STREAMLINE HEALTH SOLUTIONS INC.
Form 10-Q
September 15, 2014
Index to Financial Statements

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 July 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 0-28132

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of September 11, 2014: 18,292,972

Index to Financial Statements

TABLE OF CONTENTS

		Page
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	2
	Condensed Consolidated Balance Sheets at July 31, 2014 and January 31, 2014	2
	Condensed Consolidated Statements of Operations for the three and six months ended July 31, 2014 and 2013	4
	Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended July 31, 2014 and 2013	5
	Condensed Consolidated Statements of Cash Flows for the six months ended July 31, 2014 and 2013	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	25
Item 4.	Controls and Procedures	25
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	27
Item 6.	Exhibits	35
	Signatures	36

Index to Financial Statements

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

	July 31, 2014	January 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$5,155,774	$17,924,886
Accounts receivable, net of allowance for doubtful accounts of $247,835 and $267,264, respectively	10,583,258	7,999,571
Contract receivables	411,796	1,181,606
Prepaid hardware and third-party software for future delivery	31,155	25,640
Prepaid client maintenance contracts	886,231	909,464
Other prepaid assets	1,849,982	1,407,515
Deferred income taxes	95,498	95,498
Other current assets	91,461	144,049
Total current assets	19,105,155	29,688,229
Non-current assets:		
Property and equipment:		
Computer equipment	5,207,741	3,769,564
Computer software	2,320,557	2,239,654
Office furniture, fixtures and equipment	1,262,820	889,080
Leasehold improvements	1,216,534	697,570
	10,007,652	7,595,868
Accumulated depreciation and amortization	(6,805,817)	(6,676,824)
Property and equipment, net	3,201,835	919,044
Contract receivables, less current portion	60,974	78,395
Capitalized software development costs, net of accumulated amortization of $9,999,105 and $7,949,352, respectively	10,790,039	10,238,357
Intangible assets, net	12,143,683	12,175,634
Deferred financing costs, net of accumulated amortization of $104,301 and $98,102, respectively	38,699	44,898
Goodwill	15,871,713	11,933,683
Other	926,854	500,634
Total non-current assets	43,033,797	35,890,645
	$62,138,952	$65,578,874

See accompanying notes to condensed consolidated financial statements.

Index to Financial Statements

	July 31, 2014	January 31, 2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,819,803	$1,796,418
Accrued compensation	1,366,920	1,782,599
Accrued other expenses	614,585	554,877
Current portion of long-term debt	1,214,280	1,214,280
Deferred revenues	10,080,860	9,658,232
Current portion of note payable	300,000	300,000
Current portion of capital lease obligation	119,116	105,573
Total current liabilities	16,515,564	15,411,979
Non-current liabilities:		
Term loans	6,378,225	6,971,767
Warrants liability	2,893,318	4,117,725
Royalty liability	2,335,941	2,264,000
Swap contract	110,369	111,086
Note payable	600,000	600,000
Lease incentive liability	100,993	74,434
Capital lease obligation	1,124,237	121,089
Deferred revenues, less current portion	194,099	—
Deferred income tax liabilities	825,677	816,079
Total non-current liabilities	14,562,859	15,076,180
Total liabilities	31,078,423	30,488,159
Series A 0% Convertible Redeemable Preferred Stock, $.01 par value per share, $8,849,985 and $8,849,985 redemption value, 4,000,000 shares authorized, 2,949,995 and 2,949,995 shares issued and outstanding, net of unamortized preferred stock discount of $2,767,968 and $3,250,317, respectively	6,082,017	5,599,668
Stockholders' equity:		
Common stock, $.01 par value per share, 25,000,000 shares authorized; 18,189,595 and 18,175,787 shares issued and outstanding, respectively	181,896	181,758
Additional paid in capital	77,415,949	76,983,088
Accumulated deficit	(52,508,964)	(47,562,713)
Accumulated other comprehensive loss	(110,369)	(111,086)
Total stockholders' equity	24,978,512	29,491,047
	$62,138,952	$65,578,874

See accompanying notes to condensed consolidated financial statements.

Index to Financial Statements

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

	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
Revenues:				
Systems sales	$314,085	$2,233,668	$653,291	$2,558,314
Professional services	674,999	1,039,240	1,283,950	1,958,591
Maintenance and support	4,177,165	3,620,446	8,348,977	7,001,046
Software as a service	2,075,823	1,880,007	3,907,025	3,728,748
Total revenues	7,242,072	8,773,361	14,193,243	15,246,699
Operating expenses:				
Cost of systems sales	834,324	661,124	1,669,792	1,299,722
Cost of professional services	778,691	1,266,744	1,765,116	2,241,206
Cost of maintenance and support	836,526	795,476	1,796,712	1,780,065
Cost of software as a service	571,464	514,075	1,343,043	1,093,154
Selling, general and administrative	4,054,794	3,408,153	8,695,250	6,989,020
Research and development	2,225,120	1,160,147	4,575,564	2,257,157
Total operating expenses	9,300,919	7,805,719	19,845,477	15,660,324
Operating income (loss)	(2,058,847)	967,642	(5,652,234)	(413,625)
Other income (expense):				
Interest expense	(173,539)	(587,808)	(343,017)	(1,154,373)
Miscellaneous income (expense)	(41,481)	(1,064,163)	1,051,290	(1,806,428)
Loss before income taxes	(2,273,867)	(684,329)	(4,943,961)	(3,374,426)
Income tax expense	(1,145)	(143,874)	(2,290)	(163,624)
Net loss	$(2,275,012)	$(828,203)	$(4,946,251)	$(3,538,050)
Less: deemed dividends on Series A Preferred Shares	(252,583)	(15,510)	(482,349)	(357,146)
Net loss attributable to common shareholders	$(2,527,595)	$(843,713)	$(5,428,600)	$(3,895,196)
Basic net loss per common share	$(0.14)	$(0.07)	$(0.30)	$(0.31)
Number of shares used in basic per common share computation	18,174,193	12,861,715	18,160,213	12,698,094
Diluted net loss per common share	$(0.14)	$(0.07)	$(0.30)	$(0.31)
Number of shares used in diluted per common share computation	18,174,193	12,861,715	18,160,213	12,698,094

See accompanying notes to condensed consolidated financial statements.

