STREAMLINE HEALTH SOLUTIONS INC.
Form 10-Q
December 14, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10 Q

(Mark One)

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

For the quarterly period ended October 31, 2018

OR

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

For the transition period from to

Commission File Number: 000 28132

STREAMLINE HEALTH SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

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

1175 Peachtree Street, NE, 10th Floor

Atlanta, GA 30361

(Address of principal executive offices) (Zip Code)

(888) 997 8732

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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

Emerging growth company

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

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of November 30, 2018: 20,127,703

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	As of October 31, 2018	January 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,144,559	$ 4,619,834
Accounts receivable, net of allowance for doubtful accounts of $307,736 and $349,058, respectively	1,562,074	3,001,170
Contract receivables	1,231,969	223,791
Prepaid hardware and third-party software for future delivery	—	5,858
Prepaid client maintenance contracts	469,335	506,911
Other prepaid assets	662,051	742,232
Other current assets	406,143	546,885
Total current assets	5,476,131	9,646,681
Non-current assets:		
Property and equipment:		
Computer equipment	1,414,876	2,852,776
Computer software	666,442	730,950
Office furniture, fixtures and equipment	—	683,443
Leasehold improvements	—	729,348
	2,081,318	4,996,517
Accumulated depreciation and amortization	(1,804,305)	(3,834,153)
Property and equipment, net	277,013	1,162,364
Contract receivables, less current portion	614,725	—
Capitalized software development costs, net of accumulated amortization of $19,553,507 and $18,658,183, respectively	5,700,270	4,307,351
Intangible assets, net of accumulated amortization of $7,673,626 and $6,968,786, respectively	5,130,311	5,835,151
Goodwill	15,537,281	15,537,281
Other	328,843	642,226
Total non-current assets	27,588,443	27,484,373
	$ 33,064,574	$ 37,131,054

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	As of October 31, 2018	January 31, 2018
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,469,954	$ 421,425
Accrued compensation	941,349	342,351
Accrued other expenses	1,089,304	609,582
Current portion of term loan	596,984	596,984
Deferred revenues	5,845,779	9,481,807
Other	22,281	—
Total current liabilities	9,965,651	11,452,149
Non-current liabilities:		
Term loan, net of current portion and deferred financing cost of $75,074 and $128,275, respectively	3,506,816	3,901,353
Royalty liability	889,654	2,469,193
Deferred revenues, less current portion	752,093	332,645
Other	112,848	274,128
Total non-current liabilities	5,261,411	6,977,319
Total liabilities	15,227,062	18,429,468
Series A 0% Convertible Redeemable Preferred Stock, $.01 par value per share, $8,686,392 and $8,849,985 redemption value, 4,000,000 shares authorized, 2,895,464 and 2,949,995 shares issued and outstanding, respectively	8,686,392	8,849,985
Stockholders' equity:		
Common stock, $.01 par value per share, 45,000,000 shares authorized; 20,127,703 and 20,005,977 shares issued and outstanding, respectively	201,277	200,060
Additional paid in capital	82,404,377	81,776,606
Accumulated deficit	(73,454,534)	(72,125,065)
Total stockholders' equity	9,151,120	9,851,601
	$ 33,064,574	$ 37,131,054

