STREAMLINE HEALTH SOLUTIONS INC.
Form 10-Q
June 08, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 000-28132

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 ¨ Non-accelerated filer ¨ Smaller reporting company x
(Do not check if a 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 June 1, 2016: 19,411,549

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	As of April 30, 2016	January 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$6,516,222	$9,882,136
Accounts receivable, net of allowance for doubtful accounts of $191,306 and $155,407, respectively	4,053,983	4,199,315
Contract receivables	93,831	119,697
Prepaid hardware and third-party software for future delivery	7,595	5,858
Prepaid client maintenance contracts	983,787	956,913
Other prepaid assets	997,397	941,532
Other current assets	28,265	97,986
Total current assets	12,681,080	16,203,437
Non-current assets:		
Property and equipment:		
Computer equipment	2,645,851	2,647,135
Computer software	811,460	801,895
Office furniture, fixtures and equipment	683,443	683,443
Leasehold improvements	729,348	729,348
	4,870,102	4,861,821
Accumulated depreciation and amortization	(2,725,612)	(2,407,746)
Property and equipment, net	2,144,490	2,454,075
Contract receivables, less current portion	—	8,711
Capitalized software development costs, net of accumulated amortization of $15,635,713 and $14,919,948, respectively	5,905,861	6,123,638
Intangible assets, net of accumulated amortization of $4,997,121 and $4,671,675, respectively	7,829,879	8,155,325
Deferred financing costs, net of accumulated amortization of zero and $84,531, respectively	—	270,147
Goodwill	16,184,667	16,184,667
Other	726,895	746,018
Total non-current assets	32,791,792	33,942,581
	$45,472,872	$50,146,018

See accompanying notes to condensed consolidated financial statements.

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

	As of April 30, 2016	January 31, 2016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$569,276	$1,136,779
Accrued compensation	407,088	935,324
Accrued other expenses	536,233	328,551
Current portion of term loan	2,468,227	673,807
Deferred revenues	8,397,555	10,447,280
Current portion of capital lease obligations	411,263	592,642
Total current liabilities	12,789,642	14,114,383
Non-current liabilities:		
Term loan	5,645,800	7,861,084
Warrants liability	165,710	205,113
Royalty liability	2,327,136	2,291,888
Lease incentive liability	371,788	369,406
Capital lease obligations	57,526	93,257
Deferred revenues, less current portion	1,078,729	1,212,709
Total non-current liabilities	9,646,689	12,033,457
Total liabilities	22,436,331	26,147,840
Series A 0% Convertible Redeemable Preferred Stock, $.01 par value per share, $8,849,985 redemption value, 4,000,000 shares authorized, 2,949,995 shares issued and outstanding, net of unamortized preferred stock discount of $491,216 and $875,935, respectively	8,358,769	7,974,050
Stockholders' equity:		
Common stock, $.01 par value per share, 45,000,000 shares authorized; 19,411,549 and 18,783,540 shares issued and outstanding, respectively	194,115	187,836
Additional paid in capital	79,825,549	79,700,577
Accumulated deficit	(65,341,892)	(63,864,285)
Total stockholders' equity	14,677,772	16,024,128
	$45,472,872	$50,146,018

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 April 30	
	2016	2015
Revenues:		
Systems sales	$511,267	$298,616
Professional services	690,615	350,959
Maintenance and support	3,755,553	3,654,065
Software as a service	1,709,786	1,865,802
Total revenues	6,667,221	6,169,442
Operating expenses:		
Cost of systems sales	745,484	726,791
Cost of professional services	638,764	771,496
Cost of maintenance and support	857,818	816,905
Cost of software as a service	484,243	738,831
Selling, general and administrative	3,598,841	4,506,174
Research and development	1,722,187	2,224,193
Total operating expenses	8,047,337	9,784,390
Operating loss	(1,380,116)	(3,614,948)
Other income (expense):		
Interest expense	(162,012)	(243,941)
Miscellaneous income	66,222	1,988,974
Loss before income taxes	(1,475,906)	(1,869,915)
Income tax (expense) benefit	(1,701)	3,882
Net loss	$(1,477,607)	$(1,866,033)
Less: deemed dividends on Series A Preferred Shares	(384,719)	(295,657)
Net loss attributable to common shareholders	$(1,862,326)	$(2,161,690)
Basic net loss per common share	$(0.10)	$(0.12)
Number of shares used in basic per common share computation	18,995,289	18,600,957
Diluted net loss per common share	$(0.10)	$(0.12)
Number of shares used in diluted per common share computation	18,995,289	18,600,957

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended April 30	
	2016	2015
Operating activities:		
Net loss	$(1,477,607)	$(1,866,033)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	320,672	314,325
Amortization of capitalized software development costs	715,765	782,468
Amortization of intangible assets	325,446	337,230
Amortization of other deferred costs	61,184	59,362
Valuation adjustment for warrants liability	(39,403)	(1,266,464)
Share-based compensation expense	477,212	651,982
Other valuation adjustments	47,417	43,412
Loss on disposal of property and equipment	567	34,228
Provision for accounts receivable	71,907	80,086
Deferred tax benefit	—	(9,574)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts and contract receivables	108,002	551,201
Other assets	(39,082)	346,036
Accounts payable	(567,503)	(536,076)
Accrued expenses	(279,881)	(117,157)
Deferred revenues	(2,183,705)	(463,777)
Net cash used in operating activities	(2,459,009)	(1,058,751)
Investing activities:		
Purchases of property and equipment	(11,654)	(15,582)
Capitalization of software development costs	(497,988)	—
Net cash used in investing activities	(509,642)	(15,582)
Financing activities:		
Principal repayments on term loan	(168,451)	(125,000)
Principal payments on capital lease obligation	(217,110)	(199,022)
Recovery of deferred financing costs	—	2,111
Proceeds from exercise of stock options and stock purchase plan	—	143,350
Payments related to settlement of employee shared-based awards	(11,702)	—
Net cash used in financing activities	(397,263)	(178,561)
Decrease in cash and cash equivalents	(3,365,914)	(1,252,894)
Cash and cash equivalents at beginning of period	9,882,136	6,522,600
Cash and cash equivalents at end of period	$6,516,222	$5,269,706

See accompanying notes to condensed consolidated financial statements.

