MVB FINANCIAL CORP
Form 10QSB
November 08, 2006

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended SEPTEMBER 30, 2006

OR

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______.

Commission File number 333-120931

MVB Financial Corp.

(Exact name of small business issuer as specified in its charter)

West Virginia	**20-0034461**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(Address of principal executive offices)

304-363-4800

(Issuer s telephone number)

Not Applicable

(Former name, address, and fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ¨

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

As of November 8, 2006, the number of shares outstanding of the issuer s only class of common stock was 1,467,849.

Transitional Small Business format (check one): Yes ¨ No x

MVB Financial Corp.

Part I. Financial Information

Item 1. Financial Statements

The unaudited interim consolidated financial statements of MVB Financial Corp. and Subsidiaries (MVB or the Company) listed below are included on pages 2-7 of this report.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations is included on pages 8-18 of this report.

Item 3. Controls and Procedures

Part II. Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Item 5. Other Information

Item 6. Exhibits

Part I. Financial Information

Item 1. Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except Share and Per Share Data)

	September 30 2006 (Unaudited)	December 31 2005 (Note 1)
Assets		
Cash and due from banks	$ 4,229	$ 3,130
Interest bearing balances FHLB	36	2,723
Certificates of deposit in other banks		891
Investment securities:		
Securities held-to-maturity, at cost	2,328	3,608
Securities available-for-sale, at approximate market value	25,465	24,926
Loans:	130,916	105,214
Less: Allowance for loan losses	(1,099)	(873)
Net loans	129,817	104,341
Loans held for sale	1,076	
Bank premises, furniture and equipment, net	5,455	5,626
Accrued interest receivable and other assets	6,834	6,089
Total assets	$ 175,240	$ 151,334
Liabilities		
Deposits		
Non-interest bearing	$ 17,483	$ 13,521
Interest bearing	102,736	100,432
Total deposits	120,219	113,953
Accrued interest, taxes and other liabilities	853	552
Repurchase agreements and federal funds sold	22,671	15,309
Federal Home Loan Bank borrowings	10,173	3,002
Total liabilities	153,916	132,816
Stockholders equity		
Preferred stock, $1,000 par value, 5,000 shares authorized; none issued		
Common stock, $1 par value, 4,000,000 authorized, 1,467,849 and 1,336,517 issued and outstanding, respectively	1,468	1,336
Additional paid-in capital	17,720	15,750
Accumulated other comprehensive income (loss)	(382)	(443)
Retained earnings	2,532	1,885
Treasury Stock	(14)	(10)
Total stockholders equity	21,324	18,518
Total liabilities and stockholders equity	$ 175,240	$ 151,334

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

(Unaudited) (Dollars in Thousands except Share and Per Share Data)

	Nine Months Ended September 30		Three Months Ended September 30	
	2006	2005	2006	2005
Interest income				
Interest and fees on loans	$ 6,061	$ 3,864	$2,265	$ 1,406
Interest on deposits with other banks	25	77	1	10
Interest on federal funds sold		4		
Interest on investment securities taxable	836	562	283	186
Interest on tax exempt loans and securities	246	173	85	68
Total interest income	7,168	4,680	2,634	1,670
Interest expense				
Deposits	2,245	1,242	817	453
Repurchase agreements and federal funds sold	486	148	200	65
Federal Home Loan Bank borrowings	332	149	174	50
Total interest expense	3,063	1,539	1,191	568
Net interest income	4,105	3,141	1,443	1,102
Provision for loan losses	284	110	122	55
Net interest income after provision for loan losses	3,821	3,031	1,321	1,047
Other income				
Service charges on deposit accounts	434	329	145	109
Income on bank owned life insurance	112	64	39	37
Visa debit card income	123	82	43	28
Origination fees on mortgages sold	153	50	82	37
Other operating income	65	40	29	27
Loss on sale of securities	(4)	(5)		
Total other income	883	560	338	238
Other expense				
Salary and employee benefits	2,169	1,757	732	681
Occupancy expense	281	148	94	56
Equipment expense	234	176	77	67
Data processing	467	362	161	132
Advertising	73	53	42	17
Legal and accounting fees	67	54	29	17
Printing, stationery and supplies	67	66	18	31
Other taxes	70	63	26	21
Other operating expenses	401	313	124	134
Total other expense	3,829	2,992	1,303	1,156
Income before income taxes	875	599	356	129
Income tax expense	227	174	97	29