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Revenues:				
Systems sales	$ 309,522	$ 348,526	$ 1,827,071	$ 1,055,941
Professional services	576,682	801,771	1,086,117	1,793,618
Audit services	233,561	280,025	841,117	919,485
Maintenance and support	3,051,260	3,250,229	9,576,615	9,883,563
Software as a service	1,197,552	1,718,748	3,569,562	4,586,532
Total revenues	5,368,577	6,399,299	16,900,482	18,239,139
Operating expenses:				
Cost of systems sales	223,235	434,138	763,109	1,596,988
Cost of professional services	675,038	555,815	2,078,735	1,814,236
Cost of audit services	323,337	404,280	1,017,397	1,236,358
Cost of maintenance and support	505,779	667,307	1,720,366	2,241,969
Cost of software as a service	206,878	289,503	805,137	914,711
Selling, general and administrative	2,391,873	2,819,549	8,159,823	8,983,248
Research and development	1,026,423	932,251	3,301,587	3,985,161
Loss on exit of operating lease	561,898	—	1,368,061	—
Total operating expenses	5,914,461	6,102,843	19,214,215	20,772,671
Operating income (loss)	(545,884)	296,456	(2,313,733)	(2,533,532)
Other expense:				
Interest expense	(105,784)	(113,078)	(332,387)	(360,723)
Miscellaneous expense	(25,128)	(177,282)	(118,156)	(235,007)
Earnings (loss) before income taxes	(676,796)	6,096	(2,764,276)	(3,129,262)
Income tax expense	(1,714)	(2,607)	(5,141)	(7,822)
Net earnings (loss)	$ (678,510)	$ 3,489	$ (2,769,417)	$ (3,137,084)
Net earnings (loss) per common share - basic	$ (0.03)	$ 0.00	$ (0.14)	$ (0.16)
Weighted average number of common shares - basic	19,753,074	19,985,822	19,903,529	19,838,691
Net earnings (loss) per common share - diluted	$ (0.03)	$ 0.00	$ (0.14)	$ (0.16)
Weighted average number of common shares - diluted	19,753,074	23,068,423	19,903,529	19,838,691

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended October 31,	
	2018	2017
Operating activities:		
Net loss	$ (2,769,417)	$ (3,137,084)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	411,277	595,866
Amortization of capitalized software development costs	895,325	1,574,493
Amortization of intangible assets	704,840	922,462
Amortization of other deferred costs	347,170	229,780
Valuation adjustment for warrants liability	—	104,666
Other valuation adjustments	71,428	124,423
Loss (gain) on disposal of fixed assets	5,190	(14,871)
Loss on exit of operating lease	1,368,061	—
Share-based compensation expense	492,298	844,960
Provision for accounts receivable	(23,639)	181,859
Changes in assets and liabilities:		
Accounts and contract receivables	590,555	1,957,439
Other assets	272,823	(671,254)
Accounts payable	1,048,529	(308,747)
Accrued expenses	53,673	134,324
Deferred revenues	(4,176,055)	(3,866,878)
Net cash used in operating activities	(707,942)	(1,328,562)
Investing activities:		
Purchases of property and equipment	(21,142)	(24,517)
Proceeds from sales of property and equipment	20,408	—
Capitalization of software development costs	(2,288,244)	(1,336,942)
Net cash used in investing activities	(2,288,978)	(1,361,459)
Financing activities:		
Principal repayments on term loan	(447,738)	(962,443)
Principal payments on capital lease obligation	(3,714)	(91,337)
Payments related to settlement of employee shared-based awards	(62,291)	(41,813)
Proceeds from exercise of stock options and stock purchase plan	35,388	23,703
Net cash used in financing activities	(478,355)	(1,071,890)
Net decrease in cash and cash equivalents	(3,475,275)	(3,761,911)
Cash and cash equivalents at beginning of period	4,619,834	5,654,093
Cash and cash equivalents at end of period	$ 1,144,559	$ 1,892,182

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

October 31, 2018

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. (“we”, “us”, “our”, “Streamline”, or the “Company”), pursuant to the rules and regulations applicable to quarter reports on Form 10 Q of the U.S. Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. These Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in our most recent annual report on Form 10 K, Commission File Number 0 28132. Operating results for the nine months ended October 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2019.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are presented in “Note 2 – Significant Accounting Policies” in the fiscal year 2017 Annual Report on Form 10 K. Users of financial information for interim periods are encouraged to refer to the footnotes to the consolidated financial statements contained in the Annual Report on Form 10 K when reviewing interim financial results.