Index to Financial Statements

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

	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
Net loss	$(2,275,012)	$(828,203)	$(4,946,251)	$(3,538,050)
Other comprehensive gain, net of tax:				
Fair value of interest rate swap liability	22,431	—	717	—
Comprehensive loss	$(2,252,581)	$(828,203)	$(4,945,534)	$(3,538,050)

See accompanying notes to condensed consolidated financial statements.

Index to Financial Statements

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

	Six Months Ended	
	2014	2013
Operating activities:		
Net loss	$(4,946,251)	$(3,538,050)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	360,986	338,039
Amortization of capitalized software development costs	1,830,628	1,396,050
Amortization of intangible assets	704,952	628,977
Amortization of other deferred costs	102,095	186,018
Valuation adjustment for warrants liability	(1,224,407)	1,670,354
Share-based compensation expense	865,142	825,531
Other valuation adjustments	78,970	39,163
Loss on disposal of fixed assets	83,236	—
Provision for accounts receivable	13,692	—
Deferred tax expense	—	133,324
Changes in assets and liabilities, net of assets acquired:		
Accounts and contract receivables	(1,264,184)	(2,092,868)
Other assets	(853,586)	(227,263)
Accounts payable	936,731	89,856
Accrued expenses	(781,283)	(1,045,618)
Deferred revenues	(180,110)	229,563
Net cash used in operating activities	(4,273,389)	(1,366,924)
Investing activities:		
Purchases of property and equipment	(1,635,952)	(94,240)
Capitalization of software development costs	(351,316)	(797,794)
Payment for acquisition, net of cash received	(5,890,402)	—
Net cash used in investing activities	(7,877,670)	(892,034)
Financing activities:		
Principal repayments on term loan	(505,950)	(625,001)
Principal payments on capital lease obligation	(49,509)	—
Payment of deferred financing costs	(112,800)	—
Proceeds from exercise of stock options and stock purchase plan	50,206	739,376
Net cash (used in) provided by financing activities	(618,053)	114,375
Decrease in cash and cash equivalents	(12,769,112)	(2,144,583)
Cash and cash equivalents at beginning of period	17,924,886	7,500,256
Cash and cash equivalents at end of period	$5,155,774	$5,355,673

See accompanying notes to condensed consolidated financial statements.

Index to Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are presented in "Note 2 – Significant Accounting Policies" in the fiscal year 2013 Annual Report on Form 10-K. Users of financial information for interim periods are encouraged to refer to the footnotes contained in the Annual Report on Form 10-K when reviewing interim financial results.

Use of Estimates

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

Fair Value of Financial Instruments

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

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

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

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

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments. Cash and cash equivalents are classified as Level 1. The carrying amount of our long-term debt approximates fair value since the interest rates being paid on the amounts approximate the market interest rate. Long-term debt and the interest rate swap are classified as Level 2. The initial fair value of royalty liability and warrants liability was determined by management with the assistance of an independent third-party valuation specialist, and by management thereafter. We used the Black-Scholes option pricing model to estimate the fair value of warrants liability. The fair value of the royalty liability is determined based on the probability-weighted revenue scenarios for the Clinical Looking Glass® solution licensed from Montefiore Medical Center (discussed below). The contingent consideration for royalty liability and warrants liability are classified as Level 3.

Revenue Recognition

We derive revenue from the sale of internally-developed software either by licensing or by software as a service ("SaaS"), through the direct sales force or through third-party resellers. Licensed, locally-installed clients utilize our support and maintenance services for a separate fee, whereas SaaS fees include support and maintenance. We also derive revenue from professional services that support the implementation, configuration, training, and optimization of the applications. Additional revenues are also derived from reselling third-party software and hardware

components.

Index to Financial Statements
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

If we determine that any of the above criteria have not been met, we will defer recognition of the revenue until all the criteria have been met. Maintenance and support and SaaS agreements entered into 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 or non-standard performance criteria, cancellation or right of refund terms are required, revenue is recognized upon the satisfaction of such criteria, as applicable.

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

Multiple Element Arrangements

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

Terms used in evaluation are as follows:

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

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

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

Software as a Service

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

The software portion of SaaS for Health Information Management (“HIM”) products does not need material modification to achieve its contracted function. The software portion of SaaS for our Patient Financial Services (“PFS”) products require material customization and setup processes to achieve their contracted function.

System Sales

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

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

software and third-

Index to Financial Statements
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Maintenance and Support Services

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

Term Licenses

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

Professional Services

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

Professional services components that are essential to the functionality of the software and are not considered a separate unit of accounting are recognized in revenue ratably over the life of the client, which approximates the duration of the initial contract term. We defer the associated direct costs for salaries and benefits expense for professional services contracts. As of July 31, 2014 and January 31, 2014, we had deferred costs of $473,000 and $441,000, respectively. These deferred costs will be amortized over the identical term as the associated SaaS revenues. Amortization expense of these costs was $71,000 and $28,000 for the six months ended July 31, 2014 and 2013, respectively.

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

Severances

From time to time, we enter into termination agreements with associates that may include supplemental cash payments, as well as contributions to health and other benefits for a specific time period subsequent to termination. For the three months ended July 31, 2014 and 2013, we incurred $126,000 and $2,000 in severance expenses, respectively, and $576,000 and $385,000 for the six months ended July 31, 2014 and 2013, respectively. At July 31, 2014 and January 31, 2014, we had accrued severances of $399,000 and zero, respectively.

Equity Awards

We account for share-based payments based on the grant-date fair value of the awards with compensation cost recognized as expense over the requisite vesting period. We incurred total compensation expense related to stock-based awards of $422,000 and $358,000 for the three months ended July 31, 2014 and 2013, respectively, and $865,000 and $826,000 for the six months ended July 31, 2014 and 2013, respectively.

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

Index to Financial Statements
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax credit and loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing net deferred tax assets, we consider whether it is more likely than not that some or all of the deferred tax assets will not be realized. We establish a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized. We provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether certain tax positions are more likely than not to be sustained upon examination by tax authorities. We believe we have appropriately accounted for any uncertain tax positions.