Net income	$	648	$	425		$259	$	100
Basic net income per share	$	0.46	$	0.48		$0.18	$	0.09
Diluted net income per share	$	0.41	$	0.47		$0.16	$	0.08
Basic weighted average shares outstanding		1,414,551		887,519		1,467,849		1,168,331
Diluted weighted average shares outstanding		1,574,852		912,126		1,628,150		1,192,938

MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

	Nine Months Ended September 30 2006	Nine Months Ended September 30 2005
Operating activities		
Net income	$ 648	$ 425
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	284	110
Depreciation	234	112
Loans originated for sale	(8,942)	(5,080)
Proceeds of loans sold	7,867	4,781
Amortization, net of accretion	33	77
(Increase)/decrease in interest receivable and other assets	(853)	(2,716)
Increase in accrued interest, taxes, and other liabilities	300	53
Net cash used in operating activities	(429)	(2,238)
Investing activities		
(Increase)/decrease in loans made to customers	(25,761)	(14,569)
Purchases of premises and equipment	(62)	(2,385)
Decrease/(increase) in deposits with Federal Home Loan Bank, net	2,686	(1,762)
Purchases of certificates of deposit with other banks	(594)	(2,079)
Proceeds from maturity of certificates of deposit with other Banks	1,485	3,664
Purchases of investment securities available-for-sale	(3,900)	(3,890)
Proceeds from sales, maturities and calls of securities available-for-sale	4,570	3,479
Proceeds from maturities and calls of securities held-to-maturity	209	33
Net cash used in investing activities	(21,367)	(17,509)
Financing activities		
Net increase in deposits	6,265	9,730
Net increase in repurchase agreements and federal funds sold	7,362	3,390
Net increase/(decrease) in Federal Home Loan Bank Borrowings	7,171	(121)
Proceeds of stock offering	2,101	8,526
Purchase of treasury stock	(4)	(1)
Net cash provided by financing activities	22,895	21,524
Increase in cash and cash equivalents	1,099	1,777
Cash and cash equivalents - beginning of period	3,130	2,153
Cash and cash equivalents - end of period	$ 4,229	$ 3,930
Cash payments for:		
Interest on deposits, repurchase agreements and FHLB borrowings	$ 3,033	$ 1,510
Income taxes	$ 200	$ 636

Cost of professional services
986,425

974,462

Cost of maintenance and support
960,186

984,588

Cost of software as a service
771,579

579,080

Selling, general and administrative
4,640,456

3,580,867

Research and development
2,350,443

1,097,010

Total operating expenses
10,544,557

7,854,604

Operating loss
(3,593,387
)

(1,381,266
)
Other income (expense):

Interest expense
(169,478
)

(566,565
)
Miscellaneous income (expense)
1,092,771

(742,265
)
Loss before income taxes
(2,670,094
)

(2,690,096
)
Income tax expense
(1,145
)

(19,750
)
Net loss
(2,671,239
)

(2,709,846
)
Less: deemed dividends on Series A Preferred Shares
(229,766
)

(341,637
)
Net loss attributable to common shareholders
$
(2,901,005
)

$
(3,051,483
)
Basic net loss per common share
$
(0.16
)

$
(0.24
)
Number of shares used in basic per common share computation
18,146,232

12,534,474

Diluted net loss per common share
$
(0.16
)

$
(0.24
)
Number of shares used in diluted per common share computation
18,146,232

12,534,474

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENDSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Three Months Ended April 30,
(Unaudited)

	Three Months Ended	
	2014	2013
Net loss	(2,671,239)	$(2,709,846)
Other comprehensive loss, net of tax:		
Fair value of interest rate swap liability	(21,714)	—
Comprehensive loss	$(2,692,953)	$(2,709,846)

See accompanying notes to condensed consolidated financial statements.

