goodwill	15,537,281	15,537,281
Other	677,319	672,133
Total non-current assets	27,982,462	29,693,767
	$ 34,515,474	$ 41,638,498

See accompanying notes to condensed consolidated financial statements.

STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	As of	
	October 31, 2017	January 31, 2017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 807,778	$ 1,116,525
Accrued compensation	593,510	496,706
Accrued other expenses	587,209	484,391
Current portion of term loan	596,984	655,804
Deferred revenues	6,130,259	9,916,454
Current portion of capital lease obligations	—	91,337
Total current liabilities	8,715,740	12,761,217
Non-current liabilities:		
Term loan, net of deferred financing cost of $146,009 and $199,211, respectively	4,032,865	4,883,286
Warrants liability	150,857	46,191
Royalty liability	2,456,233	2,350,754
Lease incentive liability	293,322	339,676
Deferred revenues, less current portion	487,832	568,515
Total non-current liabilities	7,421,109	8,188,422
Total liabilities	16,136,849	20,949,639
Series A 0% Convertible Redeemable Preferred Stock, $.01 par value per share, $8,849,985 redemption value, 4,000,000 shares authorized, 2,949,995 shares issued and outstanding, net of unamortized preferred stock discount of $0	8,849,985	8,849,985
Stockholders' equity:		
Common stock, $.01 par value per share, 45,000,000 shares authorized; 19,984,743 and 19,695,391 shares issued and outstanding, respectively	199,847	196,954
Additional paid in capital	81,491,728	80,667,771
Accumulated deficit	(72,162,935)	(69,025,851)
Total stockholders' equity	9,528,640	11,838,874
	$ 34,515,474	$ 41,638,498

See accompanying notes to condensed consolidated financial statements.

STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended October 31		Nine Months Ended October 31	
	2017	2016	2017	2016
Revenues:				
Systems sales	$ 348,526	$ 314,218	$ 1,055,941	$ 2,190,256
Professional services	801,771	630,961	1,793,618	1,869,656
Audit services	280,025	234,347	919,485	234,347
Maintenance and support	3,250,229	3,749,596	9,883,563	11,237,637
Software as a service	1,718,748	1,706,366	4,586,532	5,144,876
Total revenues	6,399,299	6,635,488	18,239,139	20,676,772
Operating expenses:				
Cost of systems sales	434,138	663,148	1,596,988	2,080,263
Cost of professional services	555,815	723,358	1,814,236	1,891,146
Cost of audit services	404,280	595,575	1,236,358	595,575
Cost of maintenance and support	667,307	790,291	2,241,969	2,483,462
Cost of software as a service	289,503	450,695	914,711	1,390,308
Selling, general and administrative	2,819,549	3,212,350	8,983,248	10,153,140
Research and development	932,251	1,969,415	3,985,161	5,800,169
Total operating expenses	6,102,843	8,404,832	20,772,671	24,394,063
Operating income (loss)	296,456	(1,769,344)	(2,533,532)	(3,717,291)
Other expense:				
Interest expense	(113,078)	(98,871)	(360,723)	(380,897)
Miscellaneous expense	(177,282)	(60,555)	(235,007)	(39,089)
Earnings (loss) before income taxes	6,096	(1,928,770)	(3,129,262)	(4,137,277)
Income tax expense	(2,607)	(1,702)	(7,822)	(5,104)
Net earnings (loss)	$ 3,489	$ (1,930,472)	$ (3,137,084)	$ (4,142,381)
Less: deemed dividends on Series A Preferred Shares	—	(72,710)	—	(875,935)
Net earnings (loss) attributable to common stockholders	$ 3,489	$ (2,003,182)	$ (3,137,084)	$ (5,018,316)
Basic net earnings (loss) per common share	$ —	$ (0.10)	$ (0.16)	$ (0.26)
Number of shares used in basic per common share computation	19,985,822	19,645,521	19,838,691	19,477,538
Diluted net earnings (loss) per common share	$ —	$ (0.10)	$ (0.16)	$ (0.26)
Number of shares used in diluted per common share computation	23,068,423	19,645,521	19,838,691	19,477,538

See accompanying notes to condensed consolidated financial statements.

STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended October 31	
	2017	**2016**
Operating activities:		
Net loss	$ (3,137,084)	$ (4,142,381)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	595,866	895,438
Amortization of capitalized software development costs	1,574,493	2,146,374
Amortization of intangible assets	922,462	976,338
Amortization of other deferred costs	229,780	192,947
Valuation adjustment for warrants liability	104,666	(36,875)
Share-based compensation expense	844,960	1,342,513
Other valuation adjustments	124,423	120,912
(Gain) loss on disposal of property and equipment	(14,871)	567
Provision for accounts receivable	181,859	136,693
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts and contract receivables	1,957,439	1,679,810
Other assets	(671,254)	130,875
Accounts payable	(308,747)	(78,320)
Accrued expenses	134,324	(814,707)
Deferred revenues	(3,866,878)	(3,793,603)
Net cash used in operating activities	(1,328,562)	(1,243,419)
Investing activities:		
Purchases of property and equipment	(24,517)	(501,148)
Capitalization of software development costs	(1,336,942)	(1,420,678)
Payment for acquisition, net of cash received	—	(1,400,000)
Net cash used in investing activities	(1,361,459)	(3,321,826)
Financing activities:		
Principal repayments on term loan	(962,443)	(2,243,624)
Principal payments on capital lease obligation	(91,337)	(535,896)
Proceeds from exercise of stock options and stock purchase plan	23,703	14,793
Payments related to settlement of employee shared-based awards	(41,813)	(11,702)
Net cash used in financing activities	(1,071,890)	(2,776,429)
Net decrease in cash and cash equivalents	(3,761,911)	(7,341,674)
Cash and cash equivalents at beginning of period	5,654,093	9,882,136
Cash and cash equivalents at end of period	$ 1,892,182	$ 2,540,462

See accompanying notes to condensed consolidated financial statements.

STREAMLINE HEALTH SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

October 31, 2017

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. ("we", "us", "our", "Streamline", or the "Company"), pursuant to the rules and regulations applicable to quarterly reports on Form 10-Q of the U.S. Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. These Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in our most recent annual report on Form 10-K, Commission File Number 0-28132. Operating results for the nine months ended October 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2018.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are presented in "Note 2 – Significant Accounting Policies" in the fiscal year 2016 Annual Report on Form 10-K. Users of financial information for interim periods are encouraged to refer to the footnotes to the consolidated financial statements contained in the Annual Report on Form 10-K when reviewing interim financial results.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Financial Accounting Standards Board's ("FASB") authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments. Cash and cash equivalents are classified as Level 1. The carrying amount of our long-term debt approximates fair value since the variable interest rates being paid on the amounts approximate the market interest rate. Long-term debt is classified as Level 2.

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

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At October 31, 2017				
Warrants liability (1)	$ 151,000	$ —	$ —	$ 151,000
Royalty liability (2)	2,456,000	—	—	2,456,000
At January 31, 2017				
Warrants liability (1)	$ 46,000	$ —	$ —	$ 46,000
Royalty liability (2)	2,351,000	—	—	2,351,000

(1) The initial fair value of warrants liability was determined by management with the assistance of an independent third-party valuation specialist, and by management thereafter. Changes in fair value of the warrants are recognized within miscellaneous expense in the condensed consolidated statements of operations.

(2) The initial fair value of royalty liability was determined by management with the assistance of an independent third-party valuation specialist, and by management thereafter. The fair value of the royalty liability is determined based on the probability-weighted revenue scenarios for the Streamline Health® Clinical Analytics™ solution ("Clinical Analytics") licensed from Montefiore Medical Center (discussed in Note 3 - Acquisitions and Divestitures). 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 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) 985-605, *Software-Revenue Recognition*, ASC 605-25, *Revenue Recognition — Multiple-Element Arrangements*, and ASC 605-10-S99.

We commence revenue recognition when all of the following criteria have been met:

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

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

Multiple Element Arrangements

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

Terms used in evaluation are as follows:

- VSOE (vendor-specific objective evidence) — the price at which an element is sold as a separate stand-alone transaction
- TPE (third-party evidence) — the price of an element charged by another company that is largely interchangeable in any particular transaction
- ESP (estimated selling price) — our best estimate of the selling price of an element of the transaction

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

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

Software as a Service

We use ESP to determine the value for a software-as-a-service arrangement as we cannot establish VSOE, and TPE is not a practical alternative due to differences in functionality from our competitors. Similar to proprietary license sales, pricing decisions rely on the relative size of the client purchasing the solution and include calculating the equivalent value of maintenance and support on a present value basis over the term of the initial agreement period. Typically, revenue recognition commences once the client goes live on the system and is recognized ratably over the contract term.