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

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

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

10

Index to Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Three Months Ended	
	July 31, 2014	July 31, 2013
Net loss	$(2,275,012)	$(828,203)
Less: deemed dividends on Series A Preferred Stock	(252,583)	(15,510)
Net loss attributable to common shareholders	$(2,527,595)	$(843,713)
Weighted average shares outstanding used in basic per common share computations	18,174,193	12,861,715
Stock options and restricted stock	—	—
Number of shares used in diluted per common share computation	18,174,193	12,861,715
Basic net loss per share of common stock	$(0.14)	$(0.07)
Diluted net loss per share of common stock	$(0.14)	$(0.07)

	Six Months Ended	
	July 31, 2014	July 31, 2013
Net loss	$(4,946,251)	$(3,538,050)
Less: deemed dividends on Series A Preferred Stock	(482,349)	(357,146)
Net loss attributable to common shareholders	$(5,428,600)	$(3,895,196)
Weighted average shares outstanding used in basic per common share computations	18,160,213	12,698,094
Stock options and restricted stock	—	—
Number of shares used in diluted per common share computation	18,160,213	12,698,094
Basic net loss per share of common stock	$(0.30)	$(0.31)
Diluted net loss per share of common stock	$(0.30)	$(0.31)

Diluted net loss per share excludes the effect of 2,507,335 and 2,549,178 outstanding stock options for the three and six months ended July 31, 2014 and 2013, respectively. The inclusion of these shares would be anti-dilutive. For the six months ended July 31, 2014 and 2013, the warrants to purchase 1,400,000 shares of common stock would have an anti-dilutive effect if included in diluted net loss per share and therefore were not included in the calculation.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective and will be applied for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The guidance is to be applied using one of two retrospective application methods. We are currently evaluating the impact of the adoption of this accounting standard update on our internal processes, operating results, and financial reporting. The impact is currently not known or reasonably estimable.

In July 2013, the FASB issued an accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This update amends existing GAAP that required in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when such items exist in the same taxing jurisdiction. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, and retrospective application is permitted. We do not expect any impact

from this update on our financial statements.

Index to Financial Statements
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 3 — ACQUISITIONS AND STRATEGIC AGREEMENTS

On October 25, 2013, we entered into a Software License and Royalty Agreement (the "Royalty Agreement") with Montefiore Medical Center ("Montefiore") pursuant to which Montefiore granted us an exclusive, worldwide 15-year license of Montefiore's proprietary clinical analytics platform solution, Clinical Looking Glass® ("CLG"). In addition, Montefiore assigned to us the existing license agreement with a customer using CLG. As consideration under the Royalty Agreement, Streamline paid Montefiore a one-time initial base royalty fee of $3,000,000, and we are obligated to pay on-going quarterly royalty amounts related to future sublicensing of CLG by Streamline. Additionally, Streamline has committed that Montefiore will receive at least an additional $3,000,000 of on-going royalty payments within the first six and one-half years of the license term.

The Montefiore agreements were accounted for as a business combination with the purchase price representing the $3,000,000 initial base royalty fee, plus the present value of the $3,000,000 on-going royalty payment commitment. The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date as follows:

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

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

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

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

Index to Financial Statements
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Balance at February 3, 2014
Assets purchased:	
Cash	$ 59,000
Accounts receivable	487,000
Other assets	90,000
Deferred income taxes	1,332,000
Internally-developed software	2,017,000
Client relationships	647,000
Trade name	26,000
Goodwill (1)	2,656,000
Total assets purchased	7,314,000
Liabilities assumed:	
Accounts payable and accrued liabilities	356,000
Deferred revenue obligation, net	840,000
Net assets acquired	$ 6,118,000
Cash paid	$ 6,118,000

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

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

NOTE 4 — LEASES

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

	Facilities	Equipment	Fiscal Year Totals
2014 (six months remaining)	$320,000	$3,000	$ 323,000
2015	1,030,000	2,000	1,032,000
2016	969,000	2,000	971,000
2017	1,007,000	—	1,007,000
2018	1,039,000	—	1,039,000
Thereafter	2,435,000	—	2,435,000
Total	$6,800,000	$7,000	$ 6,807,000

Rent and leasing expense for facilities and equipment was $458,000 and $317,000 for the three months ended July 31, 2014 and 2013, respectively, and $837,000 and $553,000 for the six months ended July 31, 2014 and 2013, respectively.

The Company has a capital lease to finance office equipment purchases. The balance of capital lease fixed assets was $1,327,000 and $261,000 as of July 31, 2014 and January 31, 2014, respectively, and the balance of accumulated depreciation was $158,000 and $76,000, as of July 31, 2014 and January 31, 2014, respectively. The amortization expense of leased assets is included in depreciation expense.

NOTE 5 — DEBT

Term Loan and Line of Credit

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

$9,000,000 subordinated term loan, a portion of which was used to refinance the previously outstanding $4,120,000 subordinated term loan. Additionally, as part of the refinancing in August 2012, we mutually agreed to settle the success fee

Index to Financial Statements
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

In December 2013, we amended and restated our previously outstanding senior credit agreement and amended the subordinated credit agreement to increase the senior term loan to $8,500,000, reduce the interest rates, and extend the maturity of the senior term loan and the revolving line of credit to December 1, 2018 and December 1, 2015, respectively. In January 2014, we paid the subordinated term loan in full. The outstanding senior term loan is secured by substantially all of our assets. The senior term loan principal balance is payable in monthly installments of $101,000, which started in January 2014 and will continue through the maturity date, with the full remaining unpaid principal balance due at maturity. Borrowings under the senior term loan bear interest at a rate of LIBOR plus 4.75%. However, as a result of our interest rate swap, the interest rate was fixed at 6.42%. Accrued and unpaid interest on the senior term loan is due monthly through maturity.