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended April 30,
(Unaudited)

	Three Months Ended	
	2014	2013
Operating activities:		
Net loss	$(2,671,239)	$(2,709,846)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	150,660	171,443
Amortization of capitalized software development costs	916,868	694,689
Amortization of intangible assets	358,879	314,488
Amortization of other deferred costs	38,838	82,814
Valuation adjustment for warrants liability	(1,138,021)	645,354
Share-based compensation expense	442,876	467,401
Other valuation adjustments	38,200	—
Changes in assets and liabilities, net of assets acquired:		
Accounts and contract receivables	528,680	38,880
Other assets	(927,325)	(414,056)
Accounts payable	(142,824)	(768,793)
Accrued expenses	(378,084)	(632,741)
Deferred revenues	(1,161,803)	(598,984)
Net cash used in operating activities	(3,944,295)	(2,709,351)
Investing activities:		
Purchases of property and equipment	(592,498)	(78,516)
Capitalization of software development costs	(193,379)	(460,177)
Payment for acquisition, net of cash received	(5,890,402)	—
Net cash used in investing activities	(6,676,279)	(538,693)
Financing activities:		
Principal repayments on term loan	(202,380)	(312,501)
Principal payments on capital lease obligation	(23,985)	—
Payment of deferred financing costs	(112,800)	—
Proceeds from exercise of stock options and stock purchase plan	592	61,512
Net cash used in financing activities	(338,573)	(250,989)
Decrease in cash and cash equivalents	(10,959,147)	(3,499,033)
Cash and cash equivalents at beginning of period	17,924,886	7,500,256
Cash and cash equivalents at end of period	$6,965,739	$4,001,223

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATMENTS
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION
The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. (“we”, “us”, “our”, or the “Company”), pursuant to the rules and regulations applicable to quarterly reports on Form 10-Q of the U.S. Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. These Condensed Consolidated Financial Statements should be read in conjunction with the 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, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2015.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Our significant accounting policies are presented in “Note 2 – Significant Accounting Policies” in the fiscal year 2013 Annual Report on Form 10-K. Users of financial information for interim periods are encouraged to refer to the footnotes contained in the Annual Report on Form 10-K when reviewing interim financial results.
Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Fair Value of Financial Instruments
The FASB’s authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.
The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments. Cash and cash equivalents are classified as Level 1. The carrying amount of our long-term debt approximates fair value since the interest rates being paid on the amounts approximate the market interest rate. Long-term debt and the interest rate swap are classified as Level 2. The initial fair value of contingent consideration for earn-out, royalty liability, and warrants liability was determined by management with the assistance of an independent third-party valuation specialist, and by management thereafter. We used a binomial model and the Black-Scholes option pricing model to estimate the fair value of the contingent consideration for earn-out and warrants liability, respectively. The fair value of the royalty liability is determined based on the probability-weighted revenue scenarios for the Clinical Looking Glass® solution licensed from Montefiore Medical Center (discussed below). The contingent consideration for royalty liability and warrants liability are classified as Level 3.
Revenue Recognition
We derive revenue from the sale of internally-developed software either by licensing or by software as a service (“SaaS”), through the direct sales force or through third-party resellers. Licensed, locally-installed clients utilize our support and maintenance services for a separate fee, whereas SaaS fees include support and maintenance. We also derive revenue from professional services that support the implementation, configuration, training, and optimization

of the applications. Additional revenues are also derived from reselling third-party software and hardware components.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

Multiple Element Arrangements

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

Terms used in evaluation are as follows:

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

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

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

Software as a Service

We use ESP to determine the value for a software as a service arrangement as we cannot establish VSOE and TPE is not a practical alternative due to differences in functionality from our competitors. Similar to proprietary license sales, pricing decisions rely on the relative size of the client purchasing the solution and include calculating the equivalent value of maintenance and support on a present value basis over the term of the initial agreement period. Typically revenue recognition commences upon client go live on the system and is recognized ratably over the contract term. The software portion of SaaS for Health Information Management ("HIM") products does not need material modification to achieve its contracted function. The software portion of SaaS for our Patient Financial Services ("PFS") products require material customization and setup processes to achieve their contracted function.

System Sales

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

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

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

Maintenance and Support Services

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

Term Licenses

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

Professional Services

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

Professional services components that are essential to the functionality of the software and are not considered a separate unit of accounting are recognized in revenue ratably over the life of the client, which approximates the duration of the initial contract term. We defer the associated direct costs for salaries and benefits expense for professional services contracts. As of April 30, 2014 and January 31, 2014, we had deferred costs of $599,000 and $441,000, respectively. These deferred costs will be amortized over the identical term as the associated SaaS revenues. Amortization expense of these costs was $27,000 and $45,000 for the three months ended April 30, 2014 and 2013, respectively.