Use of Estimates

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

Fair Value of Financial Instruments

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

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

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

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At October 31, 2018				
Royalty liability (1) (3)	$ 890,000	$ —	$ —	$ 890,000
At January 31, 2018				
Royalty liability (1) (2)	$ 2,469,000	$ —	$ —	$ 2,469,000

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

Revenue Recognition

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

We recognize revenue in accordance with Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers ("ASC 606"), the new revenue recognition standards established by ASU 2014 09. The core principle of ASC 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

· Step 1: Identify the contract(s) with a customer
· Step 2: Identify the performance obligations in the contract
· Step 3: Determine the transaction price
· Step 4: Allocate the transaction price to the performance obligations in the contract

· Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

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

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

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

Contract Combination

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

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

Systems Sales

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

Maintenance and Support Services

Our maintenance and support obligations include multiple discrete performance obligations, with the two largest being unspecified product upgrades or enhancements, and technical support, which can be offered at various points during a contract period. We believe that the multiple discrete performance obligations within our overall maintenance and support obligations can be viewed as a single performance obligation since both the unspecified upgrades and

technical support are activities to fulfill the maintenance performance obligation and are rendered concurrently. Annual maintenance and support agreements entitle clients to technology support, version upgrades, bug fixes and service packs. We recognize maintenance and support revenue over time.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

Software-Based Solution Professional Services

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

Software as a Service

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

We defer the direct costs, which includes salaries and benefits, for professional services related to SaaS contracts. These deferred costs will be amortized over the identical term as the associated revenues. As of October 31, 2018, and January 31, 2018, we had deferred costs of $262,000 and $471,000, respectively, net of accumulated amortization of $531,000 and $312,000, respectively. Amortization expense of these costs was $101,000 and $51,000 for the three months ended October 31, 2018 and 2017, respectively, and $294,000 and $177,000 for the nine months ended October 31, 2018 and 2017, respectively.

Audit Services

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

Comparative GAAP Financials

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

	Nine Months Ended October 31, 2018		
	As reported under ASC 606	Balances without adoption of ASC 606	Adjustments due to ASC 606
Revenues			
Systems sales	$ 1,827,000	$ 2,500,000	$ (673,000)
Maintenance and support	9,577,000	9,585,000	(8,000)

	As of October 31, 2018		
	As reported under ASC 606	Balances without adoption of Topic 606	Adjustments due to ASC 606

Assets			
Contract receivables, current	$ 1,232,000	$ 805,000	$ 427,000
Contract receivables, noncurrent	615,000	43,000	572,000
Liabilities			
Deferred revenues, current	5,846,000	5,962,000	(116,000)
Shareholders' Equity			
Accumulated deficit	$ (73,455,000)	$ (74,570,000)	$ 1,115,000

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

Disaggregation of Revenue

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

	Nine Months Ended October 31, 2018		
	Recurring Revenue	Non-recurring Revenue	Total
Systems sales	$ 397,000	$ 1,430,000	$ 1,827,000
Professional services	—	1,086,000	1,086,000
Audit services	—	841,000	841,000
Maintenance and support	9,577,000	—	9,577,000
Software as a service	3,569,000	—	3,569,000
Total revenue:	$ 13,543,000	$ 3,357,000	$ 16,900,000

Contract Receivables and Deferred Revenues

The Company receives payments from customers based upon contractual billing schedules. Contract receivables include amounts related to the Company’s contractual right to consideration for completed performance obligations not yet invoiced. Deferred revenues include payments received in advance of performance under the contract. Our contract receivables and deferred revenue are reported on an individual contract basis at the end of each reporting period. Contract receivables are classified as current or noncurrent based on the timing of when we expect to bill the customer. Deferred revenue is classified as current or noncurrent based on the timing of when we expect to recognize revenue. In the nine-month period ended October 31, 2018, we recognized $7,558,000 in revenue from deferred revenues outstanding as of January 31, 2018.

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

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

Transaction price allocated to the remaining performance obligations

Revenue allocated to remaining performance obligations represents contracted revenue that will be recognized in future periods, which is comprised of deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Revenue allocated to remaining performance obligations was $26 million as of October 31, 2018, of which the Company expects to recognize approximately 71% over the next 12 months and the remainder thereafter.