Systems Sales

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

Typically, pricing decisions for proprietary software rely on the relative size and complexity of the client purchasing the solution. Third-party components are resold at prices based on a cost-plus margin analysis. The proprietary software and third-party components do not need any significant modification to achieve their intended use. When these revenues meet all criteria for revenue recognition, and are determined to be separate units of accounting, revenue is recognized. Typically, this is upon shipment of components or electronic download of software. Proprietary licenses are perpetual in nature, and license fees do not include rights to version upgrades, bug fixes or service packs.

Maintenance and Support Services

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

Term Licenses

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

Software-Based Solution Professional Services

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

Professional services related to coding compliance, recovery audit contractor consulting, and ICD-10 readiness are considered a single unit of accounting where we recognize revenue using proportional performance over the service period when all applicable revenue recognition criteria have been met.

Professional services components related to SaaS and term licenses that are essential to the functionality of the software and are not considered a separate unit of accounting are recognized in revenue ratably over the life of the client, which approximates the duration of the initial contract term. We defer the associated direct costs for salaries and benefits expense for professional services contracts. These deferred costs will be amortized over the identical term as the associated revenues. As of October 31, 2017 and January 31, 2017, we had deferred costs of $506,000 and $500,000, respectively, net of accumulated amortization of $283,000 and $370,000, respectively. Amortization expense of these costs was $51,000 and $36,000 for the three months ended October 31, 2017 and 2016, respectively, and $177,000 and $80,000 for the nine months ended October 31, 2017 and 2016, respectively.

Professional service components that are essential to the functionality of perpetually licensed software and are not considered a separate unit of accounting are recognized using the percentage-of-completion method over the professional service period.

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

Audit Services

Professional services relating to audit services are provided separately from software solutions, even those that may relate to coding and coding audit processes. These services are not essential to any software offering and are a separate unit of accounting. Accordingly, the revenues are recognized as the services are performed.

Severance

From time to time, we enter into termination agreements with associates that may include supplemental cash payments, as well as contributions to health and other benefits for a specific time period subsequent to termination. For the three months ended October 31, 2017 and 2016, we incurred zero and $110,000 in severance expenses, respectively, and $58,000 and $227,000 for the nine months ended October 31, 2017 and 2016, respectively. At October 31, 2017 and January 31, 2017, we had accrued severance expenses of zero and $9,000, respectively.

Equity Awards

We account for share-based payments based on the grant-date fair value of the awards with compensation cost recognized as expense over the requisite vesting period. We incurred total compensation expense related to stock-based awards of $290,000 and $432,000 for the three months ended October 31, 2017 and 2016, respectively, and $845,000 and $1,343,000 for the nine months ended October 31, 2017 and 2016, respectively.

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

We issue restricted stock awards in the form of our common stock. The fair value of these awards is based on the market closing price per share on the date of grant. We expense the compensation cost of these awards as the restriction period lapses, which is typically a one-year service period to the Company. In the nine months ended October 31, 2017, 32,033 shares of common stock were surrendered to the Company to satisfy tax withholding obligations totaling $42,000 in connection with the vesting of restricted stock awards. Shares surrendered by the restricted stock award recipients in accordance with the applicable plan are deemed canceled, and therefore are not available to be reissued. In the nine months ended October 31, 2017, the Company awarded 220,337 shares of restricted stock to directors of the Company.

Income Taxes

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

We provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether certain tax positions are more likely than not to be sustained upon examination by tax authorities. We believe we have appropriately accounted for any uncertain tax positions. The Company has recorded $262,000 and $263,000 in reserves for uncertain tax positions and corresponding interest and penalties as of October 31, 2017 and January 31, 2017, respectively.

Net Earnings (Loss) Per Common Share

We present basic and diluted earnings per share ("EPS") data for our common stock. Basic EPS is calculated by dividing the net earnings (loss) attributable to common stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated based on the profit or loss attributable to common stockholders and the weighted average number of shares of common stock outstanding, adjusted for the effects of all potential dilutive common stock issuances related to options, unvested restricted stock, warrants and convertible preferred stock. Potential common stock dilution related to outstanding stock options, unvested restricted stock and warrants is determined using the treasury stock method, while potential common stock dilution related to Series A Convertible Preferred Stock is determined using the "if converted" method.

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

In accordance with ASC 260, securities are deemed not to be participating in losses if there is no obligation to fund such losses. As of October 31, 2017, there were 2,949,995 shares of preferred stock outstanding, each of which is convertible into one share of our common stock. For the three and nine months ended October 31, 2017 and 2016, the Series A Convertible Preferred Stock would have an anti-dilutive effect if included in diluted EPS and therefore, was not included in the calculation. For the three months ended October 31, 2016 and the nine months ended October 31, 2017 and 2016, 821,587 and 828,225, respectively, unvested restricted shares of common stock were excluded from the diluted EPS calculation as their effect would have been anti-dilutive. For the three months ended October 31, 2017, the effect of unvested restricted stock awards and the Series A Convertible Preferred Stock to the earnings per share calculation was immaterial.

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

	Three Months Ended	
	October 31, 2017	October 31, 2016
Net earnings (loss)	$ 3,489	$ (1,930,472)
Less: deemed dividends on Series A Preferred Stock	—	(72,710)
Net earnings (loss) attributable to common stockholders	$ 3,489	$ (2,003,182)
Weighted average shares outstanding used in basic per common share computations	19,985,822	19,645,521
Restricted stock and Series A Convertible Preferred Stock	3,082,601	—
Number of shares used in diluted per common share computation	23,068,423	19,645,521
Basic net earnings (loss) per share of common stock	$ 0.00	$ (0.10)
Diluted net earnings (loss) per share of common stock	$ 0.00	$ (0.10)

	Nine Months Ended	
	October 31, 2017	October 31, 2016
Net loss	$ (3,137,084)	$ (4,142,381)
Less: deemed dividends on Series A Preferred Stock	—	(875,935)
Net loss attributable to common stockholders	$ (3,137,084)	$ (5,018,316)
Weighted average shares outstanding used in basic per common share computations	19,838,691	19,477,538
Restricted stock and Series A Convertible Preferred Stock	—	—
Number of shares used in diluted per common share computation	19,838,691	19,477,538
Basic net loss per share of common stock	$ (0.16)	$ (0.26)
Diluted net loss per share of common stock	$ (0.16)	$ (0.26)

Diluted net earnings (loss) per share excludes the effect of outstanding stock options that relate to 2,203,156 and 2,172,480 shares of common stock for the three and nine months ended October 31, 2017 and 2016, respectively. The inclusion of these stock options would have been anti-dilutive. For the three and nine months ended October 31, 2017 and 2016, the warrants to purchase 1,400,000 shares of common stock would have an anti-dilutive effect if included in diluted net earnings (loss) per share, and therefore were not included in the calculation.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2016, the FASB delayed the effective date by one year and the guidance will now be effective for us on February 1, 2018. Early adoption of the update is permitted. The guidance is to be applied using one of two retrospective application methods. We are in the process of applying the five-step model of the new standard to customer contracts and will compare the results to our current accounting practices. We plan to adopt ASU 2014-09, as well as other clarifications and technical guidance issued by the FASB related to this new revenue standard, on February 1, 2018. We elected the modified retrospective transition method, which would result in an adjustment to retained earnings for the cumulative effect, if any, of applying the standard to contracts in process as of the adoption date. Under this method, we would not restate the prior financial statements presented. Therefore, the new standard requires additional disclosures of the amount by which each financial statement line item is affected in the fiscal year 2018 reporting period. We are currently in the process of assessing the impact of the new standard and have not yet determined the effect of the standard on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The update will be effective for us on February 1, 2019. Early adoption of the update is permitted. We are currently evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation* (Topic 718), to improve the accounting for employee share-based payments. The guidance simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is effective for annual and interim periods beginning after December 15, 2016, and early adoption is permitted. The update became effective for us on February 1, 2017. The adoption of this ASU did not have a significant impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to clarify how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The ASU should be applied using a retrospective transition method to each period presented. The standard will be effective for us on February 1, 2018. Early adoption of this update is permitted. We are currently evaluating the impact of the adoption of this new standard on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard will be effective for us on February 1, 2018. We do not expect that the adoption of this ASU will have a significant impact on our consolidated financial statements.