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

Severances

From time to time, we enter into termination agreements with associates that may include supplemental cash payments, as well as contributions to health and other benefits for a specific time period subsequent to termination. For the three months ended April 30, 2014 and 2013, we incurred $451,000 and $383,000 in severance expenses, respectively. At April 30, 2014 and January 31, 2014, we had accrued severances of $393,000 and zero, respectively.

Equity Awards

We account for share-based payments based on the grant-date fair value of the awards with compensation cost recognized as expense over the requisite vesting period. We incurred total compensation expense related to stock-based awards of $443,000 and $467,000 for the three months ended April 30, 2014 and 2013, respectively. The fair value of the stock options granted have been estimated at the date of grant using a Black-Scholes option pricing model. The option pricing model inputs such as expected term, expected volatility, and risk-free interest rate impact the fair value estimate. Further, the forfeiture rate impacts the amount of aggregate compensation. These assumptions are subjective and are generally derived from external (such as, risk-free rate of interest) and historical data (such as, volatility factor, expected term, and forfeiture rates). Future grants of equity awards accounted for as stock-based compensation could have a material impact on reported expenses depending upon the number, value and vesting period of future awards.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Income Taxes

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

We provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether certain tax positions are more likely than not to be sustained upon examination by tax authorities. We believe we have appropriately accounted for any uncertain tax positions.

Net Earnings (Loss) Per Common Share

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

Our unvested restricted stock awards and Series A Convertible Preferred stock are considered participating securities under ASC 260, Earnings Per Share, which means the security may participate in undistributed earnings with common stock. Our unvested restricted stock awards are considered participating securities because they entitle holders to non-forfeitable rights to dividends or dividend equivalents during the vesting term. The holders of the Series A 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 stock holders, earnings are allocated to both common and participating securities based on their respective weighted-average shares outstanding for the period. Diluted EPS for our common stock is computed using the more dilutive of the two-class method or the if-converted method.

In accordance with ASC 260, securities are deemed to not be participating in losses if there is no obligation to fund such losses. For the three months ended April 30, 2014 and 2013, the unvested restricted stock awards and the Series A Preferred Stock were not deemed to be participating since there was a net loss from operations. As of April 30, 2014, there were 2,949,995 shares of preferred stock outstanding, each share is convertible into one share of our common stock. For the three months ended April 30, 2014 and 2013, the Series A Convertible Preferred Stock would have an anti-dilutive effect if included in diluted EPS and therefore, was not included in the calculation. As of April 30, 2014 and 2013, there were 29,698 and 137,327, respectively, unvested restricted shares of common stock outstanding that were excluded from the calculation as their effect would have been antidilutive.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Three Months Ended	
	April 30, 2014	April 30, 2013
Net loss	$(2,671,239)	$(2,709,846)
Less: deemed dividends on Series A Preferred Stock	(229,766)	(341,637)
Net loss attributable to common shareholders	$(2,901,005)	$(3,051,483)
Weighted average shares outstanding used in basic per common share computations	18,146,232	12,534,474
Stock options and restricted stock	—	—
Number of shares used in diluted per common share computation	18,146,232	12,534,474
Basic net loss per share of common stock	$(0.16)	$(0.24)
Diluted net loss per share of common stock	$(0.16)	$(0.24)

Diluted net loss per share excludes the effect of 2,605,552 and 2,643,742 outstanding stock options for the three months ended April 30, 2014 and 2013, respectively. The inclusion of these shares would be anti-dilutive. For the three months ended April 30, 2014 and 2013, the outstanding common stock warrants of 1,400,000 would have an anti-dilutive effect if included in diluted net loss per share and therefore were not included in the calculation.