Deferred commissions costs (contract acquisition costs)

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

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

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

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 $125,000 and $290,000 for the three months ended October 31, 2018 and 2017, respectively, and $492,000 and $845,000 for the nine months ended October 31, 2018 and 2017, respectively.

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

We issue restricted stock awards in the form of our common stock. The fair value of these awards is based on the market closing price per share on the date of grant. We expense the compensation cost of these awards as the restriction period lapses, which is typically a one- to four-year service period to the Company. In the nine months ended October 31, 2018, 37,249 shares of common stock were surrendered to the Company to satisfy tax withholding obligations totaling $62,000 in connection with the vesting of restricted stock awards. Shares surrendered by the restricted stock award recipients in accordance with the applicable plan are deemed canceled, and therefore are not available to be reissued.

Income Taxes

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

We provide for uncertain tax positions and the related interest and penalties based upon management’s assessment of whether certain tax positions are more likely than not to be sustained upon examination by tax authorities. We believe we have appropriately accounted for any uncertain tax positions. The Company has recorded $329,000 and $286,000 in reserves for uncertain tax positions and corresponding interest and penalties as of October 31, 2018 and January 31, 2018, respectively.

Net Earnings (Loss) Per Common Share

We present basic and diluted earnings per share ("EPS") data for our common stock. Basic EPS is calculated by dividing the net earnings (loss) attributable to common stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated based on the profit or loss attributable to common stockholders and the weighted average number of shares of common stock outstanding, adjusted for the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

effects of all potential dilutive common stock issuances related to options, unvested restricted stock, warrants and convertible preferred stock. Potential common stock dilution related to outstanding stock options, unvested restricted stock and warrants is determined using the treasury stock method, while potential common stock dilution related to Series A Convertible Preferred Stock is determined using the "if converted" method.

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

In accordance with ASC 260, securities are deemed not to be participating in losses if there is no obligation to fund such losses. As of October 31, 2018, there were 2,895,464 shares of preferred stock outstanding, each of which is convertible into one share of our common stock. For the three and nine months ended October 31, 2018 and the nine months ended October 31, 2017, the Series A Convertible Preferred Stock would have an anti-dilutive effect if included in diluted EPS and therefore, was not included in the calculation. For the three and nine months ended October 31, 2018 and the nine months ended October 31, 2017, 469,996 and 821,587, respectively, unvested restricted shares of common stock were excluded from the diluted EPS calculation as their effect would have been anti-dilutive. For the three months ended October 31, 2017, the preferred stock and unvested restricted shares of common stock were not anti-dilutive and, accordingly, were included in the Company's diluted EPS calculation.

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

	Three Months Ended	
	October 31, 2018	October 31, 2017
Net earnings (loss)	$ (678,510)	$ 3,489
Weighted average shares outstanding - Basic	19,753,074	19,985,822
Stock options, restricted stock, Series A Convertible Preferred Stock and warrants	—	3,082,601
Weighted average shares outstanding - Diluted	19,753,074	23,068,423
Basic net earnings (loss) per share of common stock	$ (0.03)	$ 0.00
Diluted net earnings (loss) per share of common stock	$ (0.03)	$ 0.00

Nine Months Ended

	October 31, 2018	October 31, 2017
Net loss	$ (2,769,417)	$ (3,137,084)
Weighted average shares outstanding - Basic	19,903,529	19,838,691
Stock options, restricted stock, Series A Convertible Preferred Stock and warrants	—	—
Weighted average shares outstanding - Diluted	19,903,529	19,838,691
Basic net loss per share of common stock	$ (0.14)	$ (0.16)
Diluted net loss per share of common stock	$ (0.14)	$ (0.16)

Diluted net loss per share excludes the effect of outstanding stock options that relate to 1,612,990 and 2,239,047 shares of common stock for the three and nine months ended October 31, 2018 and the nine months ended October 31,

2017, respectively. The inclusion of these stock options would have been anti-dilutive. For the nine months ended October 31, 2017, the warrants to purchase 1,400,000 shares of common stock would have an anti-dilutive effect if included in diluted net loss per share, and therefore were not included in the calculation. For the three months ended October 31, 2017, warrants and vested stock options would have a dilutive effect and therefore were included in the diluted net loss per share calculation. The warrants expired on February 16, 2018.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014 09, Revenue from Contracts with Customers, Topic 606 (“ASC 606”), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014 09 defines a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2016, the FASB delayed the effective date by one year and the guidance became effective for us on February 1, 2018. The new revenue recognition guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application as an adjustment to retained earnings (modified retrospective method). We adopted the standard effective February 1, 2018 using the modified retrospective method.