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

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting*, to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The update will be effective for us on February 1, 2018. We do not expect that the adoption of this ASU will have a significant impact on our consolidated financial statements.

NOTE 3 — ACQUISITIONS AND DIVESTITURES

Acquisition of a Montefiore Medical Center Solution

On October 25, 2013, we entered into a Software License and Royalty Agreement (the “Royalty Agreement”) with Montefiore Medical Center (“Montefiore”) pursuant to which Montefiore granted us an exclusive, worldwide 15-year license of Montefiore’s proprietary clinical analytics platform solution, Clinical Looking Glass® (“CLG”), now known as our Clinical Analytics solution. In addition, Montefiore assigned to us the existing license agreement with a customer using CLG. As consideration under the Royalty Agreement, we paid Montefiore a one-time initial base royalty fee of $3,000,000, and we are obligated to pay on-going quarterly royalty amounts related to future sublicensing of CLG by us. Additionally, we have committed that Montefiore will receive at least an additional $3,000,000 of on-going royalty payments within the first six and one-half years of the license term. As of October 31, 2017 and January 31, 2017, the present value of this royalty liability was $2,456,000 and $2,351,000, respectively.

Acquisition of Unibased Systems Architecture, Inc. and Related Divestiture

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

On December 1, 2016, we received a cash payment of $2,000,000 for the sale of our Patient Engagement suite of solutions (“Patient Engagement”), which is based upon the legacy ForSite2020 solution acquired from Unibased in February 2014. As a result, we recognized a gain on sale of business of $238,000 in the fourth quarter of fiscal 2016, which represents the amount by which the sale proceeds exceeded net assets associated with Patient Engagement operations, including accounts receivable, intangible assets and deferred revenue. We used the proceeds to make two prepayments of $500,000 on our term loan with Wells Fargo, one in the fourth quarter of fiscal 2016 and another in the second quarter of fiscal 2017.

Acquisition of Opportune IT Healthcare Solutions, Inc.

On September 8, 2016, we completed the acquisition of substantially all of the assets of Opportune IT Healthcare Solutions, Inc. (“Opportune IT”), a provider of coding compliance, recovery audit contractor consulting, and ICD-10 readiness and training to hospitals, physicians and medical groups. As consideration under the asset purchase agreement, we made a cash

payment for the total purchase price of $1,400,000. The Company also assumed certain current operating liabilities of Opportune IT. The purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date as follows, pending final valuation of internally-developed software and intangible assets:

	Balance at September 8, 2016
Assets purchased:	
Accounts and contracts receivable	792,000
Other assets	32,000
Internally-developed software	350,000
Intangible assets	650,000
Total assets purchased	1,824,000
Liabilities assumed:	
Accounts payable and accrued liabilities	424,000
Net assets acquired	$ 1,400,000
Cash paid	$ 1,400,000

The operating results of Opportune IT are not material for purposes of proforma disclosure.

NOTE 4 — LEASES

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

	Facilities	Equipment	Fiscal Year Totals
2017 (three months remaining)	$ 256,000	$ 3,000	$ 259,000
2018	1,039,000	11,000	1,050,000
2019	967,000	11,000	978,000
2020	504,000	11,000	515,000
2021	519,000	2,000	521,000
Thereafter	445,000	—	445,000
Total	$ 3,730,000	$ 38,000	$ 3,768,000

Rent and leasing expense for facilities and equipment was $295,000 and $309,000 for the three months ended October 31, 2017 and 2016, respectively, and $920,000 and $955,000 for the nine months ended October 31, 2017 and 2016, respectively.

The Company had capital leases to finance office equipment purchases that continued into the third quarter of fiscal 2017. The amortization expense of the leased equipment was included in depreciation expense. As of October 31, 2017, the Company had no capital lease obligations outstanding.

NOTE 5 — DEBT

Term Loan and Line of Credit

On November 21, 2014, we entered into a Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, N.A., as administrative agent, and other lender parties thereto. Pursuant to the Credit Agreement, the lenders agreed to provide a $10,000,000 senior term loan and a $5,000,000 revolving line of credit to our primary operating subsidiary. Amounts outstanding under the Credit Agreement bear interest at either LIBOR or the base rate, as elected by the Company, plus an applicable margin. Subject to the Company’s leverage ratio, under the terms of the original Credit Agreement, the applicable LIBOR rate margin varied from 4.25% to 5.25%, and the applicable base rate margin varied from 3.25% to 4.25%. Pursuant to the terms of the amendment to the Credit Agreement entered into as of April 15, 2015, the applicable LIBOR rate margin was amended to vary from 4.25% to 6.25%, and the applicable base rate margin was amended to vary from 3.25% to 5.25%. The term loan and line of credit mature on November 21, 2019 and provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. The outstanding senior term loan is secured by substantially all of our assets. The senior term loan principal balance is payable in quarterly installments, which started in March 2015 and

will continue through the maturity date, with the full remaining unpaid principal balance due at maturity. In November 2014, the Company repaid indebtedness under its prior credit facility using approximately $7,400,000 of the proceeds provided by the term loan. The prior credit facility with Fifth Third Bank was terminated concurrent with the entry into the Credit Agreement. Financing costs of $355,000 associated with the new credit facility are being amortized over its term on a straight-line basis, which is not materially different from the effective interest method.

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

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

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

The Company was in compliance with the applicable loan covenants at October 31, 2017.

As of October 31, 2017, the Company had no outstanding borrowings under the revolving line of credit, and had accrued $12,000 in unused line fees. Based upon the borrowing base formula set forth in the Credit Agreement, as of October 31, 2017, the Company had access to the full amount of the $5,000,000 revolving line of credit.

Outstanding principal balances on debt consisted of the following at:

	October 31, 2017	January 31, 2017
Senior term loan	$ 4,630,000	$ 5,539,000
Capital lease	—	91,000
Total	4,630,000	5,630,000
Less: Current portion	(597,000)	(747,000)
Non-current portion of debt	$ 4,033,000	$ 4,883,000

In May 2016, as a result of excess cash flows achieved as of January 31, 2016 and as required pursuant to the mandatory prepayment provisions of the Credit Agreement, we made a $1,738,000 payment of principal towards the term loan with Wells Fargo. We used the proceeds from the sale of our Patient Engagement suite of solutions to make two prepayments on our term loan with Wells Fargo, one in December 2016 and one in June 2017, each in the amount of $500,000. As a result of these prepayments, the schedule of future principal payments was revised to reduce each future principal payment on a pro rata basis.

Future principal repayments of debt consisted of the following at October 31, 2017:

	Senior Term Loan (1)
2017	$ 149,000
2018	597,000
2019	4,030,000
Total repayments	$ 4,776,000

(1) Term loan balance on the condensed consolidated balance sheet is reported net of deferred financing costs of $146,000.

NOTE 6 — CONVERTIBLE PREFERRED STOCK

Series A Convertible Preferred Stock

At October 31, 2017, we had 2,949,995 shares of Series A Convertible Redeemable Preferred Stock (the "Preferred Stock") outstanding. Each share of the Preferred Stock is convertible into one share of the Company's common stock. The Preferred Stock does not pay a dividend; however, the holders are entitled to receive dividends equal (on an as-if-converted-to-common-stock basis) to and in the same form as dividends (other than dividends in the form of common stock) actually paid on shares of the common stock. The Preferred Stock has voting rights on a modified as-if-converted-to-common-stock-basis. The Preferred Stock has a non-participating liquidation right equal to the original issue price plus accrued unpaid dividends, which are senior to the Company's common stock. The Preferred Stock can be converted to common shares at any time by the holders, or at the option of the Company if the arithmetic average of the daily volume weighted average price of the common stock for the 10 day period prior to the measurement date is greater than $8.00 per share, and the average daily trading volume for the 60 day period immediately prior to the measurement date exceeds 100,000 shares. The conversion price is $3.00 per share, subject to certain adjustments.

At any time following August 31, 2016, subject to the terms of the Subordination and Intercreditor Agreement among the preferred stockholders, the Company and Wells Fargo, which prohibits the redemption of the Preferred Stock without the consent of Wells Fargo, each share of Preferred Stock is redeemable at the option of the holder for an amount equal to the initial issuance price of $3.00 (adjusted to reflect stock splits, stock dividends or similar events) plus any accrued and unpaid dividends thereon. The Preferred Stock is classified as temporary equity as the securities are redeemable solely at the option of the holder.

NOTE 7 — INCOME TAXES

Income tax expense consists of federal, state and local tax provisions. For the nine months ended October 31, 2017 and 2016, we recorded federal tax expense of zero. For the nine months ended October 31, 2017 and 2016, we recorded state and local tax expense of $8,000 and $5,000, respectively.