Recent Accounting Pronouncements

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

NOTE 3 — ACQUISITIONS AND STRATEGIC AGREEMENTS

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 4 — LEASES
We rent office and data center space and equipment under non-cancelable operating leases that expire at various times through fiscal year 2022. Future minimum lease payments under non-cancelable operating leases for the next five fiscal years are as follows:

	Facilities	Equipment	Fiscal Year Totals
2014 (nine months remaining)	$516,000	$6,000	$ 522,000
2015	1,030,000	2,000	1,032,000
2016	969,000	2,000	971,000
2017	1,007,000	—	1,007,000
2018	1,039,000	—	1,039,000
Thereafter	2,435,000	—	2,435,000
Total	$6,996,000	$10,000	$ 7,006,000

Rent and leasing expense for facilities and equipment was $378,000 and $236,000 for the three months ended April 30, 2014 and 2013, respectively.

The Company has a capital lease to finance office equipment purchases. The balance of fixed assets is $272,000 and $261,000 as of April 30, 2014 and January 31, 2014, respectively, and the balance of accumulated depreciation is $101,000 and $76,000 for the respective periods. The amortization expense of leased assets is included in depreciation expense.

NOTE 5 — DEBT
Term Loan and Line of Credit

On August 16, 2012, we amended the subordinated term loan and line of credit agreements with Fifth Third Bank, whereby Fifth Third Bank provided us with a $5,000,000 revolving line of credit, a $5,000,000 senior term loan and a $9,000,000 subordinated term loan, a portion of which was used to refinance the previously outstanding $4,120,000 subordinated term loan. Additionally, as part of the refinancing in August 2012, we mutually agreed to settle the success fee included in the previous subordinated term loan for $700,000. The difference between the $233,000 success fee accrued through the date of the amendment and the amount paid was recorded to deferred financing costs and is being amortized over the term of the amended loan. We paid a commitment fee in connection with the senior term loan of $75,000, which is included in deferred financing costs.

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

Effective December 13, 2013, we amended and restated the senior credit agreement and amended the subordinated credit agreement to increase the senior term loan to $8,500,000, extend the maturity of the senior term loan and the revolving line of credit to December 1, 2018 and December 1, 2015, respectively, reduce the interest rates and revise the financial covenants. Simultaneously, the subordinated term loan, which was scheduled to mature on August 16, 2014, was paid in full. The loans are secured by substantially all of our assets. The senior term loan principal balance is payable in monthly installments of $101,000 commencing in January 2014, and will continue through the maturity date, with the full remaining unpaid principal balance due at maturity. Borrowings under the senior term loan bear interest at a rate of LIBOR plus 4.75%. However, after the impact of our interest rate swap, the interest rate is fixed at 6.42%. Accrued and unpaid interest on the senior and subordinated term loans is due monthly through maturity. Borrowings under the revolving loan bear interest at a rate equal to LIBOR plus 3.50%. A commitment fee of 0.40% is incurred on the unused revolving line of credit balance, and is payable monthly. As of April 30, 2014, we had no outstanding borrowings under the line of credit and had accrued $3,000 in unused balance commitment fees. We paid $116,000 in closing fees in connection with the new senior term loan that have been recorded as a debt discount and are being amortized to interest expense over the term of the loan using the effective interest method.

The significant covenants as set forth in the term loans and line of credit were as follows: (i) maintain minimum liquidity of $4,000,000 as of April 30, 2014 and monthly thereafter; (ii) maintain a fixed charge coverage ratio for the fiscal quarter ending July 31, 2014 (excluding the April 30, 2014 fiscal quarter) and each fiscal quarter thereafter of not less than 1.10:1 calculated quarterly on a trailing four quarter basis thereafter; (iii) on a consolidated basis, maintain ratio of senior funded debt

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to adjusted EBITDA as of the end of any fiscal quarter less than 2.50:1, calculated quarterly on a trailing four fiscal quarter basis beginning July 31, 2014 (excluding the April 30, 2014 fiscal quarter). The Company is prohibited from paying dividends on common and preferred stock. The Company was in compliance with the applicable loan covenants at April 30, 2014.

Outstanding principal balances on debt consisted of the following at:

	April 30, 2014	January 31, 2014
Senior term loan (1)	$8,095,000	$8,298,000
Note payable	900,000	900,000
Capital lease	213,000	227,000
Total	9,208,000	9,425,000
Less: Current portion	1,627,000	1,620,000
Non-current portion of debt	$7,581,000	$7,805,000

(1) Amount represents total principal due, therefore, it is not reduced by the debt discount of $216,000 and $112,000 as of April 30, 2014 and January 31, 2014, respectively. In the condensed consolidated balance sheets, the term loan is presented net of this discount.