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

April 30, 2016 and 2015

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 three months ended April 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2017.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Our significant accounting policies are presented in "Note 2 – Significant Accounting Policies" in the fiscal year 2015 Annual Report on Form 10-K. Users of financial information for interim periods are encouraged to refer to the footnotes to the consolidated financial statements contained in the Annual Report on Form 10-K when reviewing interim financial results.
Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Fair Value of Financial Instruments
The Financial Accounting Standards Board's ("FASB") authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.
The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments. Cash and cash equivalents are classified as Level 1. The carrying amount of our long-term debt approximates fair value since the variable interest rates being paid on the amounts approximate the market interest rate. Long-term debt is classified as Level 2.
The table below provides information on our liabilities that are measured at fair value on a recurring basis:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At April 30, 2016				
Warrants liability (1)	$ 166,000	$ —	$ —	$ 166,000
Royalty liability (2)	2,327,000	—	—	2,327,000
At January 31, 2016				
Warrants liability (1)	$ 205,000	$ —	$ —	$ 205,000
Royalty liability (2)	2,292,000	—	—	2,292,000

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

(2) The initial fair value of royalty liability was determined by management with the assistance of an independent third-party valuation specialist, and by management thereafter. The fair value of the royalty liability is determined based on the probability-weighted revenue scenarios for the Looking Glass® Clinical Analytics solution licensed from Montefiore Medical Center (discussed in Note 3 - Acquisitions and Strategic Agreements). Fair value adjustments are included within miscellaneous income in the condensed consolidated statements of operations.

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.

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 all of the following criteria have been met:

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

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

Multiple Element Arrangements

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

Terms used in evaluation are as follows:

- VSOE — 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

separately by any vendor or the client could resell the item on a stand-alone basis. Additionally, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item or items must be considered probable and substantially in the control of the vendor.

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

Software as a Service

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

Systems Sales

We use the residual method to determine fair value for proprietary 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-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 Looking Glass® Coding & CDI products generally does not require material modification to achieve its 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. These deferred costs will be amortized over the identical term as the associated revenues. As of April 30, 2016 and January 31, 2016, we had deferred costs of $552,000 and $571,000, respectively, net of accumulated amortization of $309,000 and $265,000,

respectively. Amortization expense of these costs was $43,000 and $42,000 for the three months ended April 30, 2016 and 2015, 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 an hourly-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 April 30, 2016 and 2015, we incurred $117,000 and $6,000 in severance expenses, respectively. At April 30, 2016 and January 31, 2016, we had accrued severances of $95,000 and $26,000, respectively.

Equity Awards

We account for share-based payments based on the grant-date fair value of the awards with compensation cost recognized as expense over the requisite vesting period. We incurred total compensation expense related to stock-based awards of $477,000 and $652,000 for the three months ended April 30, 2016 and 2015, 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 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. During the first quarter of fiscal 2016, 8,241 shares of common stock were surrendered to the Company to satisfy tax withholding obligations totaling $12,000 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, therefore 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 zero reserves for uncertain tax positions and corresponding interest and penalties as of both April 30, 2016 and January 31, 2016.

Net 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 loss attributable to common stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated based on the profit or loss attributable to common stockholders and the weighted average number of shares of common stock outstanding adjusted for the effects of all potential dilutive common stock issuances related to options, unvested restricted stock, warrants and

convertible preferred stock. Potential common stock dilution related to outstanding stock options, unvested restricted stock and warrants is determined using the treasury stock method, while potential common stock dilution related to Series A Convertible Preferred Stock is determined using the “if converted” method.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. For the three months ended April 30, 2016 and 2015, the unvested restricted stock awards and the Series A Convertible Preferred Stock were deemed not to be participating since there was a net loss from operations. As of April 30, 2016, there were 2,949,995 shares of preferred stock outstanding, each of which is convertible into one share of our common stock. For the three months ended April 30, 2016 and 2015, 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 April 30, 2016 and 2015, there were 688,495 and 59,307, respectively, unvested restricted shares of common stock outstanding that were excluded from the diluted EPS calculation as their effect would have been anti-dilutive.
The following is the calculation of the basic and diluted net loss per share of common stock:

	Three Months Ended	
	April 30, 2016	April 30, 2015
Net loss	$(1,477,607)	$(1,866,033)
Less: deemed dividends on Series A Preferred Stock	(384,719)	(295,657)
Net loss attributable to common stockholders	$(1,862,326)	$(2,161,690)
Weighted average shares outstanding used in basic per common share computations	18,995,289	18,600,957
Stock options and restricted stock	—	—
Number of shares used in diluted per common share computation	18,995,289	18,600,957
Basic net loss per share of common stock	$(0.10)	$(0.12)
Diluted net loss per share of common stock	$(0.10)	$(0.12)

Diluted net loss per share excludes the effect of outstanding stock options that relate to 2,372,827 and 2,641,536 shares of common stock for the three months ended April 30, 2016 and 2015, respectively. The inclusion of these stock options would have been anti-dilutive. For the three months ended April 30, 2016 and 2015, 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 August 2014, the FASB issued an accounting standard update relating to disclosures of uncertainties about an entity's ability to continue as a going concern. The update provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in the event that there is such substantial doubt. The update will be effective for us on February 1, 2017.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or

fulfill a contract. In July 2015, the FASB delayed the effective date by one year and the guidance will now be effective for us on February 1, 2018. Early adoption is 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.