NOTE 8 — SUBSEQUENT EVENTS

We have evaluated subsequent events occurring after October 31, 2017, and based on our evaluation we did not identify any events that would have required recognition or disclosure in these condensed consolidated financial statements.

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

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Report and in other materials we file with the Securities and Exchange Commission ("SEC") or otherwise make public. In this Report, Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. In addition, our senior management makes forward-looking statements to analysts, investors, the media and others. Statements with respect to expected revenue, income, receivables, backlog, client attrition, acquisitions and other growth opportunities, sources of funding operations and acquisitions, the integration of our solutions, the performance of our channel partner relationships, the sufficiency of available liquidity, research and development, and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would" and similar expressions also are forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or historical earnings levels.

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

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

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

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

Results of Operations

Revenues

	Three Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
Systems Sales:				
Proprietary software - perpetual license	$ 79	$ 20	$ 59	295 %
Term license	257	269	(12)	(4)%
Hardware and third-party software	13	25	(12)	(48)%
Professional services	802	631	171	27 %
Audit Services	280	234	46	20 %
Maintenance and support	3,250	3,750	(500)	(13)%
Software as a service	1,718	1,706	12	1 %
Total Revenues	$ 6,399	$ 6,635	$ (236)	(4)%

	Nine Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
System Sales:				
Proprietary software - perpetual license	$ 249	$ 1,040	$ (791)	(76)%
Term license	736	905	(169)	(19)%
Hardware and third-party software	71	245	(174)	(71)%
Professional services	1,794	1,870	(76)	(4)%
Audit Services	919	234	685	293 %
Maintenance and support	9,884	11,238	(1,354)	(12)%
Software as a service	4,586	5,145	(559)	(11)%
Total Revenues	$ 18,239	$ 20,677	$ (2,438)	(12)%

Proprietary software and term licenses — Proprietary software revenue recognized for the three months ended October 31, 2017 increased by $59,000 over the prior comparable period due to improved sales of our CDI solution in the third quarter of fiscal 2017. Proprietary software revenue recognized for the nine months ended October 31, 2017 decreased by $791,000 over the prior comparable period. This decrease is attributable to a larger perpetual license sale of our Streamline Health® Abstracting™ solution in the second quarter of fiscal 2016. The $169,000 decrease in term license revenue for the nine months ended October 31, 2017 over the prior comparable period is primarily due to the expiration of one Clinical Analytics contract and the reduction of license fees on a separate Clinical Analytics contract.

Hardware and third-party software — Revenue from hardware and third-party software sales for the three and nine months ended October 31, 2017 decreased by $12,000 and $174,000, respectively, over the prior comparable periods. Fluctuations from period to period are a function of client demand.

Professional services — For the three-month period ended October 31, 2017, revenues from professional services increased by $171,000 from the prior comparable period. This increase is primarily due to a software version upgrade by a customer of our Streamline Health® Enterprise Content Management™ (“ECM”) solution and partially offsets the decrease in revenues for the nine-month period ended October 31, 2017, which resulted primarily from the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016, as well as cancellations by two customers of our Streamline Health® Financial Management™ solution (“Financial Management”).

Audit services — Audit services revenue recognized for the three and nine months ended October 31, 2017 increased by $46,000 and $685,000, respectively, over the prior comparable periods. The Company began offering audit services in September 2016, following the acquisition of Opportune IT.

Maintenance and support — Revenue from maintenance and support for the three and nine months ended October 31, 2017 decreased by $500,000 and $1,354,000, respectively, from the prior comparable periods. These decreases were primarily

the result of the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016, as well as cancellations by two customers of our ECM solution.

Software as a Service (SaaS) — Revenue from SaaS for the nine months ended October 31, 2017 decreased by $559,000 from the prior comparable period. This decrease resulted primarily from cancellations by a few customers of our Financial Management and ECM solutions, as well as the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016.

Cost of Sales

	Three Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
Cost of systems sales	$ 434	$ 663	$ (229)	(35)%
Cost of professional services	556	723	(167)	(23)%
Cost of audit services	404	596	(192)	(32)%
Cost of maintenance and support	667	790	(123)	(16)%
Cost of software as a service	290	451	(161)	(36)%
Total cost of sales	$ 2,351	$ 3,223	$ (872)	(27)%

	Nine Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
Cost of systems sales	$ 1,597	$ 2,080	$ (483)	(23)%
Cost of professional services	1,814	1,891	(77)	(4)%
Cost of audit services	1,236	596	640	107 %
Cost of maintenance and support	2,242	2,483	(241)	(10)%
Cost of software as a service	915	1,390	(475)	(34)%
Total cost of sales	$ 7,804	$ 8,440	$ (636)	(8)%

The decrease in overall cost of sales for the three and nine months ended October 31, 2017 from the comparable prior periods is primarily due to the reduction in amortization of capitalized software costs as a result of a few assets becoming fully amortized, as well as the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016. In addition, the decrease in overall cost of sales for the three months ended October 31, 2017 from the comparable prior period is further attributed to the reduction in audit services personnel costs following the acquisition of Opportune IT in September 2016.

Cost of systems sales includes amortization and impairment of capitalized software expenditures, royalties, and the cost of third-party hardware and software. The decrease in expense for the three- and nine-month periods ended October 31, 2017 was primarily due to the reduction in amortization of capitalized software costs as a result of the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016, as well as the internally-developed software acquired from Meta Health Technology, Inc. in 2012 reaching the end of its assigned economic life in the third quarter of fiscal 2017.

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 the increase in professional services related to SaaS and term licenses, for which costs are deferred and amortized ratably over the initial contract term, as well as the decrease in personnel costs.

The cost of audit services includes compensation and benefits for audit services personnel, and related expenses. The increase in expense for the nine-month period ended October 31, 2017 is due to the Company beginning to offer audit services in September 2016, following the acquisition of Opportune IT. The decrease in expense for the three-month period ended October 31, 2017 is attributed to the reduction in associate and contractor costs from synergies resulting from the full integration of the acquired business.

The cost of maintenance and support includes compensation and benefits for client support personnel and the cost of third-party maintenance contracts. The decrease in expense for the three- and nine-month periods was primarily due to a decrease in third-party maintenance contracts costs and personnel costs, and is in line with the decrease in the associated maintenance and support revenue.

The cost of SaaS solutions is relatively fixed, subject to inflation for the goods and services it requires. The decrease in the three- and nine-month periods from the prior comparable periods was primarily related to a reduction in personnel costs, as

well as in depreciation and amortization expense as several assets, including the internally-developed software acquired from Interpoint Partners, LLC in 2011, reached the end of their assigned economic lives.

Selling, General and Administrative Expense

	Three Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
General and administrative expenses	$ 1,681	$ 1,980	$ (299)	(15)%
Sales and marketing expenses	1,139	1,232	(93)	(8)%
Total selling, general, and administrative expense	$ 2,820	$ 3,212	$ (392)	(12)%

	Nine Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
General and administrative expenses	$ 5,673	$ 6,668	$ (995)	(15)%
Sales and marketing expenses	3,310	3,485	(175)	(5)%
Total selling, general, and administrative expense	$ 8,983	$ 10,153	$ (1,170)	(12)%

General and administrative expenses consist primarily of compensation and related benefits, reimbursable travel and entertainment expenses related to our executive and administrative staff, general corporate expenses, amortization of intangible assets, and occupancy costs. The decrease in general and administrative expenses for the three and nine months ended October 31, 2017 from the comparable prior periods was primarily due to a reduction in personnel costs, stock compensation and severance expense, as well as a reduction in professional fees for accounting and legal services.

Sales and marketing expenses consist primarily of compensation and related benefits and reimbursable travel and entertainment expenses related to our sales and marketing staff, 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, 2017 from the comparable prior periods was primarily due to a reduction in stock compensation and severance expense.

Product Research and Development

	Three Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
Research and development expense	$ 932	$ 1,969	$ (1,037)	(53)%
Plus: Capitalized research and development cost	493	484	9	2 %
Total research and development cost	$ 1,425	$ 2,453	$ (1,028)	(42)%

	Nine Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
Research and development expense	$ 3,985	$ 5,800	$ (1,815)	(31)%
Plus: Capitalized research and development cost	1,337	1,421	(84)	(6)%
Total research and development cost	$ 5,322	$ 7,221	$ (1,899)	(26)%

Product research and development cost consists primarily of compensation and related benefits, the use of independent contractors for specific near-term development projects, and an allocated portion of general overhead costs, including occupancy. The decrease in total research and development cost for the three- and nine-month periods ended October 31, 2017 from the prior comparable periods is primarily due to a reduction in development personnel headcount and consultant fees and $366,000 in research and development tax credits awarded by the State of Georgia in fiscal 2017. Research and development expenses for the nine months ended October 31, 2017 and 2016, as a percentage of revenues, were 22% and 28%, respectively.