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

In February 2016, the FASB issued ASU 2016 02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The update will be effective for us on February 1, 2019. Early adoption of the update is permitted. We do not expect that the adoption of this ASU will have a significant impact on

our consolidated financial statements.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

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

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

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

NOTE 3 — ACQUISITIONS

Acquisition of a Montefiore Medical Center Solution

On October 25, 2013, we entered into a Software License and Royalty Agreement (the “Royalty Agreement”) with Montefiore Medical Center (“Montefiore”) pursuant to which Montefiore granted us an exclusive, worldwide 15 year license of Montefiore’s proprietary clinical analytics platform solution, Clinical Looking Glass® (“CLG”), now known as our Clinical Analytics solution. In addition, Montefiore assigned to us the existing license agreement with a customer using CLG. As consideration under the Royalty Agreement, we paid Montefiore a one-time initial base royalty fee of $3,000,000. Additionally, we originally committed that Montefiore would receive at least an additional $3,000,000 of on-going royalty payments related to future sublicensing of CLG by us within the first six and one-half years of the license term. On July 1, 2018, we entered into a joint amendment to the Royalty Agreement and the existing Software License and Support Agreement with Montefiore to modify the payment obligations of the parties under both agreements. According to the modified provisions, our obligation to pay on-going royalties under the Royalty Agreement was replaced with the obligation to (i) provide maintenance services for 24 months and waive associated maintenance fees, and (ii) pay $1,000,000 in cash on July 31, 2020. As a result of the commitment to fulfill a portion of our obligation by providing maintenance services at no cost, the royalty liability was significantly reduced, with a corresponding increase to deferred revenues. The fair value of the royalty liability as of October 31, 2018 was determined based on the amount payable in cash. As of October 31, 2018, and January 31, 2018, the present value of this royalty liability was $890,000 and $2,469,000, respectively.

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NOTE 4 — LEASES

We rent office space and equipment under non-cancelable operating leases that expire at various times through fiscal year 2023. Future minimum lease payments under non-cancelable operating leases for the next five fiscal years are as follows:

	Facilities	Equipment	Fiscal Year Totals
2018 (three months remaining)	$ 168,000	$ 2,000	$ 170,000
2019	632,000	7,000	639,000
2020	116,000	7,000	123,000
2021	—	7,000	7,000
2022	—	7,000	7,000
Thereafter	—	4,000	4,000
Total	$ 916,000	$ 34,000	$ 950,000

In the second quarter of fiscal 2018, we closed our New York office and subleased the office space for the remaining period of the original lease term. As a result of vacating and subleasing the office, we recorded an $806,000 loss on exit of the operating lease in the second quarter of fiscal 2018. As of October 31, 2018, the total minimum rentals to be received under this non-cancelable sublease was $288,000.

In the third quarter of fiscal 2018, we assigned our then current Atlanta office lease that would expire in November 2022 and entered into a new lease obligation for another office space in Atlanta. As a result of assigning the office lease, we recorded a $562,000 loss on exit of the operating lease in the third quarter of fiscal 2018. Our new Atlanta office lease commenced upon taking possession of the space and ends in November 2020. The new lease agreement provides for rent abatement, which will be aggregated with the total expected rental payments and amortized on a straight-line basis over the term of the lease.

Rent and leasing expense for facilities and equipment was $191,000 and $295,000 for the three months ended October 31, 2018 and 2017, respectively, and $994,000 and $920,000 for the nine months ended October 31, 2018 and 2017.