In April 2015, the FASB issued an accounting standard update relating to simplifying the presentation of debt issuance costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The update
became effective for us on February 1, 2016. As of April 30, 2016, the reported term loan balance includes deferred financing costs totaling $252,000, net of accumulated amortization of $102,000.

In September 2015, the FASB issued an accounting standard update relating to the accounting for business combinations. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The update became effective for us on February 1, 2016. We do not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, to simplify the presentation of the deferred income taxes. The ASU requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance did not change the existing requirement that only permits offsetting within a tax-paying component of an entity. The Company elected to early adopt ASU 2015-17 prospectively in the fourth quarter of fiscal 2015. As a result, all deferred tax assets and liabilities are presented as noncurrent on the condensed consolidated balance sheets. There was no impact on our results of operations as a result of the adoption of ASU 2015-17.

In February 2016, the FASB issued ASU No. 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. The Company is evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718), to improve the accounting for employee share-based payments. The guidance simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is effective for annual and interim periods beginning after December 15, 2016, and early adoption is permitted. The update will be effective for us on February 1, 2017. We are currently assessing the impact of adopting this guidance on our financial statements.

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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"), now known as our Looking Glass® Clinical Analytics solution. 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. As of April 30, 2016 and January 31, 2016, the present value of this royalty liability was $2,327,000 and $2,292,000, respectively.

On February 3, 2014, we completed the acquisition of Unibased Systems Architecture, Inc. ("Unibased"), a provider of patient access solutions, including enterprise scheduling and surgery management software, for healthcare organizations throughout the United States, pursuant to an Agreement and Plan of Merger dated January 16, 2014 (the "Merger Agreement"). The total purchase price for Unibased was $6,500,000, subject to net working capital and other customary adjustments. A portion of the total purchase price was withheld in escrow as described in the Merger Agreement for indemnification of claimed damages. In April 2015, the Company received $750,000 from the cash withheld in escrow, which is included in miscellaneous income.

NOTE 4 — LEASES

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

	Facilities	Equipment	Fiscal Year Totals
2016 (nine months remaining)	$730,000	$ 8,000	$ 738,000
2017	1,007,000	11,000	1,018,000
2018	1,039,000	11,000	1,050,000
2019	967,000	11,000	978,000
2020	504,000	11,000	515,000
Thereafter	964,000	4,000	968,000
Total	$5,211,000	$ 56,000	$ 5,267,000

Rent and leasing expense for facilities and equipment was $319,000 and $307,000 for the three months ended April 30, 2016 and 2015, respectively.

The Company has a capital lease to finance office equipment purchases. The balance of fixed assets acquired under these capital leases was $1,652,000 as of both April 30, 2016 and January 31, 2016, and the balance of accumulated depreciation was $1,343,000 and $1,166,000 as of April 30, 2016 and January 31, 2016, respectively. The amortization expense of leased equipment is 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, the applicable LIBOR rate margin varied from 4.25% to 5.25%, and the applicable base rate margin varied from 3.25% to 4.25%. Pursuant to the terms of the amendment to the Credit Agreement entered into as of April 15, 2015, the applicable LIBOR rate margin was changed to vary from 4.25% to 6.25%, and the applicable base rate margin was changed to vary from 3.25% to 5.25%. The term loan and line of credit mature on November 21, 2019 and provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. At closing, 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 of the Credit Agreement and unamortized debt financing costs and discount of $315,000 associated with the terminated debt was included in loss on early extinguishment of debt. Financing costs of $355,000

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 facility prohibits the Company from paying dividends on the common and preferred stock. Pursuant to the terms of the second amendment to the Credit Agreement entered into as of April 29, 2016, the Company is required to maintain minimum liquidity of at least $6,500,000 from April 29, 2016 through and including the maturity date of the credit facility.

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

For the four-quarter period ending	Minimum EBITDA
April 30, 2016	$3,000,000
July 31, 2016	1,500,000
October 31, 2016	250,000
January 31, 2017	0

For the four-quarter period ending April 30, 2017, and fiscal quarters thereafter, the minimum EBITDA will be determined within 30 days following delivery of, and based upon, the projections then most recently delivered by the Company.

As of April 30, 2016, the Company had no outstanding borrowings under the revolving line of credit, and had accrued $4,000 in unused line fees.

Outstanding principal balances on debt consisted of the following at:

	April 30, 2016	January 31, 2016
Senior term loan	$8,114,000	$8,535,000
Capital lease	469,000	686,000
Total	8,583,000	9,221,000
Less: Current portion	(2,879,000)	(1,266,000)
Non-current portion of debt	$5,704,000	$7,955,000

In May 2015, we used the proceeds received from the Unibased escrow fund to make a $750,000 payment of principal towards the senior term loan with Wells Fargo. In August 2015, we used the proceeds received in connection with the execution of a settlement agreement with FTI Consulting, Inc. (“FTI”) to make a $250,000 payment of principal towards the senior term loan with Wells Fargo. As a result of these prepayments, the schedule of future principal payments was revised to reduce each future principal payment on a pro rata basis.

Future principal repayments of debt consisted of the following at April 30, 2016:

	Senior Term Loan (1)	Capital Lease (2)	Total
2016	$2,244,000(3)	$390,000	$2,634,000
2017	898,000	93,000	991,000
2018	898,000	—	898,000
2019	4,326,000	—	4,326,000
Total repayments	$8,366,000	$483,000	$8,849,000

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(1)

Term loan balance on the condensed consolidated balance sheet is reported net of deferred financing costs of $252,000.

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

(3) Includes required prepayment of $1,738,000 made in May 2016. See Note 8 - Subsequent Events for further details.