Other Income (Expense)

	Three Months Ended			
(in thousands):	**October 31, 2017**	**October 31, 2016**	**Change**	**% Change**
Interest expense	$ (113)	$ (99)	$ (14)	14%
Miscellaneous expense	(177)	(61)	(116)	190%
Total other expense	$ (290)	$ (160)	$ (130)	81%

(in thousands):	Nine Months Ended October 31, 2017	Nine Months Ended October 31, 2016	Change	% Change
Interest expense	$ (361)	$ (381)	$ 20	(5)%
Miscellaneous expense	(235)	(39)	(196)	503 %
Total other expense	$ (596)	$ (420)	$ (176)	42 %

Interest expense consists of interest and commitment fees on the line of credit, interest on the term loans, and is inclusive of deferred financing cost amortization expense. Interest expense decreased for the nine months ended October 31, 2017 from the prior comparable period primarily due to the expiration of two capital lease arrangements. The increase in interest expense for the three months ended October 31, 2017 from the prior comparable period is attributed to an increase in interest rate on our term loan. Fluctuation in miscellaneous expense for the three- and nine-month periods ended October 31, 2017 from the prior comparable periods is primarily due to revaluation adjustments to our warrant liability, which were driven by the fluctuations in the Company's stock price.

Provision for Income Taxes

We recorded tax expense of $3,000 and $2,000, respectively, for the three months ended October 31, 2017 and 2016, and $8,000 and $5,000, respectively, for the nine months ended October 31, 2017 and 2016, which is comprised of estimated federal, state and local tax provisions.

Backlog

	October 31, 2017	October 31, 2016
Company proprietary software	$ 10,892,000	$ 15,551,000
Third-party hardware and software	—	200,000
Professional services	2,824,000	4,973,000
Audit services	1,454,000	1,849,000
Maintenance and support	18,256,000	19,413,000
Software as a service	14,242,000	12,929,000
Total	$ 47,668,000	$ 54,915,000

At October 31, 2017, we had contracts and purchase orders from clients and remarketing partners for systems and related services that have not been delivered or installed, which if fully performed, would generate future revenues of $47,668,000 compared with $54,915,000 at October 31, 2016.

The Company's proprietary software backlog consists of signed agreements to purchase either perpetual software licenses or term licenses. Typically, perpetual licenses included in backlog are either not yet generally available or the software is generally available and the client has not taken possession of the software. Term licenses included in backlog consist of signed agreements where the client has already taken possession, but the payment for the software is bundled with maintenance and support fees over the life of the contract. The decrease in backlog is primarily due to the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016.

Third-party hardware and software backlog consists of signed agreements to purchase third-party hardware or third-party software licenses that have not been delivered to the client. These are products that we resell as components of the solution a client purchases and are expected to be delivered in the next twelve months as implementations commence.

Professional services backlog consists of signed contracts for services that have yet to be performed. Typically, backlog is recognized within twelve months of the contract signing. The decrease in professional services backlog is a result of several large projects nearing their completion. Professional services backlog was further reduced by the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016. Our new eValuator solution requires less in terms of professional services efforts, and thusly the SaaS backlog increase does not result in a corresponding effect in our professional services backlog.

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

Maintenance and support backlog consists of maintenance agreements for perpetual licenses and/or third-party software or hardware, in each case consisting of signed agreements to purchase such services but that represent future performance for the contracted maintenance and support term. Clients typically prepay maintenance and support fees on an annual basis with some monthly pre-payment arrangements existing. Maintenance and support fees are generally billed 30-60 days prior to the beginning of the maintenance period. The Company does not expect any significant client attrition over the next 12 months outside of the ordinary course of business. Maintenance and support backlog at October 31, 2017 was $18,256,000 as compared to $19,413,000 at October 31, 2016. The decrease in maintenance and support backlog is primarily a result of the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016.

Relating specifically to SaaS-model client agreements signed as of October 31, 2017, the Company expects to generate revenues of $14,242,000 from such SaaS agreements through their respective renewal dates in fiscal years 2017 through 2022. The commencement of revenue recognition for SaaS varies depending on the size and complexity of the system, the implementation schedule requested by the client and ultimately the official go-live on the system. Therefore, it is difficult for the Company to accurately predict the revenue it expects to recognize in any particular period. The increase in SaaS backlog is primarily due to a sale of our CDI solution in the fourth quarter of fiscal 2016 and sale of multiple Streamline Health® eValuator™ software contracts in the third quarter of fiscal 2017. The increase in SaaS backlog resulting from these sales was partially offset by the sale of our Patient Engagement suite of solutions in the fourth quarter of fiscal 2016.

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

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

Use of Non-GAAP Financial Measures

In order to provide investors with greater insight, and allow for a more comprehensive understanding of the information used by management and the Board of Directors in its financial and operational decision-making, the Company has supplemented the Condensed Consolidated Financial Statements presented on a GAAP basis in this quarterly report on Form 10-Q with the following non-GAAP financial measures: EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA per diluted share.

These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of Company results as reported under GAAP. The Company compensates for such limitations by relying primarily on our GAAP results and using non-GAAP financial measures only as supplemental data. We also provide a reconciliation of non-GAAP to GAAP measures used. Investors are encouraged to carefully review this reconciliation. In addition, because these non-GAAP measures are not measures of financial performance under GAAP and are susceptible to varying calculations, these measures, as defined by us, may differ from and may not be comparable to similarly titled measures used by other companies.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EBITDA per diluted share

We define: (i) EBITDA as net earnings (loss) before net interest expense, income tax expense (benefit), depreciation and amortization; (ii) Adjusted EBITDA as net earnings (loss) before net interest expense, income tax expense (benefit), depreciation, amortization, stock-based compensation expense, transaction expenses and other expenses that do not relate to our core operations; (iii) Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of GAAP net revenue; and (iv) Adjusted EBITDA per diluted share as Adjusted EBITDA divided by adjusted diluted shares outstanding. EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA per diluted share are used to facilitate a comparison of our operating performance on a consistent basis from period to period and provide for a more complete understanding of factors and trends affecting our business than GAAP measures alone. These measures assist management and the board and may be useful to investors in comparing our operating performance consistently over time as they remove the impact of our capital structure (primarily interest charges), asset base (primarily depreciation and amortization), items outside the control of the management team (taxes), and expenses that do not relate to our core operations including: transaction-related expenses (such as professional and advisory services), corporate restructuring expenses (such as severances), and other operating costs that are expected to be non-recurring. Adjusted EBITDA removes the impact of share-based compensation expense, which is another non-cash item. Adjusted EBITDA per diluted share includes incremental shares in the share count that are considered anti-dilutive in a GAAP net loss position.

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

Our lender uses a measurement that is similar to the Adjusted EBITDA measurement described herein to assess our operating performance. The lender under our Credit Agreement requires delivery of compliance reports certifying compliance with financial covenants, certain of which are based on a measurement that is similar to the Adjusted EBITDA measurement reviewed by our management and Board of Directors.

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

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

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

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

	Three Months Ended		Nine Months Ended	
In thousands, except per share data	**October 31, 2017**	**October 31, 2016**	**October 31, 2017**	**October 31, 2016**
Net earnings (loss)	$ 3	$ (1,930)	$ (3,137)	$ (4,142)
Interest expense	113	99	361	381
Income tax expense	3	2	8	5
Depreciation	193	265	596	895
Amortization of capitalized software development costs	431	720	1,574	2,146
Amortization of intangible assets	256	325	922	976
Amortization of other costs	51	60	177	140
EBITDA	1,050	(459)	501	401
Share-based compensation expense	290	433	845	1,343
(Gain) loss on disposal of fixed assets	(14)	—	(15)	1
Associate severance and other costs relating to transactions or corporate restructuring	—	89	—	199
Non-cash valuation adjustments to assets and liabilities	188	62	229	84
Transaction related professional fees, advisory fees, and other internal direct costs	—	103	—	358
Adjusted EBITDA	$ 1,514	$ 228	$ 1,560	$ 2,386
Adjusted EBITDA margin (1)	24%	3%	9%	12%
Earnings (loss) per share — diluted	$ —	$ (0.10)	$ (0.16)	$ (0.26)
Adjusted EBITDA per adjusted diluted share (2)	$ 0.07	$ 0.01	$ 0.07	$ 0.10
Diluted weighted average shares	23,068,423	19,645,521	19,838,691	19,477,538
Includable incremental shares — adjusted EBITDA (3)	—	3,340,390	3,242,413	3,322,710
Adjusted diluted shares	23,068,423	22,985,911	23,081,104	22,800,248

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

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

(3) The number of incremental shares that would be dilutive under 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, 2017. 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, 2017.

