

STREAMLINE HEALTH SOLUTIONS INC.

Form 10-Q

September 09, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

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

**For the quarterly period ended July 31, 2010**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-28132**

**STREAMLINE HEALTH SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

31-1455414  
(I.R.S. Employer  
Identification No.)

10200 Alliance Road, Suite 200  
Cincinnati, Ohio 45242-4716  
(Address of principal executive offices) (Zip Code)  
(513) 794-7100  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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 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

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

Number of shares of Registrant's Common Stock (\$.01 par value per share) issued and outstanding, as of September 9, 2010: 9,752,284.



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## PART I. FINANCIAL INFORMATION

## Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STREAMLINE HEALTH SOLUTIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
Assets

	(Unaudited) July 31, 2010	(Audited) January 31, 2010
Current assets:		
Cash and cash equivalents	\$ 580,574	\$ 1,025,173
Accounts receivable, net of allowance for doubtful accounts of \$150,000 and \$100,000, respectively	2,036,329	1,922,279
Contract receivables	1,071,707	1,182,308
Prepaid hardware and third party software for future delivery	148,026	149,281
Prepaid other, including prepaid customer maintenance contracts	1,473,427	1,363,332
Deferred income taxes	224,000	224,000
 Total current assets	 5,534,063	 5,866,373
Property and equipment:		
Computer equipment	3,158,277	2,987,039
Computer software	1,896,255	1,816,397
Office furniture, fixtures and equipment	747,867	747,867
Leasehold improvements	582,429	574,257
	6,384,828	6,125,560
Accumulated depreciation and amortization	(4,756,133)	(4,344,432)
	1,628,695	1,781,128
Contract receivables, less current portion	226,431	146,093
Capitalized software development costs, net of accumulated amortization of \$11,665,809 and \$10,411,828, respectively	8,069,311	8,049,292
Other, including deferred income taxes of \$1,651,000 and \$1,651,000, respectively	1,678,686	1,681,661
	\$ 17,137,186	\$ 17,524,547

See Notes to Condensed Consolidated Financial Statements.

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STREAMLINE HEALTH SOLUTIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
Liabilities and Stockholders Equity

	(Unaudited) July 31, 2010	(Audited) January 31, 2010
Current liabilities:		
Accounts payable	\$ 687,920	\$ 887,928
Accrued compensation	673,753	559,235
Accrued other expenses	373,900	476,504
Current portion of capital lease obligation	195,387	249,309
Current portion of deferred revenues	4,956,267	4,956,303
 Total current liabilities	 6,887,227	 7,129,279
Deferred revenues, less current portion	273,745	602,239
Line of credit	2,000,000	900,000
Capital lease, less current portion	132,299	161,666
 Total Liabilities	 9,293,271	 8,793,184
Stockholders equity:		
Convertible redeemable preferred stock, \$.01 par value per share 5,000,000 shares authorized, no shares issued		
Common stock, \$.01 par value per share, 25,000,000 shares authorized, 9,752,284 and 9,436,824 shares issued, respectively	97,523	94,368
Additional paid in capital	36,527,467	36,160,126
Accumulated other comprehensive income		5,620
Accumulated deficit	(28,781,075)	(27,528,751)
 Total stockholders equity	 7,843,915	 8,731,363
	\$ 17,137,186	\$ 17,524,547

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months		Six Months	
	2010	2009	2010	2009
Revenues:				
Systems sales	\$ 960,880	\$ 440,539	\$ 1,111,318	\$ 787,583
Services, maintenance and support	2,830,935	2,800,732	5,374,510	5,516,973
Application-hosting services	884,662	828,222	1,734,665	1,515,736
Total revenues	4,676,477	4,069,493	8,220,493	7,820,292
Operating expenses:				
Cost of systems sales	780,506	768,035	1,518,395	1,433,695
Cost of services, maintenance and support	1,378,778	1,315,986	2,760,988	2,380,116
Cost of application-hosting services	472,098	363,848	929,126	795,653
Selling, general and administrative	1,505,863	1,255,162	3,203,440	2,470,132
Product research and development	567,147	383,943	1,037,318	730,190
Total operating expenses	4,704,392	4,086,974	9,449,267	7,809,786
Operating profit (loss)	(27,915)	(17,481)	(1,228,774)	10,506
Other income (expense):				
Interest expense	(34,001)	(10,651)	(56,336)	(18,117)
Other income (expense)	(9,023)	16,183	42,786	19,003
Earnings (loss) before taxes	(70,939)	(11,949)	(1,242,324)	11,392
Income taxes	(5,000)	(6,000)	(10,000)	(13,000)
Net loss	\$ (75,939)	\$ (17,949)	\$ (1,252,324)	\$ (1,608)
Basic net loss per common share	\$ (0.01)	\$ (0.00)	\$ (0.13)	\$ (0.00)
Diluted net loss per common share	\$ (0.01)	\$ (0.00)	\$ (0.13)	\$ (0.00)
Number of shares used in per common share computations:				
Basic	9,506,904	9,379,237	9,460,911	9,367,144
Diluted	9,506,904	9,379,237	9,460,911	9,367,144

See Notes to Condensed Consolidated Financial Statements.