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

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

We are subject to certain financial and operational covenants pursuant to the senior term loan and line of credit facilities. The significant financial covenants are as follows: (i) maintain minimum liquidity of $4,000,000 as of April 30, 2014 and monthly thereafter; (ii) maintain a fixed charge coverage ratio for the fiscal quarter ended July 31, 2014 (excluding the April 30, 2014 fiscal quarter) and each fiscal quarter thereafter of not less than 1.10:1, calculated quarterly on a trailing four quarter basis thereafter; and (iii) on a consolidated basis, maintain ratio of senior funded debt to adjusted EBITDA as of the end of any fiscal quarter less than 2.50:1, calculated quarterly on a trailing four fiscal quarter basis beginning July 31, 2014 (excluding the April 30, 2014 fiscal quarter). As of July 31, 2014, the Company was in compliance with all loan covenants, except that the Company did not comply with the fixed charge coverage ratio and the funded debt to adjusted EBITDA ratio. As of July 31, 2014, the Company's fixed charge coverage ratio was (2.04) and the Company's funded debt to adjusted EBITDA ratio was (5.73). The Company's lender has agreed to waive the noncompliance with these financial covenants as of July 31, 2014. We expect the terms of this waiver to be finalized by September 22, 2014. In addition, the credit facilities prohibit the Company from paying dividends on the common and preferred stock.

Outstanding principal balances on debt consisted of the following at:

	July 31, 2014	January 31, 2014
Senior term loan (1)	$7,792,000	$8,298,000
Note payable	900,000	900,000
Capital lease	1,243,000	227,000
Total	9,935,000	9,425,000
Less: Current portion	1,633,000	1,620,000
Non-current portion of debt	$8,302,000	$7,805,000

(1) Amount represents total principal due, therefore, it is not reduced by the debt discount of $199,000 and $112,000 as of July 31, 2014 and January 31, 2014, respectively. In the condensed consolidated balance sheets, the term loan

is presented net of this discount.

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

Index to Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Senior Term Loan	Note Payable	Capital Lease (1)	Total
2014	$708,000	$300,000	$676,000	$1,684,000
2015	1,214,000	300,000	687,000	2,201,000
2016	1,214,000	300,000	—	1,514,000
2017	1,214,000	—	—	1,214,000
2018 and thereafter	3,442,000	—	—	3,442,000
Total repayments	$7,792,000	$900,000	$1,363,000	$10,055,000

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

Note Payable

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

NOTE 6 — CONVERTIBLE PREFERRED STOCK

Series A Convertible Preferred Stock

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

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

NOTE 7 — INCOME TAXES

Income tax expense consists of federal, state and local tax provisions. For the six months ended July 31, 2014 and 2013, we recorded federal tax expense of zero and $110,000, respectively. For the six months ended July 31, 2014 and 2013, we recorded state and local tax expense of $2,000 and $54,000, respectively.

NOTE 8 — SUBSEQUENT EVENTS

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

On August 19, 2014, our stockholders approved an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 45,000,000.

Index to Financial Statements

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

FORWARD-LOOKING STATEMENTS

In addition to historical information contained herein, this quarterly report on Form 10-Q contains forward-looking statements relating to plans, strategies, expectations, intentions, etc. of Streamline Health Solutions, Inc. ("we", "us", "our", or the "Company") and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements contained herein are no guarantee of future performance and are subject to certain risks and uncertainties that are difficult to predict, and actual results could differ materially from those reflected in the forward-looking statements. These risks and uncertainties include, but are not limited to, the timing of contract negotiations and execution of contracts and the related timing of the revenue recognition related thereto, the potential cancellation of existing contracts or clients not completing projects included in the backlog, the impact of competitive solutions and pricing, solution demand and market acceptance, new solution development, key strategic alliances with vendors that resell our solutions, the sufficiency of available capital, future interest costs, our ability to control costs, availability of solutions from third-party vendors, the healthcare regulatory environment, potential changes in legislation, regulation and government funding affecting the healthcare industry, healthcare information systems budgets, availability of healthcare information systems trained personnel for implementation of new systems, as well as maintenance of legacy systems, fluctuations in operating results, effects of critical accounting policies and judgments, changes in accounting policies or procedures as may be required by the Financial Accountings Standards Board or other similar entities, changes in economic, business and market conditions impacting the healthcare industry generally and the markets in which we operate and nationally, and our ability to maintain compliance with the terms of our credit facilities or receive a waiver for any noncompliance, and other risk factors that might cause such differences including those discussed herein, including, but not limited to, discussions in the sections entitled Part I, Item 1. "Financial Statements" and Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations." In addition, other written or oral statements that constitute forward-looking statements may be made by us or on our behalf. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date thereof. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by law. Readers should carefully review the risk factors described in Part II, Item 1A herein and in other documents we file from time to time with the Securities and Exchange Commission, including the annual report on Form 10-K, quarterly reports on Form 10-Q and any current reports on Form 8-K.

The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q.

Index to Financial Statements

Results of Operations

Proprietary software and term licenses — Proprietary software revenues recognized for the three and six months ended July 31, 2014 decreased by $1,807,000, or 95%, and $1,778,000, or 90%, respectively, over the prior comparable periods. This decrease is attributable to sales in our Collabra suite of solutions in prior fiscal year. Revenues from term licenses for the three and six months ended July 31, 2014 were $215,000, a decrease of $72,000 or 25%, and $439,000, a decrease of $73,000, or 14%, respectively, over the prior comparable periods. This decrease is primarily attributable to the fact that in prior periods some maintenance revenue was recorded as term license revenue, which was corrected later in fiscal 2013.

Hardware and third-party software — Revenues from hardware and third-party software sales for the three and six months ended July 31, 2014 were $12,000, a decrease of $41,000 or 77%, and $20,000, a decrease of $54,000, or 74%, respectively, over the prior comparable periods. Fluctuations from period to period are a function of client demand.

Professional services — Revenues from professional services for the three and six months ended July 31, 2014 were $675,000, a decrease of $364,000, or 35%, and $1,284,000, a decrease of $675,000, or 34%, respectively, from the prior comparable periods. This decrease is primarily attributable to the nature of recognizing professional services revenues once certain milestones are met, which can cause fluctuations from period to period.

Maintenance and support — Revenues from maintenance and support for the three and six months ended July 31, 2014 were $4,177,000, an increase of $557,000, or 15%, and $8,349,000, an increase of $1,348,000, or 19%, respectively, from the prior comparable periods. This increase resulted from prior fiscal year additions to our Collabra client base, as well as from $193,000 and $387,000 resulting from CLG, acquired in October 2013, and $385,000 and $743,000 resulting from Unibased, acquired in February 2014, for the three and six month periods, respectively. Typically, maintenance renewals include a price increase based on the prevailing consumer price index.