Liquidity and Capital Resources

Our liquidity is dependent upon numerous factors including: (i) the timing and amount of revenues and collection of contractual amounts from clients, (ii) amounts invested in research and development and capital expenditures, and (iii) the level of operating expenses, all of which can vary significantly from quarter-to-quarter. Our primary cash requirements include regular payment of payroll and other business expenses, principal and interest payments on debt and capital expenditures. Capital expenditures generally include computer hardware and computer software to support internal development efforts or infrastructure in the SaaS data center. Operations are funded with cash generated by operations and borrowings under credit facilities. The Company believes that cash flows from operations and available credit facilities are adequate to fund current obligations for the next twelve months. Cash and cash equivalent balances at October 31, 2017 and January 31, 2017 were $1,892,000 and $5,654,000, respectively. The decrease in cash during the current fiscal period was primarily the result of significant payments made towards our debt and interest thereon, as well as payroll and accounts payable. Continued expansion may require the Company to take on additional debt or raise capital through issuance of equities, or a combination of both. There can be no assurance the Company will be able to raise the capital required to fund further expansion.

The Company has liquidity through the Credit Agreement described in more detail in Note 5 to our condensed consolidated financial statements included herein. The Company’s primary operating subsidiary has a $5,000,000 revolving line of credit that has not been drawn upon as of the date of this report. In order to draw upon the revolving line of credit, the Company’s primary operating subsidiary must comply with customary financial covenants, including the requirement that the Company maintain minimum liquidity of at least (i) $5,000,000 through January 31, 2018, (ii) $4,000,000 from February 1, 2018 through and including January 31, 2019, and (iii) $3,000,000 from February 1, 2019 through and including the maturity date of the credit facility. Pursuant to the Credit Agreement’s definition, the liquidity of the Company’s primary operating subsidiary as of October 31, 2017 was $6,892,000, which satisfies the minimum liquidity financial covenant in the Credit Agreement.

The Credit Agreement also requires the Company to achieve certain minimum EBITDA levels, calculated pursuant to the Credit Agreement and measured on a quarter-end basis, of at least the required amounts in the relevant table set forth in Note 5 to our condensed consolidated financial statements included in Part I, Item1 herein for the applicable period set forth therein. Our lender uses a measurement that is similar to Adjusted EBITDA, a non-GAAP financial measure described above. The required minimum EBITDA level for the four-quarter period ended October 31, 2017 was $(1,000,000).

The Company was in compliance with the applicable loan covenants at October 31, 2017. Based upon the borrowing base formula set forth in the Credit Agreement, as of October 31, 2017, the Company had access to the full amount of the $5,000,000 revolving line of credit.

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

Significant cash obligations

(in thousands)	October 31, 2017	January 31, 2017
Term loans (1)	$ 4,630	$ 5,539
Capital leases (1)	—	91
Royalty liability (2)	2,456	2,351

(1) See Note 5 to the condensed consolidated financial statements for additional information.

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

Operating cash flow activities

	Nine Months Ended	
(in thousands)	October 31, 2017	October 31, 2016
Net loss	$ (3,137)	$ (4,142)
Non-cash adjustments to net loss	4,564	5,775
Cash impact of changes in assets and liabilities	(2,755)	(2,876)
Operating cash flow	$ (1,328)	$ (1,243)

The increase in net cash used by operating activities is due to lower collections in the nine-month period ended October 31, 2017 over the prior comparable period, primarily attributable to a larger perpetual license sale of our abstracting solution in the second quarter of fiscal 2016.

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

Investing cash flow activities

	Nine Months Ended	
(in thousands)	October 31, 2017	October 31, 2016
Purchases of property and equipment	$ (25)	$ (501)
Capitalized software development costs	(1,337)	(1,421)
Payments for acquisitions	—	(1,400)
Investing cash flow	$ (1,362)	$ (3,322)

Cash used for investing activities was higher in the nine months ended October 31, 2016 compared to the current year period, primarily as result of the acquisition of Opportune IT in September 2016.

Financing cash flow activities

	Nine Months Ended	
(in thousands)	October 31, 2017	October 31, 2016
Principal repayments on term loan	$ (962)	$ (2,244)
Principal payments on capital lease obligations	(91)	(536)
Return of shares of common stock in connection with the vesting or exercise of equity incentive awards	(42)	(12)
Proceeds from the exercise of stock options and stock purchase plans	24	15
Financing cash flow	$ (1,071)	$ (2,777)

The decrease in cash used in financing activities in the nine months ended October 31, 2017 over the prior year period was primarily the result of higher prepayments towards our term loan in fiscal 2016, as well as the termination of two capital leases, one during the third quarter of fiscal 2016 and another in the third quarter of fiscal 2017.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

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

Risks Relating to Our Business

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

Our revenues have been concentrated in a relatively small number of large clients, and we have historically derived a substantial percentage of our total revenues from a few clients. For the fiscal years ended January 31, 2017 and 2016, our five largest clients accounted for 30% and 28% of our total revenues, respectively. If one or more clients terminate all or any portion of a master agreement, delay installations or if we fail to procure additional agreements, there could be a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

The Company generally does not allow for termination of a client's agreement except at the end of the agreed upon term or for cause. However, certain of the Company's client contracts provide that the client may terminate the contract without cause prior to the end of the term of the agreement by providing written notice, sometimes with relatively short notice periods. Furthermore, there can be no assurance that a client will not cancel all or any portion of an agreement, even without an express early termination right. And, the Company may face additional costs or hardships collecting on amounts owed if a client terminates an agreement without such a right. Whether resulting from termination for cause or the limited termination for

convenience rights discussed above, the existence of contractual relationships with these clients is not an assurance that we will continue to provide services for our clients through the entire term of their respective agreements. If clients representing a significant portion of our revenue terminated their agreements unexpectedly, we may not, in the short-term, be able to replace the revenue and income from such contracts and this would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. In addition, client contract terminations could harm our reputation within the industry, especially any termination for cause, which could negatively impact our ability to obtain new clients.

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

Our sales and profitability depend, in part, on the extent to which coverage of and reimbursement for medical care provided is available from governmental health programs, private health insurers, managed care plans and other third-party payors. Unanticipated regulatory changes could materially impact the need for and/or value of our solutions. For example, if governmental or other third-party payors materially reduce reimbursement rates or fail to reimburse our clients adequately, our clients may suffer adverse financial consequences. Changes in regulations affecting the healthcare industry, such as any increased regulation by governmental agencies of the purchase and sale of medical products, or restrictions on permissible discounts and other financial arrangements, could also directly impact the capabilities our solutions and services provide and the pricing arrangements we are required to offer to be competitive in the market. Similarly, the U.S. Congress may adopt legislation that may change, override, conflict with or preempt the currently existing regulations and which could restrict the ability of clients to obtain, use or disseminate patient health information and/or impact the value of the functionality our products and services provide.

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

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

Healthcare regulations issued to date have not had a material adverse effect on our business. However, we cannot predict the potential impact of new or revised regulations that have not yet been released or made final, or any other regulations that might be adopted. The U.S. Congress may adopt legislation that may change, override, conflict with or preempt the currently existing regulations and which could restrict the ability of clients to obtain, use or disseminate patient health information. Although the features and architecture of our existing solutions can be modified, it may be difficult to address the changing regulation of healthcare information.

The healthcare industry is highly regulated. Any material changes in the political, economic or regulatory healthcare environment that affect the group purchasing business or the purchasing practices and operations of healthcare organizations, or that lead to consolidation in the healthcare industry, could require us to modify our services or reduce the funds available to providers to purchase our solutions and services.