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NOTE 6 — CONVERTIBLE PREFERRED STOCK

Series A Convertible Preferred Stock

At April 30, 2016, we had 2,949,995 shares of Series A Convertible Redeemable Preferred Stock (the “Preferred Stock”) outstanding. Each share of the Preferred Stock is convertible into one share of the Company's common stock. The Preferred Stock does not pay a dividend; however, the holders are entitled to receive dividends equal (on an as-if-converted-to-common-stock basis) to and in the same form as dividends (other than dividends in the form of common stock) actually paid on shares of the common stock. The Preferred Stock has voting rights on a modified as-if-converted-to-common-stock-basis. The Preferred Stock has a non-participating liquidation right equal to the original issue price plus accrued unpaid dividends, which are senior to the Company’s common stock. The Preferred Stock can be converted to common shares at any time by the holders, or at the option of the Company if the arithmetic average of the daily volume weighted average price of the common stock for the 10 day period prior to the measurement date is greater than $8.00 per share, and the average daily trading volume for the 60 day period immediately prior to the measurement date exceeds 100,000 shares. The conversion price is $3.00 per share, subject to certain adjustments.

At any time following August 31, 2016, 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 three months ended April 30, 2016 and 2015, we recorded federal tax benefit of zero and $8,000, respectively. For the three months ended April 30, 2016 and 2015, we recorded state and local tax expense of $2,000 and $4,000, respectively.

NOTE 8 — SUBSEQUENT EVENTS

We have evaluated subsequent events occurring after April 30, 2016, 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.

In May 2016, as a result of excess cash flows achieved as of January 31, 2016 and as required pursuant to the mandatory prepayment provisions of the Credit Agreement, we made a $1,738,000 payment of principal towards the senior term loan with Wells Fargo. The $1,738,000 prepayment is included in current portion of term loan on the condensed consolidated balance sheet as of April 30, 2016.

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

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

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

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Results of Operations

Revenues

(in thousands):	Three Months Ended April 30, 2016	April 30, 2015	Change	% Change
Systems Sales:				
Proprietary software - perpetual license	$18	$—	$18	100 %
Term license	361	288	73	25 %
Hardware and third-party software	131	10	121	1,210 %
Professional services	691	351	340	97 %
Maintenance and support	3,756	3,654	102	3 %
Software as a service	1,710	1,866	(156)	(8)%
Total Revenues	$6,667	$ 6,169	$498	8 %

Proprietary software and term licenses — Revenues from term licenses for the three months ended April 30, 2016 increased by $73,000 over the prior comparable period. This increase was primarily attributable to a new customer for Looking Glass® Clinical Analytics product in the third quarter of fiscal 2015, which resulted in revenue being recognized in the current quarter.

Hardware and third-party software — Revenues from hardware and third-party software sales for the three months ended April 30, 2016 increased by $121,000 over the prior comparable period. Fluctuations from period to period are a function of client demand.

Professional services — For the three-month period ended April 30, 2016, revenues from professional services increased $340,000 from the prior comparable period. The increase in the three-month period was primarily attributable to implementation services in connection with a sale of Coding and CDI perpetual license in the second quarter of fiscal 2015. In addition, fluctuations over periods result from the nature of recognizing professional services revenues once certain milestones are met.

Maintenance and support — Revenues from maintenance and support for the three months ended April 30, 2016 increased by $102,000 from the prior comparable period. The increase was primarily the result of a sale of Coding and CDI perpetual license in the second quarter of fiscal 2015, which resulted in revenue being recognized in the current quarter.

Software as a Service (SaaS) — Revenues from SaaS for the three months ended April 30, 2016 decreased by $156,000 from the prior comparable period. The decrease resulted from cancellations by three customers of our financial management solutions.

Cost of Sales

(in thousands):	Three Months Ended April 30, 2016	April 30, 2015	Change	% Change
Cost of systems sales	$745	$ 727	$ 18	2 %
Cost of professional services	639	771	(132)	(17)%
Cost of maintenance and support	858	817	41	5 %
Cost of software as a service	484	739	(255)	(35)%
Total cost of sales	$2,726	$ 3,054	$ (328)	(11)%

The decrease in cost of sales for the three months ended April 30, 2016 from the comparable prior period is primarily the result of decreased personnel expense related to professional services and SaaS operations, as well as a reduction in hosting service fees associated with moving some data previously held by a third-party to the Company's data

center.

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 increase in expense for the three-month period

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was primarily a result of increased sale of third-party hardware, and was partially offset by the decrease in amortization of capitalized software costs.
The cost of professional services includes compensation and benefits for personnel and related expenses. The decrease in expense over the three-month period is due to a decrease in personnel costs.
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 for the three-month period is primarily due to an increase in support personnel headcount.
The cost of software-as-a-service solutions is relatively fixed, subject to inflation for the goods and services it requires. The decrease in the three-month period was primarily related to a reduction in SaaS personnel costs and in hosting service fees, as a result of moving data previously held by a third-party to the Company's data center.
Selling, General and Administrative Expense

(in thousands):	Three Months Ended April 30, 2016	April 30, 2015	Change	% Change
General and administrative expenses	$2,455	$ 3,351	$ (896)	(27)%
Sales and marketing expenses	1,144	1,155	(11)	(1)%
Total selling, general, and administrative expense	$3,599	$ 4,506	$ (907)	(20)%

General and administrative expenses consist primarily of compensation and related benefits, reimbursable travel and entertainment expenses related to our executive and administrative staff, general corporate expenses, amortization of intangible assets, and occupancy costs. The decrease for the three months ended April 30, 2016 from the comparable prior period was primarily due to a reduction in professional fees.
Sales and marketing expenses consist primarily of compensation and related benefits and reimbursable travel and entertainment expenses related to our sales and marketing staff, as well as advertising and marketing expenses, including trade shows. The decrease in sales and marketing expense is primarily due to a decrease in professional fees.
Product Research and Development