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

NOTE 5 — DEBT

Term Loan and Line of Credit

On November 21, 2014, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, N.A., as administrative agent, and other lender parties thereto. Pursuant to the Credit Agreement, the lenders agreed to provide a $10,000,000 senior term loan and a $5,000,000 revolving line of credit to our primary operating subsidiary. Amounts outstanding under the Credit Agreement bear interest at either LIBOR or the base rate, as elected by the Company, plus an applicable margin. Subject to the Company's leverage ratio, pursuant to the terms of the amendment to the Credit Agreement entered into as of April 15, 2015, the applicable LIBOR rate margin varies from 4.25% to 6.25%, and the applicable base rate margin varies from 3.25% to 5.25%. The term loan and line of credit provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. The outstanding senior term loan is secured by substantially all of our assets. Pursuant to the terms of the fourth amendment to the Credit Agreement entered into as of November 20, 2018, the original term loan and line of credit maturity date of November 21, 2019 was extended to May 21, 2020. The senior term loan principal balance is payable in quarterly

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

installments, which started in March 2015 and will continue through the maturity date, with the full remaining unpaid principal balance due at maturity. In November 2014, the Company repaid indebtedness under its prior credit facility using approximately $7,400,000 of the proceeds provided by the term loan. The prior credit facility with Fifth Third Bank was terminated concurrent with the entry into the Credit Agreement. Financing costs of $355,000 associated with the new credit facility are being amortized over its term on a straight-line basis, which is not materially different from the effective interest method.

The Credit Agreement includes customary financial covenants, including the requirements that the Company maintain minimum liquidity and achieve certain minimum EBITDA levels (as defined in the Credit Agreement). In addition, the Credit Agreement prohibits the Company from paying dividends on the common and preferred stock. Pursuant to the terms of the Credit Agreement, the Company is required to maintain minimum liquidity of at least (i) $5,000,000 through January 31, 2018, (ii) $4,000,000 from February 1, 2018 through November 19, 2018, (iii) $3,500,000 from November 20, 2018 through and including January 31, 2019, and (iv) $4,000,000 from February 1, 2019 through and including the maturity date of the credit facility.

The following table shows our minimum EBITDA covenant thresholds, as modified by the fourth amendment to the Credit Agreement entered into as of November 20, 2018:

Applicable period	Minimum EBITDA
For the fiscal quarter ending October 31, 2018	$ (509,000)
For the 2-quarter period ending January 31, 2019	20,000
For the 3-quarter period ending April 30, 2019	204,000
For the 4-quarter period ending July 31, 2019	180,000
For the 4-quarter period ending October 31, 2019	508,000
For the 4-quarter period ending January 31, 2020	408,000
For the 4-quarter period ending April 30, 2020 and each fiscal quarter thereafter	562,000

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

As of October 31, 2018, the Company had no outstanding borrowings under the revolving line of credit, and had accrued $3,000 in unused line fees. Based upon the borrowing base formula set forth in the Credit Agreement, as of October 31, 2018, the Company had access to the full amount of the $5,000,000 revolving line of credit.

Outstanding principal balances on debt consisted of the following at:

	October 31, 2018	January 31, 2018
Senior term loan	$ 4,179,000	$ 4,626,000
Capital lease (1)	63,000	—
Total	4,242,000	4,626,000

Deferred financing cost	(75,000)	(128,000)
Total	4,167,000	4,498,000
Less: Current portion	(619,000)	(597,000)
Non-current portion of debt	$ 3,548,000	$ 3,901,000

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

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

Fiscal year	Senior Term Loan (1)	Capital Lease (2)	Total
2018	$ 149,000	$ 6,000	$ 155,000
2019	4,030,000	22,000	4,052,000
2020	—	22,000	22,000
2021	—	13,000	13,000
Total repayments	$ 4,179,000	$ 63,000	$ 4,242,000

(1) Term loan balance on the condensed consolidated balance sheet is reported net of deferred financing costs of $75,000.
(2) The current and non-current portions of our capital lease obligation are included in other current and other non-current liabilities, respectively.