Software as a Service (SaaS) — Revenues from SaaS for the three and six months ended July 31, 2014 were $2,076,000, an increase of $196,000, or 10%, and $3,907,000, an increase of $178,000, or 5%, from the prior comparable periods. This increase resulted from the start of revenue recognition for clients that went live during the fiscal year to date, partially offset by the expiration of certain customer agreements.

Cost of Sales

	Three Months Ended			
(in thousands):	July 31, 2014	July 31, 2013	Change	% Change
Cost of systems sales	$834	$661	$173	26 %
Cost of professional services	779	1,267	(488)	(39)%
Cost of maintenance and support	837	795	42	5 %
Cost of software as a service	571	514	57	11 %
Total cost of sales	$3,021	$3,237	$(216)	(7)%

	Six Months Ended			
(in thousands):	July 31, 2014	July 31, 2013	Change	% Change
Cost of systems sales	$1,670	$1,300	$370	28 %
Cost of professional services	1,765	2,241	(476)	(21)%
Cost of maintenance and support	1,797	1,780	17	1 %
Cost of software as a service	1,343	1,093	250	23 %
Total cost of sales	$6,575	$6,414	$161	3 %

The decrease in cost of sales for the three months ended July 31, 2014 from the comparable prior period is primarily the result of decreased personnel expense related to professional services delivery. The increase in cost of sales for the six months ended July 31, 2014 from the comparable prior period is primarily the result of incremental operational costs incurred for the acquired Unibased operations as well as the amortization of the internally-developed software

acquired as part of the Unibased acquisition.

Cost of systems sales includes amortization and impairment of capitalized software expenditures, royalties, and the cost of third-party hardware and software. Cost of systems sales, as a percentage of systems sales, varies from period-to-period depending on hardware and software configurations of the systems sold. The relatively fixed cost of the capitalized software

Index to Financial Statements

amortization, without the addition of any impairment charges, compared to the variable nature of system sales, causes these percentages to vary dramatically.

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

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

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

Selling, General and Administrative Expense

	Three Months Ended				
(in thousands):	July 31, 2014	July 31, 2013	Change	% Change	
General and administrative expenses	$3,073	$2,633	$440	17	%
Sales and marketing expenses	982	775	207	27	%
Total selling, general, and administrative	$4,055	$3,408	$647	19	%

	Six Months Ended				
(in thousands):	July 31, 2014	July 31, 2013	Change	% Change	
General and administrative expenses	$6,655	$5,476	$1,179	22	%
Sales and marketing expenses	2,040	1,513	527	35	%
Total selling, general, and administrative	$8,695	$6,989	$1,706	24	%

General and administrative expenses consist primarily of compensation and related benefits and reimbursable travel and entertainment expenses related to our executive and administrative staff, general corporate expenses, amortization of intangible assets, and occupancy costs. The increase over the prior year is primarily due to professional service fees incurred, as well as to the incremental increase for intangible amortization associated with the acquired Unibased operations. Amortization of intangible assets added incremental expense to the three and six months ended July 31, 2014 due to the amortization of assets acquired as part of the acquisition of CLG and Unibased. We recognized $346,000 and $705,000, respectively, in amortization expense for the three and six months ended July 31, 2014 for intangible assets as compared to $315,000 and $629,000, respectively, in the prior comparable periods. We also incurred increased expense due to audit and other professional services.

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

Product Research and Development

	Three Months Ended				
(in thousands):	July 31, 2014	July 31, 2013	Change	% Change	
Research and development expense	$2,225	$1,160	$1,065	92	%
Plus: Capitalized research and development cost	158	338	(180)	(53)	%
Total research and development cost	$2,383	$1,498	$885	59	%

Index to Financial Statements

(in thousands):	Six Months Ended July 31, 2014	July 31, 2013	Change	% Change
Research and development expense	$4,576	$2,257	$2,319	103 %
Plus: Capitalized research and development cost	351	798	(447)	(56)%
Total research and development cost	$4,927	$3,055	$1,872	61 %

Product research and development expenses consist primarily of compensation and related benefits; the use of independent contractors for specific near-term development projects; and an allocated portion of general overhead costs, including occupancy. Research and development expense increased due to incremental development staffing from the acquired CLG and Unibased business. During the current period, our development efforts shifted to solutions involving development costs that are not capitalized due to rapid release cycles. Research and development expenses for the six months ended July 31, 2014 and 2013, as a percentage of revenues, were 32% and 15%, respectively.

Other Income (Expense)

Interest expense for the three months ended July 31, 2014 and 2013 was $174,000 and $588,000, respectively, and $343,000 and $1,154,000, respectively, for the six months ended July 31, 2014 and 2013. Interest expense consists of interest and commitment fees on the line of credit, interest (including accruals for success fees) on the term loans entered into in conjunction with the Interpoint and Meta acquisitions, interest on the 2013 note payable, and is inclusive of deferred financing cost amortization expense. Interest expense decreased for the three and six months ended July 31, 2014 over the prior comparable periods due to the payoff of the subordinated term loan in January 2014. We also recorded a valuation adjustment to our warrants liability of $(1,224,000) and $1,670,000 as miscellaneous (income) expense for the six months ended July 31, 2014 and 2013, respectively, using assumptions made by management to adjust to the current fair market value of the warrants at the end of each fiscal period.

Provision for Income Taxes

We recorded tax expense of $1,000 and $144,000, respectively, for the three months ended July 31, 2014 and 2013, respectively, and $2,000 and $164,000, respectively, for the six months ended July 31, 2014 and 2013, which is comprised of estimated federal, state and local tax provisions.

Backlog

	July 31, 2014	July 31, 2013
Company proprietary software	$1,955,000	$2,873,000
Hardware and third-party software	238,000	25,000
Professional services	6,774,000	7,765,000
Maintenance and support	25,608,000	24,094,000
Software as a service	26,908,000	17,123,000
Total	$61,483,000	$51,880,000

At July 31, 2014, we had master agreements and purchase orders from clients and remarketing partners for systems and related services that have not been delivered or installed which, if fully performed, would generate future revenues of $61,483,000 compared with $51,880,000 at July 31, 2013.

Our proprietary software backlog consists primarily of signed agreements to purchase software licenses and term licenses.