(in thousands):	Three Months Ended April 30, 2016	April 30, 2015	Change	% Change
Research and development expense	$1,722	$ 2,224	$ (502)	(23)%
Plus: Capitalized research and development cost	498	—	498	100 %
Total research and development cost	$2,220	$ 2,224	$ (4)	— %

Product research and development cost consists primarily of compensation and related benefits, the use of independent contractors for specific near-term development projects, and an allocated portion of general overhead costs, including occupancy. Total research and development cost for the three-month period ended April 30, 2016 remained consistent with the prior comparable period. The decrease in research and development expense is a result of an increase in research and development costs in the current period that meet the requirements for capitalization. The Company's software development efforts during fiscal year 2015 were focused on stabilizing and maintaining our suite of software solutions. Those efforts did not meet the requirements for capitalization of software development costs. In the current fiscal year, however, the Company has rebalanced software development efforts to focus on innovation that addresses future client needs and drives higher quality in the value-based world our clients operate in. These enhancement efforts do meet the requirements for capitalization. Research and development expenses for the three months ended April 30, 2016 and 2015, as a percentage of revenues, were 26% and 36%, respectively.

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Other Income (Expense)

(in thousands):	Three Months Ended April 30, 2016	April 30, 2015	Change	% Change
Interest expense	$(162)	$(244)	$82	(34)%
Miscellaneous income	66	1,989	(1,923)	(97)%
Total other income (expenses)	$(96)	$1,745	$(1,841)	(106)%

Interest expense consists of interest and commitment fees on the line of credit, interest on the term loans, and is inclusive of deferred financing cost amortization expense. Interest expense decreased for the three months ended April 30, 2016 over the prior comparable period due to the lower principal outstanding. Miscellaneous income for the three months ended April 30, 2016 and 2015 was $66,000 and $1,989,000, respectively. The decrease in miscellaneous income was primarily due to the warrant valuation adjustment, which is driven by the Company's stock price, as well as the receipt of $750,000 in cash from the Unibased escrow in the first quarter of fiscal 2015.

Provision for Income Taxes

We recorded tax (expense) benefit of $(2,000) and $4,000, respectively, for the three months ended April 30, 2016 and 2015, which is comprised of estimated federal, state and local tax provisions.

Backlog

	April 30, 2016	April 30, 2015
Company proprietary software	$21,410,000	$25,347,000
Third-party hardware and software	200,000	113,000
Professional services	5,480,000	8,046,000
Maintenance and support	20,793,000	19,616,000
Software as a service	14,820,000	21,465,000
Total	$62,703,000	$74,587,000

At April 30, 2016, 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 $62,703,000 compared with $74,587,000 at April 30, 2015.

Our proprietary software backlog consists of signed agreements to purchase either perpetual software licenses or term licenses. Typically, perpetual licenses included in backlog are either not yet generally available or the software is generally available and the client has not taken possession of the software. Term licenses included in backlog consist of signed agreements where the client has already taken possession, but the payment for the software is bundled with maintenance and support fees over the life of the contract. The decrease in backlog is due to the run-off of previous backlog exceeding renewals and net new contracts.

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. 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 is a result of progress made on existing backlog projects, which is also reflected in first quarter professional services revenue.

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. The Company does not expect any significant client attrition over the next 12 months. Maintenance and support backlog at April 30, 2016 was $20,793,000 as compared to $19,616,000 at April 30, 2015. The increase in maintenance and support is due to new contracts and renewals exceeding revenue recognized during the interim period.

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At April 30, 2016, we were a party to SaaS agreements that are expected to generate revenues of $14,820,000 through their respective renewal dates in fiscal years 2016 through 2020. 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 estimate the timing of revenue that we will recognize in future periods from SaaS agreements.

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 the failure of the Company to procure additional agreements, could have a material adverse effect on our financial condition and results of operations.

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Use of Non-GAAP Financial Measures

To provide investors with greater insight, and to 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 review carefully this reconciliation. In addition, because these non-GAAP measures are not measures of financial performance under GAAP and are susceptible to varying calculations, these measures, as defined by us, may differ from and may not be comparable to similarly titled measures used by other companies.

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

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

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

Our lender uses a measurement that is similar to the Adjusted EBITDA measurement described herein to assess our operating performance. Under our credit agreement, we are required to deliver reports certifying compliance with financial covenants, certain of which are based on this measurement that is similar to the Adjusted EBITDA measurement reviewed by our management and board of directors.

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

- EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
-

EBITDA does not reflect the interest expense, or the cash requirements to service interest or principal payments under our credit agreement;

- EBITDA does not reflect income tax payments that we may be required to make; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

Adjusted EBITDA has all the inherent limitations of EBITDA. To properly and prudently evaluate our business, we encourage readers to review the GAAP financial statements included elsewhere in this quarterly report on Form 10-Q, and not

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rely on any single financial measure to evaluate our business. We also strongly urge readers to review the reconciliation of these non-GAAP financial measures to the most comparable GAAP measure in this section, along with the Condensed Consolidated Financial Statements included elsewhere in this quarterly report on Form 10-Q.
The following table sets forth a reconciliation of EBITDA and Adjusted EBITDA to net loss, a comparable GAAP-based measure, as well as Adjusted EBITDA per diluted share to loss per diluted share. All of the items included in the reconciliation from EBITDA and Adjusted EBITDA to net loss and the related per share calculations are either recurring non-cash items, or items that management does not consider in assessing our on-going operating performance. In the case of the non-cash items, management believes that investors may find it useful to assess our comparative operating performance because the measures without such items are less susceptible to variances in actual performance resulting from depreciation, amortization and other expenses that do not relate to our core operations and are more reflective of other factors that affect operating performance. In the case of items that do not relate to our core operations, management believes that investors may find it useful to assess our operating performance if the measures are presented without these items because their financial impact does not reflect ongoing operating performance.