NOTE 6 — CONVERTIBLE PREFERRED STOCK

Series A Convertible Preferred Stock

At October 31, 2018, we had 2,895,464 shares of Series A Convertible Redeemable Preferred Stock (the “Preferred Stock”) outstanding. Each share of the Preferred Stock is convertible into one share of the Company’s common stock. The Preferred Stock does not pay a dividend; however, the holders are entitled to receive dividends equal (on an as-if-converted-to-common-stock basis) to and in the same form as dividends (other than dividends in the form of common stock) actually paid on shares of the common stock. The Preferred Stock has voting rights on a modified as-if-converted-to-common-stock-basis. The Preferred Stock has a non-participating liquidation right equal to the original issue price plus accrued unpaid dividends, which are senior to the Company’s common stock. The Preferred Stock can be converted to common shares at any time by the holders, or at the option of the Company if the arithmetic average of the daily volume weighted average price of the common stock for the 10 day period prior to the measurement date is greater than $8.00 per share, and the average daily trading volume for the 60 day period immediately prior to the measurement date exceeds 100,000 shares. The conversion price is $3.00 per share, subject to certain adjustments.

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

NOTE 7 — INCOME TAXES

Income tax expense consists of federal, state and local tax provisions. For the nine months ended October 31, 2018 and 2017, we recorded federal tax expense of zero. For the nine months ended October 31, 2018 and 2017, we recorded state and local tax expense of $5,000 and $8,000, respectively.

NOTE 8 — SUBSEQUENT EVENTS

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

On November 20, 2018, we executed the fourth amendment to the Credit Agreement which reset our financial covenants and extended the original term loan and line of credit maturity date from November 21, 2019 to May 21, 2020. See Note 5 for the new financial covenants.

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On November 27, 2018, we drew $1,000,000 upon our revolving line of credit to support our operations.

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

FORWARD-LOOKING STATEMENTS

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

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

- competitive products and pricing;
- product demand and market acceptance;
- entry into new markets;
- new product and services development and commercialization;
- key strategic alliances with vendors and channel partners that resell our products;
- uncertainty in continued relationships with clients due to termination rights;
- our ability to control costs;
- availability, quality and security of products produced and services provided by third-party vendors;
- the healthcare regulatory environment;
- potential changes in legislation, regulation and government funding affecting the healthcare industry;
- healthcare information systems budgets;
- availability of healthcare information systems trained personnel for implementation of new systems, as well as maintenance of legacy systems;
- the success of our relationships with channel partners;

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- fluctuations in operating results;
- critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other standard-setting organizations;
- changes in economic, business and market conditions impacting the healthcare industry and the markets in which we operate;
- our ability to maintain compliance with the terms of our credit facilities; and
- our ability to maintain compliance with the continued listing standards of the Nasdaq Global Market.

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

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

Results of Operations

Revenues

(in thousands):	Three Months Ended October 31, 2018	October 31, 2017	Change	% Change
Systems Sales:				
Proprietary software - perpetual license	$ —	$ 79	$ (79)	(100) %
Term license	231	257	(26)	(10) %
Hardware and third-party software	78	13	65	500 %
Professional services	577	802	(225)	(28) %
Audit Services	234	280	(46)	(16) %
Maintenance and support	3,051	3,250	(199)	(6) %
Software as a service	1,198	1,718	(520)	(30) %
Total Revenues	$ 5,369	$ 6,399	$ (1,030)	(16) %

(in thousands):	Nine Months Ended October 31, 2018	October 31, 2017	Change	% Change
System Sales:				
Proprietary software - perpetual license	$ 1,243	$ 249	$ 994	399 %
Term license	397	736	(339)	(46) %
Hardware and third-party software	187	71	116	163 %
Professional services	1,086	1,794	(708)	(39) %
Audit services	841	919	(78)	(8) %
Maintenance and support	9,577	9,884	(307)	(3) %
Software as a service	3,570	4,586	(1,016)	(22) %
Total Revenues	$ 16,901	$ 18,239	$ (1,338)	(7) %