Our business, financial condition and results of operations depend upon conditions affecting the healthcare industry generally and hospitals and health systems particularly. Our ability to grow will depend upon the economic environment of the healthcare industry, as well as our ability to increase the number of solutions that we sell to our clients. The healthcare industry is highly regulated and is subject to changing political, economic and regulatory influences. Factors such as changes in reimbursement policies for healthcare expenses, consolidation in the healthcare industry, regulation, litigation and general economic conditions affect the purchasing practices, operation and, ultimately, the operating funds of healthcare organizations. In particular, changes in regulations affecting the healthcare industry, such as any increased regulation by governmental agencies of the purchase and sale of medical products, or restrictions on permissible discounts and other financial arrangements, could require us to make unplanned modifications to our solutions and services, or result in delays or cancellations of orders or reduce funds and demand for our solutions and services.

Our clients derive a substantial portion of their revenue from third-party private and governmental payors, including through Medicare, Medicaid and other government-sponsored programs. Our sales and profitability depend, in part, on the extent to which coverage of and reimbursement for medical care provided is available from governmental health programs, private health insurers, managed care plans and other third-party payors. If governmental or other third-party payors materially

reduce reimbursement rates or fail to reimburse our clients adequately, our clients may suffer adverse financial consequences, which in turn, may reduce the demand for and ability to purchase our solutions or services.

We face significant competition, including from companies with significantly greater resources.

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

The healthcare industry is evolving rapidly, which may make it more difficult for us to be competitive in the future.

The U.S. healthcare system is under intense pressure to improve in many areas, including modernization, universal access and controlling skyrocketing costs of care. We believe that the principal competitive factors in our market are client recommendations and references, company reputation, system reliability, system features and functionality (including ease of use), technological advancements, client service and support, breadth and quality of the systems, the potential for enhancements and future compatible solutions, the effectiveness of marketing and sales efforts, price and the size and perceived financial stability of the vendor. In addition, we believe that the speed with which companies in our market can anticipate the evolving healthcare industry structure and identify unmet needs is an important competitive factor. If we are unable to keep pace with changing conditions and new developments, we will not be able to compete successfully in the future against existing or potential competitors.

Rapid technology changes and short product life cycles could harm our business.

The market for our solutions and services is characterized by rapidly changing technologies, regulatory requirements, evolving industry standards and new product introductions and enhancements that may render existing solutions obsolete or less competitive. As a result, our position in the healthcare information technology market could change rapidly due to unforeseen changes in the features and functions of competing products, as well as the pricing models for such products. Our future success will depend, in part, upon our ability to enhance our existing solutions and services and to develop and introduce new solutions and services to meet changing requirements. Moreover, competitors may develop competitive products that could adversely affect our operating results. We need to maintain an ongoing research and development program to continue to develop new solutions and apply new technologies to our existing solutions but may not have sufficient funds with which to undertake such required research and development. If we are not able to foresee changes or to react in a timely manner to such developments, we may experience a material, adverse impact on our business, operating results and financial condition.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our solutions and services.

Our intellectual property, which represents an important asset to us, has some protection against infringement through copyright and trademark law. We generally have little patent protection on our software. We rely upon license agreements, employment agreements, confidentiality agreements, nondisclosure agreements and similar agreements to maintain the confidentiality of our proprietary information and trade secrets. Notwithstanding these precautions, others may copy, reverse engineer or independently design technology similar to our solutions. If we fail to protect adequately our intellectual property through trademarks and copyrights, license agreements, employment agreements, confidentiality agreements, nondisclosure agreements or similar agreements, our intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate our technology or may otherwise limit any competitive technology advantage we may have. It may be necessary to litigate to enforce or defend our proprietary technology or to determine the validity of the intellectual property rights of others. Any litigation, successful or unsuccessful, may result in substantial cost and require significant attention by management and technical personnel.

Due to the rapid pace of technological change, we believe our future success is likely to depend upon continued innovation, technical expertise, marketing skills and client support and services rather than on legal protection of our

intellectual property rights. However, we have aggressively asserted our intellectual property rights when necessary and intend to do so in the future.

We could be subjected to claims of intellectual property infringement that could be expensive to defend.

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

Over the last several years, we have completed a number of acquisitions and may undertake additional acquisitions in the future. Any failure to adequately integrate past and future acquisitions into our business could have a material adverse effect on us.

Over the last several years, we have completed several acquisitions of businesses through asset and stock purchases. We expect that we will make additional acquisitions in the future.

Acquisitions involve a number of risks, including, but not limited to:

- the potential failure to achieve the expected benefits of the acquisition, including the inability to generate sufficient revenue to offset acquisition costs, or the inability to achieve expected synergies or cost savings;
- unanticipated expenses related to acquired businesses or technologies and their integration into our existing businesses or technology;
- the diversion of financial, managerial and other resources from existing operations;
- the risks of entering into new markets in which we have little or no experience or where competitors may have stronger positions;
- potential write-offs or amortization of acquired assets or investments;
- the potential loss of key employees, clients or partners of an acquired business;
- delays in client purchases due to uncertainty related to any acquisition;
- potential unknown liabilities associated with an acquisition; and
- the tax effects of any such acquisitions.

If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses, which could have an adverse effect on our business and financial condition.

Finally, if we finance acquisitions by issuing equity or convertible or other debt securities, our existing stockholders may be diluted, or we could face constraints related to the terms of and repayment obligations related to the incurrence of indebtedness. This could adversely affect the market price of our securities.

Third-party products are essential to our software.

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

Our solutions may not be error-free and could result in claims of breach of contract and liabilities.

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

We could be liable to third parties from the use of our solutions.

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

Our SaaS and support services could experience interruptions.

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

Our SaaS solutions are provided over an internet connection. Any breach of security or confidentiality of protected health information could expose us to significant expense and harm our reputation.

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

The loss of key personnel could adversely affect our business.

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

Our future success depends upon our ability to grow, and if we are unable to manage our growth effectively, we may incur unexpected expenses and be unable to meet our clients' requirements.

We will need to expand our operations if we successfully achieve greater demand for our products and services. We cannot be certain that our systems, procedures, controls and human resources will be adequate to support expansion of our operations. Our future operating results will depend on the ability of our officers and employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. We may not be able to expand and upgrade our systems and infrastructure to accommodate these increases. Difficulties in managing any future

growth, including as a result of integrating any prior or future acquisition with our existing businesses, could cause us to incur unexpected expenses or render us unable to meet our clients' requirements, and consequently have a significant negative impact on our business, financial condition and operating results.

We may not have access to sufficient or cost-efficient capital to support our growth, execute our business plans and remain competitive in our markets.

As our operations grow and as we implement our business strategies, we expect to use both internal and external sources of capital. In addition to cash flow from normal operations, we may need additional capital in the form of debt or equity to operate and support our growth, execute our business plans and remain competitive in our markets. We may have no or limited availability to such external capital, in which case our future prospects may be materially impaired. Furthermore, we may not be able to access external sources of capital on reasonable or favorable terms. Our business operations could be subject to both financial and operational covenants that may limit the activities we may undertake, even if we believe they would benefit our company.

Potential disruptions in the credit markets may adversely affect our business, including the availability and cost of short-term funds for liquidity requirements and our ability to meet long-term commitments, which could adversely affect our results of operations, cash flows and financial condition.

If internally generated funds are not available from operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs. Our access to funds under our revolving credit facility or pursuant to arrangements with other financial institutions is dependent on the financial institution's ability to meet funding commitments. Financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience high volumes of borrowing requests from other borrowers within a short period of time.

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

In November 2014, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, N.A., as administrative agent, and other lender parties thereto. Pursuant to the Credit Agreement, the lenders agreed to provide a $10,000,000 senior term loan and a $5,000,000 revolving line of credit to our primary operating subsidiary. The Credit Agreement includes customary financial covenants, including the requirements that the Company maintain certain minimum liquidity and achieve certain minimum EBITDA levels.

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

If we do not maintain compliance with all of the continuing covenants and other terms and conditions of the credit facility or secure a waiver for any non-compliance, we could be required to repay outstanding borrowings on an accelerated basis, which could subject us to decreased liquidity and other negative impacts on our business, results of operations and financial condition. Furthermore, if we needed to do so, it may be difficult for us to find an alternative lending source. In addition, because our assets are pledged as a security under our credit facilities, if we are not able to cure any default or repay outstanding borrowings, our assets are subject to the risk of foreclosure by our lenders. Without a sufficient credit facility, we would be adversely affected by a lack of access to liquidity needed to operate our business. Any disruption in access to credit could force us to take measures to conserve cash, such as deferring important research and development expenses, which measures could have a material adverse effect on us.

Our outstanding preferred stock and warrants have significant redemption and repayment rights that could have a material adverse effect on our liquidity and available financing for our ongoing operations.