In thousands, except per share data	Three Months Ended April 30, 2016	Three Months Ended April 30, 2015
Net loss	$(1,478)	$(1,866)
Interest expense	162	244
Income tax expense (benefit)	2	(4)
Depreciation	321	314
Amortization of capitalized software development costs	716	782
Amortization of intangible assets	325	337
Amortization of other costs	43	43
EBITDA	91	(150)
Share-based compensation expense	477	652
Loss on disposal of fixed assets	1	34
Associate severances and other costs relating to transactions or corporate restructuring	—	140
Non-cash valuation adjustments to assets and liabilities	8	(1,223)
Transaction related professional fees, advisory fees, and other internal direct costs	19	12
Other non-recurring income	—	(750)
Adjusted EBITDA	$596	$(1,285)
Adjusted EBITDA margin (1)	9%	(21)%
Loss per share — diluted	$(0.10)	$(0.12)
Adjusted EBITDA per adjusted diluted share (2)	$0.03	$(0.07)
Diluted weighted average shares	18,995,289	18,600,957
Includable incremental shares — adjusted EBITDA (3)	3,251,455	—
Adjusted diluted shares	22,246,744	18,600,957

(1) Adjusted EBITDA as a percentage of GAAP net revenues.
(2) Adjusted EBITDA per adjusted diluted share for our common stock is computed using the more dilutive of the two-class method or the if-converted method.
(3) The number of incremental shares that would be dilutive under 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

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policy to be critical if the accounting policy requires management to make particularly difficult, subjective or complex judgments about matters that are inherently uncertain. A summary of our critical accounting policies is included in Note 2 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 31, 2016. 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, 2016.

Liquidity and Capital Resources

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

Operations are funded 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 April 30, 2016 and January 31, 2016 were $6,516,000 and $9,882,000, respectively. The decrease in cash was primarily the result of significant payments made towards payroll and accounts payable during the first fiscal quarter. As of April 30, 2016, we had $8,936,000 in accounts receivable, of which $4,691,000 is in deferred revenue and, therefore, is not reflected on the condensed consolidated balance sheet.

The Company has additional liquidity through the Credit Agreement described in more detail in Note 5 to our condensed consolidated financial statements included herein. The Company's primary operating subsidiary has a $5,000,000 revolving line of credit that has not been drawn upon as of the date of this report. In order to draw upon the revolving line of credit, the Company's primary operating subsidiary must comply with customary financial covenants, including the requirement that the Company maintain minimum liquidity of at least $6,500,000 from April 29, 2016 through and including the maturity date of the credit facility. Pursuant to the Credit Agreement's definition, the liquidity of the Company's primary operating subsidiary as of April 30, 2016 was $11,516,000, which satisfies the minimum liquidity financial covenant in the Credit Agreement.

The Credit Agreement also requires the Company to achieve certain minimum EBITDA levels, calculated pursuant to the Credit Agreement and measured on a quarter-end basis, of at least the required amounts in the relevant table set forth in Note 5 to our condensed consolidated financial statements included in Part I, Item1 herein for the applicable period set forth therein. The required minimum EBITDA level for the period ended April 30, 2016 was $3,000,000. The Company was in compliance with the applicable loan covenants at April 30, 2016. Based upon the borrowing base formula set forth in the Credit Agreement, as of April 30, 2016, the Company had access to the full amount of the $5,000,000 revolving line of credit.

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

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)

	April 30, 2016	January 31, 2016
Term loans (1)	$8,114	$8,535
Capital leases (1)	469	686
Royalty liability (2)	2,327	2,292

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

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

Operating cash flow activities

(in thousands)	Three Months Ended April 30, 2016	April 30, 2015
Net loss	$(1,478)	$(1,866)
Non-cash adjustments to net loss	1,981	1,027
Cash impact of changes in assets and liabilities	(2,962)	(220)
Operating cash flow	$(2,459)	$(1,059)

The increase in net cash used by operating activities is primarily due to the decrease in deferred revenues as a result of reduced advanced collection as of the quarter end compared to prior to the first fiscal quarter, when a significant number of customer contracts renew.

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

Investing cash flow activities

(in thousands)	Three Months Ended April 30, 2016	April 30, 2015
Purchases of property and equipment	$(12)	$ (16)
Capitalized software development costs	(498)	—
Investing cash flow	$(510)	$ (16)

The increase in cash used for investing activities in the three months ended April 30, 2016 compared to the prior year period is primarily a result of incurring internal software development costs which were eligible for capitalization. In prior year, our development efforts focused on solutions involving development costs that did not qualify for capitalization due to rapid release cycles.

Financing cash flow activities

(in thousands)	Three Months Ended April 30, 2016	April 30, 2015
Principal repayments on term loan	$(168)	$ (125)
Principal payments on capital lease obligations	(217)	(199)
Return of shares of common stock in connection with the vesting or exercise of equity incentive awards	(12)	—
Recovery of deferred financing costs	—	2
Proceeds from the exercise of stock options and stock purchase plans	—	143
Financing cash flow	$(397)	$ (179)

The increase in cash used in financing activities in the three months ended April 30, 2016 over the prior year period was primarily the result of a decrease in proceeds from the exercise of stock options.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents totaling $6,516,000 as of April 30, 2016. 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 on our deposit accounts given the historically low levels of interest being earned on short-term fixed-rate cash operating accounts.

We had outstanding borrowings on our term loan of $8,114,000 as of April 30, 2016. The term loan bears interest at LIBOR plus an applicable margin. To the extent we do not hedge our variable rate debt, interest rates and interest expense could increase significantly. A hypothetical 100 basis point increase in LIBOR, which would represent potential interest rate change exposure on our outstanding term loan, would have resulted in an increase of approximately $21,000 to our interest expense for the three-month period ended April 30, 2016.