Future principal repayments of debt consisted of the following at April 30, 2014:

	Senior Term Loan	Note Payable	Capital Lease (1)	Total
2014	$1,012,000	$300,000	$131,000	$1,443,000
2015	1,214,000	300,000	107,000	1,621,000
2016	1,214,000	300,000	—	1,514,000
2017	1,214,000	—	—	1,214,000
2018 and thereafter	3,441,000	—	—	3,441,000
Total repayments	$8,095,000	$900,000	$238,000	$9,233,000

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

Note Payable

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

NOTE 6 — CONVERTIBLE PREFERRED STOCK

Series A Convertible Preferred Stock

At April 30, 2014, we had 2,949,995 shares of Series A Convertible Redeemable Preferred Stock (the “Preferred Stock”) outstanding. Each share of the Preferred Stock is convertible into one share of the Company's common stock. The Preferred Stock does not pay a dividend, however, the holders are entitled to receive dividends equal (on an as-if-converted-to-common-stock basis) to and in the same form as dividends (other than dividends in the form of common stock) actually paid on shares of the common stock. The Preferred Stock has voting rights on a modified as-if-converted-to-common-stock-basis. The Preferred Stock has a non-participating liquidation right equal to the original issue price plus accrued unpaid dividends, which are senior to the Company’s common stock. The Preferred Stock can be converted to common shares at any time by the holders, or at the option of the Company if the arithmetic average of the daily volume weighted average price of the common stock for the ten day period prior to the measurement date is greater than $8.00 per share, and the average daily trading volume for the 60 day period immediately prior to the measurement date exceeds 100,000 shares. The conversion price is $3.00 per share, subject to certain adjustments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

NOTE 7 — INCOME TAXES

Income tax expense consists of federal, state and local tax provisions. For the three months ended April 30, 2014 and 2013, we recorded federal tax expense of zero and $11,000, respectively. For the three months ended April 30, 2014 and 2013, we recorded state and local tax expense of $1,000 and $9,000, respectively.

NOTE 8 — SUBSEQUENT EVENTS

On May 7, 2014, we signed a definitive agreement to acquire substantially all of the assets of CentraMed, Inc. CentraMed provides healthcare enterprises with cost and spend management solutions in a software as a service model. The definitive agreement provides that at closing we will pay $4.8 million in cash for such assets. The transaction is subject to certain closing conditions; if those conditions are met, the transaction would close as early as the second quarter of fiscal 2014.

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

FORWARD-LOOKING STATEMENTS

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

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

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Results of Operations

Proprietary software and term licenses — Proprietary software revenues recognized for the three months ended April 30, 2014 increased by $29,000, or 37%, over the prior comparable period. This increase is attributable to sales in our Collabra suite of solutions.
Hardware and third-party software — Revenues from hardware and third-party software sales for the three months ended April 30, 2014 were $7,000, a decrease of $13,000, or 65%, over the prior comparable period. Fluctuations from period to period are a function of client demand.
Professional services — Revenues from professional services for the three months ended April 30, 2014 were $609,000, a decrease of $310,000, or 34%, from the prior comparable period. This decrease is primarily attributable to the nature of recognizing professional services revenues once certain milestones are met, which can cause fluctuations from period to period.
Maintenance and support — Revenues from maintenance and support for the three months ended April 30, 2014 were $4,172,000, an increase of $791,000, or 23%, from the prior comparable period. This increase resulted from prior fiscal year additions to our Collabra client base, as well as from $196,000 resulting from CLG, acquired in October 2013, and $385,000 resulting from Unibased, acquired in February 2014. Typically, maintenance renewals include a price increase based on the prevailing consumer price index.
Software as a Service (SaaS) — Revenues from SaaS for the three months ended April 30, 2014 were $1,831,000, a decrease of $18,000, or 1%, from the prior comparable period. This decrease resulted from the expiration of certain customer agreements, offset by the start of revenue recognition for a client that went live during the period.

Cost of Sales

	Three Months Ended			
(in thousands):	April 30, 2014	April 30, 2013	Change	% Change
Cost of systems sales	$835	$639	$	