Proprietary software and term licenses — Proprietary software revenue recognized for the nine months ended October 31, 2018 increased by $994,000 over the prior comparable period. This increase is attributable to two perpetual license sales of our Streamline Health® Abstracting™ solution, one in the first and another in the second quarter of fiscal 2018. The $79,000 decrease in proprietary software revenue recognized for the three months ended October 31,

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2018 over the prior comparable period is due to no software delivery during the current fiscal quarter. Fluctuations from period to period are a function of client demand, which in fiscal 2018 was higher during the first and second quarters. Term license revenue for the three and nine months ended October 31, 2018 decreased $26,000 and $339,000 over the prior comparable periods. This decrease is primarily due to the adoption of the new revenue recognition standards effective February 1, 2018.

Hardware and third-party software — Revenue from hardware and third-party software sales for the three and nine months ended October 31, 2018 increased by $65,000 and $116,000, respectively, over the prior comparable periods. Fluctuations from period to period are a function of client demand.

Professional services — For the three- and nine-month periods ended October 31, 2018, revenues from professional services decreased by $225,000 and $708,000, respectively, from the prior comparable periods. These decreases in professional services revenue are primarily due to the completion of large implementation projects in fiscal 2017. In addition, professional services revenue is adversely impacted by the Company's focus on utilizing its professional services personnel to assist in the success of eValuator customers. As the Company assigns its professional services staff to eValuator clients in an effort to improve the customer experience and ensure the initial success of the product, fewer resources are available for time and materials engagements, like implementations. The assignment of professional services personnel to eValuator clients is temporary in nature and is having a negative impact on the Company's professional services revenue in the near term. It is, however, intended to improve the long-term prospects of the Company's new eValuator product.

Audit services — Audit services revenue for the three and nine months ended October 31, 2018 decreased by $46,000 and $78,000, respectively, over the prior comparable periods. The audit services revenue is adversely impacted by the Company's focus on utilizing its audit services personnel to assist in the success of eValuator customers. As the Company assigns its audit services staff to eValuator clients in an effort to improve the customer experience and ensure the initial success of the product, fewer resources are available for time and materials engagements, like audit services. The assignment of audit services personnel to eValuator clients is temporary in nature and is having a negative impact on the Company's audit services revenue in the near term. It is, however, intended to improve the long-term prospects of the Company's new eValuator product.

Maintenance and support — Revenue from maintenance and support for the three and nine months ended October 31, 2018 decreased by $199,000 and $307,000, respectively, over the prior comparable periods. These decreases are primarily due to pricing pressure and small cancellations by certain customers of our legacy products. The customer pricing differences and rate of customer cancellations has not exceeded the Company's budget for fiscal 2018.

Software as a Service (SaaS) — Revenue from SaaS for the three and nine months ended October 31, 2018 decreased by $520,000 and $1,016,000, respectively, from the prior comparable periods. These decreases resulted primarily from pricing pressure and cancellations by a few customers of our legacy products. The pricing pressure impact and the rate of customer cancellations has not exceeded the Company's budget for fiscal 2018.

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Cost of Sales

	Three Months Ended				
(in thousands):	October 31, 2018	October 31, 2017	Change	% Change	
Cost of systems sales	$ 223	$ 434	$ (211)	(49)	%
Cost of professional services	675	556	119	21	%
Cost of audit services	323	404	(81)	(20)	%
Cost of maintenance and support	506	667	(161)	(24)	%
Cost of software as a service	207	290	(83)	(29)	%
Total cost of sales	$ 1,934	$ 2,351	$ (417)	(18)	%

	Nine Months Ended				
(in thousands):	October 31, 2018	October 31, 2017	Change	% Change	
Cost of system sales	$ 763	$ 1,597	$ (834)	(52)	%
Cost of professional services	2,079	1,814	265	15	%
Cost of audit services	1,017	1,236	(219)	(18)	%