Foreign Currency Exchange Risk

Certain of our contracts are denominated in Canadian dollars. As our Canadian sales historically have not been significant to our operations, we do not believe that changes in the Canadian dollar relative to the U.S. dollar will have a significant impact on our financial condition, results of operations or cash flows. We currently do not transact any other business in any currency other than the U.S. dollar. As we continue to grow our operations, we may increase the amount of our sales to foreign clients. Although we do not expect foreign currency exchange risk to have a significant impact on our future operations, we will assess the risk on a case-specific basis to determine whether any forward currency hedge instrument would be warranted.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

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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. Other than the matter described below, the Company is not aware of any legal matters that could have a material adverse effect on the Company's consolidated results of operations, financial position, or cash flows.

On February 12, 2014, the Company entered into a strategic alliance agreement with CentraMed, Inc. ("CentraMed"). On May 6, 2014, the Company signed an asset purchase agreement with CentraMed. This purchase agreement provided for the Company's purchase of substantially all of CentraMed's assets related to its business of providing healthcare analytics and consulting services to hospitals, physicians, and other providers. The agreement provided the Company the right to terminate the agreement in a number of circumstances, including if the Company was not satisfied, in its sole and absolute discretion, with the results of its due diligence review; the Company's senior lender did not consent to the transactions contemplated by the agreement; or the Company's Board did not authorize the transactions contemplated by the agreement. On January 12, 2015, the Company terminated the purchase agreement in accordance with its termination rights.

On March 9, 2015, CentraMed asserted claims against the Company for relief for breach of contract, misrepresentation, tortious interference with contracts and prospective economic relationships and bad faith in connection with the strategic alliance agreement and the asset purchase agreement. On March 24, 2015, the Company sent CentraMed a letter rejecting the aforementioned claims and denying any liability to CentraMed. As of June 8, 2016, CentraMed has not responded in writing to the Company's letter. The Company intends to contest vigorously any action instituted against it by CentraMed. Because of the many questions of fact and law that may arise, the outcome of this matter is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this matter and, accordingly, we have not accrued any liability associated with this matter.

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, 2016 and 2015, our five largest clients accounted for 28% and 24% of our total revenues, respectively. If one or more clients terminate all or any portion of a master agreement or delay installations or if we fail to procure additional agreements, there could be a material adverse effect on our business, financial condition and results of operations.

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

If new or existing clients purchase significant amounts of our SaaS services, we may have to expend a significant amount of initial setup costs and time before those new clients are able to begin using such services, and we cannot begin to recognize revenues from those SaaS agreements until the commencement of such services. Accordingly, we anticipate that our near term cash flow, revenue and profitability may be adversely affected by significant incremental setup costs from new SaaS clients that would not be offset by revenue until new SaaS clients go into production. While we anticipate long-term growth in profitability through increases in recurring SaaS subscription fees and

significantly improved profit visibility, any inability to adequately finance setup costs for new SaaS solutions could result in the failure to put new SaaS solutions into production, and could have a material adverse effect on our liquidity, financial position and results of operations. In addition, this near term cash flow demand could adversely impact our financial flexibility and cause us to forego otherwise attractive business opportunities or investments.

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

The healthcare industry is highly regulated. Any material changes in the political, economic or regulatory healthcare environment that affect the group purchasing business or the purchasing practices and operations of healthcare organizations, or that lead to consolidation in the healthcare industry, could require us to modify our services or reduce the funds available to providers to purchase our solutions and services.
Our business, financial condition and results of operations depend upon conditions affecting the healthcare industry generally and hospitals and health systems particularly. Our ability to grow will depend upon the economic environment of the healthcare industry 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 is an important competitive factor. If we are unable to keep pace with changing conditions and new developments, we will not be able to compete successfully in the future against existing or potential competitors.

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

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

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

Our intellectual property, which represents an important asset to us, has some protection against infringement through copyright and trademark law. We generally have little patent protection on our software. We rely upon license agreements, employment agreements, confidentiality agreements, nondisclosure agreements and similar agreements to maintain the confidentiality of our proprietary information and trade secrets. Notwithstanding these precautions, others may copy, reverse engineer or 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, successful or unsuccessful, may result in substantial cost and require significant attention by management and technical personnel.

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

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

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

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

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

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

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

- unanticipated expenses related to acquired businesses or technologies and their integration into our existing businesses or technology;
- the diversion of financial, managerial, and other resources from existing operations;
- the risks of entering into new markets in which we have little or no experience or where competitors may have stronger positions;

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- potential write-offs or amortization of acquired assets or investments;
- the potential loss of key employees, clients, or partners of an acquired business;
- delays in client purchases due to uncertainty related to any acquisition;
- potential unknown liabilities associated with an acquisition; and
- the tax effects of any such acquisitions.

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

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

Third party products are essential to our software.

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

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

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

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

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

Our SaaS and support services could experience interruptions.

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

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

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

Our future success depends upon our ability to grow, and if we are unable to manage our growth effectively, we may incur unexpected expenses and be unable to meet our clients' requirements.
We will need to expand our operations if we successfully achieve greater demand for our products and services. We cannot be certain that our systems, procedures, controls and human resources will be adequate to support expansion of our operations. Our future operating results will depend on the ability of our officers and employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. We may not be able to expand and upgrade our systems and infrastructure to accommodate these increases. Difficulties in managing any future growth, including as a result of integrating any prior or future acquisition with our existing businesses, could cause us to incur unexpected expenses, 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 have no or limited availability to such external capital, in which case our future prospects may be materially impaired. Furthermore, we may not be able to access external sources of capital on reasonable or favorable terms. Our business operations could be subject to both financial and operational covenants that may limit the activities we may undertake, even if we believe they would benefit our company.