Third-party hardware and software consists of signed agreements to purchase third-party hardware or third-party software licenses that have not been delivered to the client. These are products that we resell as components of the solution a client purchases. The decrease in backlog is primarily due to a reduction in the volume of third-party sales as opposed to the prior comparable period. These items are expected to be delivered in the next twelve months as implementations commence.

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

results from the recognition of milestones that had been delayed for long periods of time.

Index to Financial Statements

Maintenance and support backlog consists of maintenance agreements for licenses of our proprietary software and third-party hardware and software with clients and remarketing partners for which either an agreement has been signed or a purchase order under a master agreement has been received. We include in backlog the signed agreements through their respective renewal dates. Typical maintenance contracts are for a one year term and are renewed annually. Clients typically prepay maintenance and support which is billed 30-60 days prior to the beginning of the maintenance period. Maintenance and support backlog at July 31, 2014 was $25,608,000 as compared to $24,094,000 at July 31, 2013. A significant portion of this increase is due to backlog added by Unibased maintenance contracts. Additionally, several clients signed multi-year renewals during the current period.

At July 31, 2014, we were parties to SaaS agreements that are expected to generate revenues of $26,908,000 through their respective renewal dates in fiscal years 2014 through 2019. Typical SaaS terms are one to seven years in length. The commencement of revenue recognition for SaaS varies depending on the size and complexity of the system, the implementation schedule requested by the client, and ultimately the official go-live on the system. Therefore, it is difficult for us to accurately predict the revenue it expects to achieve in any particular period.

All of our master agreements are generally non-cancelable but provide that the client may terminate its agreement upon a material breach by us, or may delay certain aspects of the installation. There can be no assurance that a client will not cancel all or any portion of a master agreement or delay portions of the agreement. A termination or delay in one or more phases of an agreement, or our inability to obtain additional agreements, could have a material adverse effect on our financial condition, and results of operations.

Use of Non-GAAP Financial Measures

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, we may supplement the Condensed Consolidated Financial Statements presented on a GAAP basis in this quarterly report on Form 10-Q with the following non-GAAP financial measures: EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EBITDA per diluted share.

These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. We compensate for such limitations by relying primarily on our GAAP results and using non-GAAP financial measures only as supplemental data. We also provide a reconciliation of non-GAAP to GAAP measures used. Investors are encouraged to 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, and transaction expenses and other expenses that do not relate to our core operations; (iii) Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of net revenue; and (iv) Adjusted EBITDA per diluted share as Adjusted EBITDA divided by adjusted diluted shares outstanding. EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA per diluted share are used to facilitate a comparison of our operating performance on a consistent basis from period to period and provide for a more complete understanding of factors and trends affecting our business than GAAP measures alone. These measures assist management and the board and may be useful to investors in comparing our operating performance consistently over time as they remove the impact of our capital structure (primarily interest charges), asset base (primarily depreciation and amortization), items outside the control of the management team (taxes), and expenses that do not relate to our core operations including: transaction-related expenses (such as professional and advisory services), corporate restructuring expenses (such as severances), and other operating costs that are expected to be non-recurring. Adjusted EBITDA removes the impact of share-based compensation expense, which is another non-cash item. Adjusted EBITDA per diluted share includes incremental shares in the share count that are considered anti-dilutive in a GAAP net loss position.

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

Our lender uses Adjusted EBITDA to assess our operating performance. The lender under our credit agreements requires delivery of compliance reports certifying compliance with financial covenants certain of which are based on an adjusted

Index to Financial Statements

EBITDA measurement that is the same as the Adjusted EBITDA measurement reviewed by our management and board of directors.

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

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

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

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

Index to Financial Statements

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

	Three Months Ended		Six Months Ended	
Adjusted EBITDA Reconciliation	July 31, 2014	July 31, 2013	July 31, 2014	July 31, 2013
Net loss	$(2,275)	$(828)	$(4,946)	$(3,538)
Interest expense	174	588	343	1,154
Income tax expense	1	144	2	164
Depreciation	210	167	361	338
Amortization of capitalized software development costs	914	701	1,831	1,396
Amortization of intangible assets	346	315	705	629
Amortization of other costs	43	17	71	28
EBITDA	(587)	1,104	(1,633)	171
Share-based compensation expense	422	358	865	826
Loss on disposal of fixed assets	83	—	83	—
Associate severances and other costs relating to transactions or corporate restructuring	126	—	576	383
Non-cash valuation adjustments to assets and liabilities	(46)	1,025	(1,145)	1,710
Transaction related professional fees, advisory fees, and other internal direct costs	11	152	175	226
Other non-recurring operating expenses	489	43	1,063	92
Adjusted EBITDA	$498	$2,682	$(16)	$3,408
Adjusted EBITDA margin(1)	7%	31%	—%	22%
Loss per share — diluted	$(0.14)	$(0.07)	$(0.30)	$(0.31)
Adjusted EBITDA per adjusted diluted share (2)	$0.02	$0.15	$—	$0.19
Diluted weighted average shares	18,174,193	12,861,715	18,160,213	12,698,094
Includable incremental shares — adjusted EBITDA(3)	3,614,119	5,122,243	—	5,167,025
Adjusted diluted shares	21,788,312	17,983,958	18,160,213	17,865,119

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

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

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

Application of Critical Accounting Policies

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

Liquidity and Capital Resources

Our liquidity is dependent upon numerous factors including: (i) the timing and amount of revenues and collection of contractual amounts from clients, (ii) amounts invested in research and development, capital expenditures, and (iii) the level of operating expenses, all of which can vary significantly from quarter-to-quarter. Our primary cash requirements include regular payment of payroll and other business expenses, interest payments on debt, and capital expenditures. Capital expenditures

Index to Financial Statements

generally include computer hardware and computer software to support internal development efforts or infrastructure in the SaaS data center.

Operations are funded by cash generated by operations and borrowings under credit facilities. We believe that cash flows from operations are adequate to fund current obligations for the next twelve months. Cash and cash equivalents balances at July 31, 2014 and January 31, 2014 were $5,156,000 and $17,925,000, respectively. The decrease in cash was primarily the result of the Unibased acquisition. As of July 31, 2014, we had $11,263,000 in accounts receivable, of which $429,000 is in deferred revenue and therefore is not reflected on the balance sheet. We believe that with the collections of outstanding accounts receivable, we will maintain liquidity of $4,000,000 as required by our debt covenants.