In August 2012, we completed a private offering of preferred stock, warrants and convertible notes to a group of investors for gross proceeds of $12 million. In November 2012, the convertible notes converted into shares of preferred stock. Subject to the terms of the Subordination and Intercreditor Agreement, the preferred stock is redeemable at the option of the holders thereof anytime after August 31, 2016 if not previously converted into shares of common stock. We may not achieve the thresholds required to trigger automatic conversion of the preferred stock and, alternatively, holders may not voluntarily elect to

convert the preferred stock into common stock. The election of the holders of our preferred stock to redeem the preferred stock could subject us to decreased liquidity and other negative impacts on our business, results of operations, and financial condition. Under the terms of the Subordination and Intercreditor Agreement among the preferred stockholders, the Company and Wells Fargo, our obligation to redeem the preferred stock is subordinated to our obligations under the senior term loan and the preferred stock may not be redeemed without the consent of Wells Fargo. For additional information regarding the terms, rights and preferences of the preferred stock and warrants, see Note 14 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2017 and our other SEC filings.

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

Current economic conditions in the U.S. and globally and the concern that the worldwide economy may enter into a prolonged stagnant period could materially adversely affect our clients' access to capital or willingness to spend capital on our solutions and services or their levels of cash liquidity with which to pay for solutions that they will order or have already ordered from us. Continued challenging economic conditions also would likely negatively impact our business, which could result in: (1) reduced demand for our solutions and services; (2) increased price competition for our solutions and services; (3) increased risk of collectability of cash from our clients; (4) increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable; (5) reduced revenues; and (6) higher operating costs as a percentage of revenues.

All of the foregoing potential consequences of the current economic conditions are difficult to forecast and mitigate. As a consequence, our operating results for a particular period are difficult to predict, and, therefore, prior results are not necessarily indicative of future results. Any of the foregoing effects could have a material adverse effect on our business, results of operations, and financial condition and could adversely affect the market price of our common stock and other securities.

The variability of our quarterly operating results can be significant.

Our operating results have fluctuated from quarter-to-quarter in the past, and we may experience continued fluctuations in the future. Future revenues and operating results may vary significantly from quarter-to-quarter as a result of a number of factors, many of which are outside of our control. These factors include: the relatively large size of client agreements; unpredictability in the number and timing of system sales and sales of application hosting services; length of the sales cycle; delays in installations; changes in clients’ financial conditions or budgets; increased competition; the development and introduction of new products and services; the loss of significant clients or remarketing partners; changes in government regulations, particularly as they relate to the healthcare industry; the size and growth of the overall healthcare information technology markets; any liability and other claims that may be asserted against us; our ability to attract and retain qualified personnel; national and local general economic and market conditions; and other factors discussed in this report and our other filings with the SEC.

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

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

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

In connection with the preparation of the consolidated financial statements for each of our fiscal years, our management conducts a review of our internal control over financial reporting. We are also required to maintain effective disclosure controls and procedures. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm operating results, or cause failure to meet reporting obligations in a timely and accurate manner.

Our operations are subject to foreign currency exchange rate risk.

In connection with our expansion into foreign markets, which primarily consists of Canada, we sometimes receive payment in currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect our net sales and gross margins from our non-U.S. dollar denominated revenue, as

expressed in U.S. dollars. There is also a risk that we will have to adjust the pricing of solutions denominated in foreign currencies when there has been significant volatility in foreign currency exchange rates.

Risks Relating to an Investment in Our Securities

The market price of our common stock is likely to be highly volatile as the stock market in general can be highly volatile.

The public trading of our common stock is based on many factors that could cause fluctuation in the price of our common stock. These factors may include, but are not limited to:

- General economic and market conditions;
- Actual or anticipated variations in annual or quarterly operating results;
- Lack of or negative research coverage by securities analysts;
- Conditions or trends in the healthcare information technology industry;
- Changes in the market valuations of other companies in our industry;
- Announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- Announced or anticipated capital commitments;
- Ability to maintain listing of our common stock on The Nasdaq Stock Market;
- Additions or departures of key personnel; and
- Sales and repurchases of our common stock by us, our officers and directors or our significant stockholders, if any.

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

If equity research analysts do not publish research reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

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

All of our debt obligations, our existing preferred stock and any preferred stock that we may issue in the future will have priority over our common stock with respect to payment in the event of a bankruptcy, liquidation, dissolution or winding up.

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

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

We are generally not restricted from issuing in public or private offerings additional shares of common stock or preferred stock (except for certain restrictions under the terms of our outstanding preferred stock), and other securities that are convertible into or exchangeable for, or that represent a right to receive, common stock or preferred stock or any substantially

similar securities. Such offerings represent the potential for a significant increase in the number of outstanding shares of our common stock. The market price of our common stock could decline as a result of sales of common stock, preferred stock or similar securities in the market made after an offering or the perception that such sales could occur.

In addition to our currently outstanding preferred stock, the issuance of an additional series of preferred stock could adversely affect holders of shares of our common stock, which may negatively impact your investment.

Our Board of Directors is authorized to issue classes or series of preferred stock without any action on the part of the stockholders. The Board of Directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including rights and preferences over the shares of common stock with respect to dividends or upon our dissolution, winding-up or liquidation, and other terms. If we issue preferred stock in the future that has a preference over the shares of our common stock with respect to the payment of dividends or upon our dissolution, winding up or liquidation, or if we issue preferred stock with voting rights that dilute the voting power of the shares of our common stock, the rights of the holders of shares of our common stock or the market price of our common stock could be adversely affected.

As of October 31, 2017, we had 2,949,995 shares of preferred stock outstanding. For additional information regarding the terms, rights and preferences of such stock, see Note 14 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2017 and our other SEC filings.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend solely on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. The trading price of our common stock could decline and you could lose all or part of your investment.

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

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

Note Regarding Risk Factors

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

Item 2. ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth information with respect to our repurchases of common stock during the three months ended October 31, 2017:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1)
August 1 - August 31	3,977	$ 1.20	—	—
September 1 - September 30	—	—	—	—
October 1 - October 31	—	—	—	—
Total	3,977	$ 1.20	—	—

(1) Because the withholding of shares to pay taxes due upon vesting of restricted stock is permitted outside the scope of a board-authorized repurchase plan, these amounts exclude shares of stock returned to us by employees in satisfaction of withholding tax requirements on vested stock grants. There were 3,977 such shares returned to us during the three months ended October 31, 2017.

Item 6. EXHIBITS

See Index to Exhibits.

SIGNATURES

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

STREAMLINE HEALTH SOLUTIONS, INC.

DATE: December 12, 2017

By: /s/ David W. Sides

David W. Sides
Chief Executive Officer

DATE: December 12, 2017

By: /s/ Nicholas A. Meeks

Nicholas A. Meeks
Chief Financial Officer

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
31.1*	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.
31.2*	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.
32.1*	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2*	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101	The following financial information from Streamline Health Solutions, Inc.'s Quarterly Report on Form 10-Q for the three-month period ended October 31, 2017 filed with the SEC on December 12, 2017, formatted in XBRL includes: (i) Condensed Consolidated Balance Sheets at October 31, 2017 and January 31, 2017, (ii) Condensed Consolidated Statements of Operations for three- and nine-month periods ended October 31, 2017 and 2016, (iii) Condensed Consolidated Statements of Cash Flows for the nine-month periods ended October 31, 2017 and 2016, and (iv) Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

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

Exhibit 31.1

STREAMLINE HEALTH SOLUTIONS, INC.

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

I, David W. Sides, certify that:

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

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

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

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

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

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

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

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

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

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

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

December 12, 2017

/s/ David W. Sides

Chief Executive Officer and President

Exhibit 31.2

STREAMLINE HEALTH SOLUTIONS, INC.

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

I, Nicholas A. Meeks, certify that:

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

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

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

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

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

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

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

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

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

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

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

December 12, 2017

/s/ Nicholas A. Meeks
Chief Financial Officer

Exhibit 32.1

STREAMLINE HEALTH SOLUTIONS, INC.

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

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

(1) The quarterly report on Form 10-Q of the Company for the quarter ended October 31, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

/s/ David W. Sides
David W. Sides
Chief Executive Officer and
President
December 12, 2017

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.

Exhibit 32.2

STREAMLINE HEALTH SOLUTIONS, INC.

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

I, Nicholas A. Meeks, Chief Financial Officer of Streamline Health Solutions, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C Section 1350, that:

(1) The quarterly report on Form 10-Q of the Company for the quarter ended October 31, 2017 (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/ Nicholas A. Meeks
Nicholas A. Meeks
Chief Financial Officer
December 12, 2017

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.