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

We must maintain compliance with the terms of our existing credit facilities or receive a waiver for any non-compliance. The failure to 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 November 2014, we entered into a Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, N.A., as administrative agent, and other lender parties thereto. Pursuant to the Credit Agreement, the lenders agreed to provide

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a $10,000,000 senior term loan and a $5,000,000 revolving line of credit to our primary operating subsidiary. At closing, 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 of the Credit Agreement. The Credit Agreement includes customary financial covenants, including the requirements that the Company maintain certain minimum liquidity and achieve certain minimum EBITDA levels. On April 15, 2015, we received a waiver from the lender for noncompliance with the minimum EBITDA covenant at January 31, 2015. Pursuant to the terms of the waiver and amendment to the Credit Agreement, from April 30, 2016 and each quarter thereafter, we must reach agreement with the lenders as to the minimum applicable amount of EBITDA we are required to achieve based on the most recent financial projections we submit to the lenders under the Credit Agreement. If we are unable to reach agreement with the lenders, or if the lenders do not approve our projections, we will be in immediate breach of the minimum EBITDA covenant. Pursuant to the terms of the second amendment to the Credit Agreement entered into as of April 29, 2016, the Company is required to maintain minimum liquidity of at least $6,500,000 from April 29, 2016 through and including the maturity date of the credit facility. The Company was in compliance with the applicable loan covenants at April 30, 2016.
If we do not maintain compliance with all of the continuing covenants and other terms and conditions of the credit facility or secure a waiver for any non-compliance, we could be required to repay outstanding borrowings on an accelerated basis, which could subject us to decreased liquidity and other negative impacts on our business, results of operations and financial condition. Furthermore, if we needed to do so, it may be difficult for us to find an alternative lending source. In addition, because our assets are pledged as a security under our credit facilities, if we are not able to cure any default or repay outstanding borrowings, our assets are subject to the risk of foreclosure by our lenders. Without a sufficient credit facility, we would be adversely affected by a lack of access to liquidity needed to operate our business. Any disruption in access to credit could force us to take measures to conserve cash, such as deferring important research and development expenses, which measures could have a material adverse effect on us.

Our outstanding preferred stock and warrants have significant redemption and repayment rights that could have a material adverse effect on our liquidity and available financing for our ongoing operations.
In August 2012, we completed a private offering of preferred stock, warrants and convertible notes to a group of investors for gross proceeds of $12 million. In November 2012, the convertible notes converted into shares of preferred stock. The preferred stock is redeemable at the option of the holders thereof anytime after August 31, 2016 if not previously converted into shares of common stock. We may not achieve the thresholds required to trigger automatic conversion of the preferred stock and, alternatively, holders may not voluntarily elect to convert the preferred stock into common stock. The election of the holders of our preferred stock to redeem the preferred stock could subject us to decreased liquidity and other negative impacts on our business, results of operations, and financial condition. Under the terms of the Subordination and Intercreditor Agreement among the preferred stockholders, the Company and Wells Fargo, our obligation to redeem the preferred stock is subordinated to our obligations under the senior term loan. For additional information regarding the terms, rights and preferences of the preferred stock and warrants, see Note 14 to our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2016 and our other SEC filings.

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

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

The variability of our quarterly operating results can be significant.

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

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

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

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

Our operations are subject to foreign currency exchange rate risk.
In connection with our expansion into foreign markets, which primarily consists of Canada, we sometimes receive payment in currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect our net sales and gross margins from our non-U.S. dollar denominated revenue, as expressed in U.S. dollars. There is also a risk that we will have to adjust the pricing of solutions denominated in foreign currencies when there has been significant volatility in foreign currency exchange rates.

Risks Relating to an Investment in Our Securities

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

- General economic and market conditions;

- Actual or anticipated variations in annual or quarterly operating results;

- Lack of or negative research coverage by securities analysts;

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

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- Additions or departures of key personnel; and

- Sales and repurchases of our common stock by us, our officers and directors or our significant stockholders, if any.

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

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

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

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.
We are generally not restricted from issuing in public or private offerings additional shares of common stock or preferred stock (except for certain restrictions under the terms of our outstanding preferred stock), and other securities that are convertible into or exchangeable for, or that represent a right to receive, common stock or preferred stock or any substantially similar securities. Such offerings represent the potential for a significant increase in the number of outstanding shares of our common stock. The market price of our common stock could decline as a result of sales of common stock 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 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 our common stock could be adversely affected.
As of April 30, 2016, we had 2,949,995 shares of preferred stock outstanding. For additional information regarding the terms, rights and preferences of such stock, see Note 14 to our consolidated financial statements included in the

Annual Report on Form 10-K for the fiscal year ended January 31, 2016 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

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common stock will depend upon any future appreciation in its value. The trading price of our common stock could decline and you could lose all or part of your investment.

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

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

Item 6. EXHIBITS
See Index to Exhibits.

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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: June 8, 2016	By:	/S/ David W. Sides
		David W. Sides
		Chief Executive Officer
DATE: June 8, 2016	By:	/S/ Nicholas A. Meeks
		Nicholas A. Meeks
		Chief Financial Officer

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Exhibit No.	Description of Exhibit
10.1*	Second Amendment to Credit Agreement dated as of April 29, 2016 by and among Wells Fargo Bank, N.A., the lenders party thereto, Streamline Health Solutions, Inc. and Streamline Health, Inc.
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 April 30, 2016 filed with the SEC on June 8, 2016, formatted in XBRL includes: (i) Condensed Consolidated Balance Sheets at April 30, 2016 and January 31, 2016, (ii) Condensed Consolidated Statements of Operations for three-month periods ended April 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive Loss for three-month periods ended April 30, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the three-month periods ended April 30, 2016 and 2015, 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.