In December 2013, we amended and restated our previously outstanding senior credit agreement and amended the subordinated credit agreement to increase the senior term loan to $8,500,000, reduce the interest rates, and extend the maturity of the senior term loan and the revolving line of credit to December 1, 2018 and December 1, 2015, respectively. In January 2014, we paid the subordinated term loan in full. The outstanding senior term loan is secured by substantially all of our assets. The senior term loan principal balance is payable in monthly installments of $101,000, which started in January 2014 and will continue through the maturity date, with the full remaining unpaid principal balance due at maturity. Borrowings under the senior term loan bear interest at a rate of LIBOR plus 4.75%. However, as a result of our interest rate swap, the interest rate was fixed at 6.42%. Accrued and unpaid interest on the senior term loan is due monthly through maturity.

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

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

We are subject to certain financial and operational covenants pursuant to the senior term loan and line of credit facilities. The significant financial covenants are as follows: (i) maintain minimum liquidity of $4,000,000 as of April 30, 2014 and monthly thereafter; (ii) maintain a fixed charge coverage ratio for the fiscal quarter ended July 31, 2014 (excluding the April 30, 2014 fiscal quarter) and each fiscal quarter thereafter of not less than 1.10:1, calculated quarterly on a trailing four quarter basis thereafter; and (iii) on a consolidated basis, maintain ratio of senior funded debt to adjusted EBITDA as of the end of any fiscal quarter less than 2.50:1, calculated quarterly on a trailing four fiscal quarter basis beginning July 31, 2014 (excluding the April 30, 2014 fiscal quarter). As of July 31, 2014, the Company was in compliance with all loan covenants, except that the Company did not comply with the fixed charge coverage ratio and the funded debt to adjusted EBITDA ratio. As of July 31, 2014, the Company’s fixed charge coverage ratio was (2.04) and the Company’s funded debt to adjusted EBITDA ratio was (5.73). The Company’s lender has agreed to waive the noncompliance with these financial covenants as of July 31, 2014. We expect the terms of this waiver to be finalized by September 22, 2014. In addition, the credit facilities prohibit the Company from paying dividends on the common and preferred stock.

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

Significant cash obligations

(in thousands)	As of July 31, 2014	As of January 31, 2014
Term loans (1)	$7,792	$8,298
Note payable (1)	900	900
Capital leases (1)	1,243	227
Royalty liability (2)	2,336	2,264

(1)

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

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

Index to Financial Statements

Operating cash flow activities

(in thousands)	Six Months Ended July 31, 2014	July 31, 2013
Net loss	$(4,946)	$(3,538)
Non-cash adjustments to net loss	2,815	5,217
Cash impact of changes in assets and liabilities	(2,142)	(3,046)
Operating cash flow	$(4,273)	$(1,367)

The increase in net cash used in operating activities is primarily due to a decrease in profitability with lower non-cash valuation adjustments. Additional non-cash adjustments include amortization expense from capitalized software development costs and intangible assets, warrant liability mark-to-market charges and an increased share-based compensation expense.

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

Investing cash flow activities

(in thousands)	Six Months Ended July 31, 2014	July 31, 2013
Purchases of property and equipment	$(1,636)	$(94)
Capitalized software development costs	(351)	(798)
Payments for acquisitions	(5,891)	—
Investing cash flow	$(7,878)	$(892)

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

Financing cash flow activities

(in thousands)	Six Months Ended July 31, 2014	July 31, 2013
Principal repayments on term loan	$(506)	$(625)
Principal payments on capital lease obligation	(49)	—
Payment of deferred financing costs	(113)	—
Proceeds from the exercise of stock options and stock purchase plans	50	739
Financing cash flow	$(618)	$114

The increase in cash used in financing activities was primarily the result of an absence of stock option exercises and the payment of deferred financing costs.

Index to Financial Statements

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents totaling $5,156,000 as of July 31, 2014. The cash and cash equivalents are held for working capital purposes in deposit accounts. We do not enter into investments for trading or speculative purposes. We are not exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates given the historical low levels of interest being earned on short-term fixed-rate cash operating accounts.

Our senior credit facility as of July 31, 2014 consisted of a $7,792,000 outstanding senior term loan and a $5,000,000 revolving line of credit with no amount outstanding. Interest on the senior term loan is payable monthly at LIBOR plus 4.75%. Our exposure to interest rate risk under the senior credit facility depends on the extent to which we utilize the facility. To reduce our exposure to rising interest rates, we entered into an interest rate swap for outstanding principal balance of the senior term loan. The interest rate swap effectively fixes the LIBOR rate at a fixed rate of 1.67%. As such, a hypothetical change of 1% from prevailing interest rates as of July 31, 2014 would not have an effect on our interest expense.

Foreign Currency Exchange Risk

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

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

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

•Staffing: In late July 2014, we hired Michael Halloran to serve as our new principal accounting officer. In addition, we intend to add a new revenue accounting specialist position to better ensure compliance with our revenue

recognition policies.

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

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

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

Index to Financial Statements

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

Index to Financial Statements

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

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

Risks Relating to Our Business

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

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

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

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

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

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

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

Index to Financial Statements

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. We believe that the features and architecture of our existing solutions are such that we currently support or should be able to make the necessary modifications to our solutions, if required, by legislation or regulations, but there can be no assurances.

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

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

Our clients derive a substantial portion of their revenue from third-party private and governmental payors, including through Medicare, Medicaid and other government-sponsored programs. Our sales and profitability depend, in part, on the extent to which coverage of and reimbursement for medical care provided is available from governmental health programs, private health insurers, managed care plans and other third-party payors. If governmental or other third-party payors materially reduce reimbursement rates or fail to reimburse our clients adequately, our clients may suffer adverse financial consequences, which in turn, may reduce the demand for and ability to purchase our solutions or services.

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

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

The healthcare industry is evolving rapidly, which may make it more difficult for us to be competitive in the future. The U.S. healthcare system is under intense pressure to improve in many areas, including modernization, universal access and controlling skyrocketing costs of care. We believe that the principal competitive factors in our market are client recommendations and references, company reputation, system reliability, system features and functionality

(including ease of use), technological advancements, client service and support, breadth and quality of the systems, the potential for enhancements and future compatible solutions, the effectiveness of marketing and sales efforts, price and the size and perceived financial stability of the vendor. In addition, we believe that the speed with which companies in our market can anticipate the evolving healthcare industry structure and identify unmet needs are important competitive factors. There can be no assurance that we will be able to keep pace with changing conditions and new developments such that we will be able to compete successfully in the future against existing or potential competitors.

Rapid technology changes and short product life cycles could harm our business.
The market for our solutions and services is characterized by rapidly changing technologies, regulatory requirements, evolving industry standards and new product introductions and enhancements that may render existing solutions obsolete or

Index to Financial Statements

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 do not have any patent protection on any of our software. We rely upon license agreements, employment agreements, confidentiality agreements, nondisclosure agreements and similar agreements to maintain the confidentiality of our proprietary information and trade secrets. Notwithstanding these precautions, others may copy, reverse engineer or design independently, technology similar to our solutions. If we fail to protect adequately our intellectual property through trademarks and copyrights, license agreements, employment agreements, confidentiality agreements, nondisclosure agreements or similar agreements, our intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate our technology or may otherwise limit any competitive technology advantage we may have. It may be necessary to litigate to enforce or defend our proprietary technology or to determine the validity of the intellectual property rights of others. Any litigation could be successful or unsuccessful, may result in substantial cost and require significant attention by management and technical personnel.

Due to the rapid pace of technological change, we believe our future success is likely to depend upon continued innovation, technical expertise, marketing skills and client support and services rather than on legal protection of our property rights. However, we have in the past, and intend in the future, to assert aggressively our intellectual property rights when necessary.

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

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

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

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

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

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

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

- the diversion of financial, managerial, and other resources from existing operations;
- the risks of entering into new markets in which we have little or no experience or where competitors may have stronger positions;
- potential write-offs or amortization of acquired assets or investments;

Index to Financial Statements

- 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 common stock.

Third party products are essential to our software.

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

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

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

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

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

Our SaaS and support services could experience interruptions.

We provide SaaS for many clients, including the storage of critical patient, financial and administrative data. In addition, we provide support services to clients through our client support organization. We have redundancies, such as backup generators, redundant telecommunications lines and backup facilities built into our operations to prevent disruptions. However, complete failure of all generators or impairment of all telecommunications lines or severe

casualty damage to the primary building or equipment inside the primary building housing our hosting center or client support facilities could cause a temporary disruption in operations and adversely affect clients who depend on the application hosting services. Any interruption in operations at our data center or client support facility could cause us to lose existing clients, impede our ability to obtain new clients, result in revenue loss, cause potential liability to our clients and increase our operating costs.

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

Index to Financial Statements

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, render us unable to meet our clients' requirements, and consequently have a significant negative impact on our business, financial condition and operating results.

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

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

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

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

Index to Financial Statements

We are subject to certain financial and operational covenants pursuant to the senior term loan and line of credit facilities. The significant financial covenants are as follows: (i) maintain minimum liquidity of $4,000,000 as of April 30, 2014 and monthly thereafter; (ii) maintain a fixed charge coverage ratio for the fiscal quarter ended July 31, 2014 (excluding the April 30, 2014 fiscal quarter) and each fiscal quarter thereafter of not less than 1.10:1, calculated quarterly on a trailing four quarter basis thereafter; and (iii) on a consolidated basis, maintain ratio of senior funded debt to adjusted EBITDA as of the end of any fiscal quarter less than 2.50:1, calculated quarterly on a trailing four fiscal quarter basis beginning July 31, 2014 (excluding the April 30, 2014 fiscal quarter). As of July 31, 2014, the Company was in compliance with all loan covenants, except that the Company did not comply with the fixed charge coverage ratio and the funded debt to adjusted EBITDA ratio. As of July 31, 2014, the Company's fixed charge coverage ratio was (2.04) and the Company's funded debt to adjusted EBITDA ratio was (5.73). The Company's lender has agreed to waive the noncompliance with these financial covenants as of July 31, 2014. We expect the terms of this waiver to be finalized by September 22, 2014.

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

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

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

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

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

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

stock price.

The variability of our quarterly operating results can be significant.

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

Index to Financial Statements

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

The preparation of our financial statements requires the use of estimates that may vary from actual results.
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, and could result in the restatement of our prior period financial statements.

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

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

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

Risks Relating to an Investment in Our Securities

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

- General economic and market conditions;
- Actual or anticipated variations in annual or quarterly operating results;
- Lack of or negative research coverage by securities analysts;
- Conditions or trends in the healthcare information technology industry;

- Changes in the market valuations of other companies in our industry;
- Announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- Announced or anticipated capital commitments;
- Ability to maintain listing of our common stock on The Nasdaq Capital Market;

Index to Financial Statements

- 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 price of our stock could decline.

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

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

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

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

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

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

As of July 31, 2014, we had 2,949,995 shares of preferred stock outstanding. For additional information regarding the terms, rights and preferences of such stock, see Note 15 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2014 and our other SEC filings.

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

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our

Index to Financial Statements

common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price you paid for your shares.

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

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

Note Regarding Risk Factors

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

Item 6. EXHIBITS

See Index to Exhibits.

Index to Financial Statements

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: September 15, 2014

By: /S/ Robert E. Watson
Robert E. Watson
Chief Executive Officer

DATE: September 15, 2014

By: /S/ Nicholas A. Meeks
Nicholas A. Meeks
Chief Financial Officer

Index to Financial Statements

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1*	Certificate of Incorporation of Streamline Health Solutions, Inc. f/k/a/ LanVision Systems, Inc., as amended through August 19, 2014
31.1*	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act
31.2*	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act
32.1*	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2*	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101	The following financial information from Streamline Health Solutions, Inc.'s Quarterly Report on Form 10-Q for the three-month period ended July 31, 2014 filed with the SEC on September 15, 2014, formatted in XBRL includes: (i) Condensed Consolidated Balance Sheets at July 31, 2014 and January 31, 2014, (ii) Condensed Consolidated Statements of Operations for three- and six-month periods ended July 31, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Loss for three- and six-month periods ended July 31, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows for the three- and six-month periods ended July 31, 2014 and 2013, and (v) Notes to the Condensed Consolidated Financial Statements.

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*Filed herewith.

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