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

	2010	2009
Operating activities:		
Net loss	\$ (1,252,324)	\$ (1,608)
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operating activities:		
Loss on disposal of fixed assets		4,308
Long-term lease incentive		(48,842)
Depreciation and amortization	1,708,706	1,338,653
Share-based compensation	243,104	130,176
Provision for accounts receivable	50,000	
Changes in assets and liabilities:		
Accounts and contract receivables	(133,787)	70,560
Other current assets	(114,459)	(175,275)
Accounts payable and accrued expenses	(188,093)	142,283
Deferred revenues	(328,530)	(726,843)
Net cash (used in) provided by operating activities	(15,383)	733,412
Investing activities:		
Purchases of property and equipment	(302,292)	(374,114)
Capitalization of software development costs	(1,274,000)	(2,020,000)
Other	2,974	15,205
Net cash used in investing activities	(1,573,318)	(2,378,909)
Financing activities:		
Proceeds from stock purchase plan and exercise of stock options	127,391	58,400
Net change in bank line of credit	1,100,000	
Payments on capital lease	(83,289)	
Net cash provided by financing activities	1,144,102	58,400
Increase (decrease) in cash and cash equivalents	(444,599)	(1,587,097)
Cash and cash equivalents at beginning of period	1,025,173	3,128,801
Cash and cash equivalents at end of period	\$ 580,574	\$ 1,541,704
Supplemental cash flow disclosures:		
Interest paid	\$ 30,664	\$ 17,989

Income taxes paid	\$	16,534	\$	9,686
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See Notes to Condensed Consolidated Financial Statements.

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

**NOTE A BASIS OF PRESENTATION**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. ( Streamline Health 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 generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of 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 the most recent Streamline Health Solutions, Inc. Annual Report on Form 10-K, Commission File Number 0-28132. Operating results for the three and six months ended July 31, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2011.

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the Company s significant accounting policies is presented beginning on page 45 of its fiscal year 2010 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 when reviewing interim financial results.

*Useful Lives of Capitalized Software Development Costs*

In the fourth quarter of fiscal 2009 the Company made its fifth generation software, accessANYware 5.0, generally available. In the first quarter of fiscal 2010, subsequent to the release, the Company completed a review by product of the estimated useful lives of its capitalized software development costs. After reviewing strategic plans, analyzing the historical useful life of the software products, forecasting product life cycles and demand expectations, the Company assigned a five year estimated useful life for costs capitalized for accessANYware 5.0, and revised the estimated useful lives of certain other products from three years to five years.

The product life cycle for accessANYware versions prior to the latest version 5.0, have lasted longer than five years. Historical product and customer data shows that many customers remain on the same primary version for five years or more after purchase, or product support and development continue for five years or more. The Company expects accessANYware 5.0 to also have a five year or longer product life cycle based on this historical data, and the estimated product development lifecycle. In addition, the useful life of the unamortized balance of development costs for prior accessANYware versions should also reflect an approximate five year life from their documented general release dates. The Company intends to actively sell and support these products for a minimum five years while version 5.0 is being rolled out. This same policy will be applied to FolderView as it is generally a primary add-on component to accessANYware, and has had a similar historical life cycle. Upon Company review of the revenue projections, the estimated life cycle of accessANYware 5.0, and the remaining life cycle for prior accessANYware and FolderView releases, a five year estimated life is reasonable and proper.

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The Company accounted for the change in useful life as a change in accounting estimate which is accounted for on a prospective basis effective February 1, 2010. For the three and six months ended July 31, 2010 the change resulted in a reduction of amortization expense of approximately \$251,000 and \$502,000, respectively; an increase in income from continuing operations and net income of \$251,000 and \$502,000, respectively; and a decrease in basic and diluted loss per share of \$0.02 and \$0.06, respectively. Amortization expense for capitalized software development costs is included in cost of system sales in the consolidated statement of operations.

**NOTE C EQUITY AWARDS**

Compensation expense is recognized over the requisite service period for awards of equity instruments to employees based on the grant-date fair value of those awards expected to ultimately vest (with limited exceptions). Forfeitures are estimated on the date of the grant and revised if actual or expected forfeiture activity differs materially from original estimates.

During the first six months of the current fiscal year, the Company granted 140,000 options with a weighted average exercise price of \$1.84 per share. During the same period 71,000 options expired with an average exercise price of \$1.86 per share and 77,000 options were exercised under all plans at an average exercise price of \$1.27 per share.

The fair value of each option grant during the quarter ended July 31, 2010 was estimated at the date of the grants using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.50%, a dividend yield of zero percent; and a current weighted average volatility factor of the expected market price of Streamline Health's Common Stock of 0.541 in 2010. The weighted average expected life of stock options are five years and have a forfeiture rate of zero.

During the first six months of the current fiscal year, the Company granted 209,000 restricted stock shares with a weighted average fair value of \$1.94 per share. These shares are subject to the 2005 Incentive Compensation Plan as amended, and are granted to certain independent members of the Board of Directors and employees. The shares have an approximate one-year restriction period. During the same period 25,000 restricted shares had their restriction period lapse; these shares had a weighted average fair value of \$2.95 per share. In addition, 1,600 shares were forfeited prior to the lapse of the restriction period; these shares had a weighted average fair value of \$2.00 per share.

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The basic earnings (loss) per common share are calculated using the weighted average number of common shares outstanding during the period.

The fiscal 2010 and 2009 diluted net (loss) per common share calculation, excludes the effect of the common stock equivalents (stock options and restricted stock), as the inclusion thereof would be antidilutive. The Company had 847,000 and 667,000 equity award shares outstanding at July 31, 2010 and 2009, respectively that were not included in the diluted net (loss) per share calculation, as the inclusion thereof would be antidilutive.

**NOTE E CONTRACTUAL OBLIGATIONS**

The following table details the remaining obligations, by fiscal year, as of the end of the quarter:

	Line of Credit	Operating Leases	Capital Lease	Fiscal Year Totals
2010	\$	233,000	115,000	\$ 348,000
2011	2,000,000	396,000	250,000	2,646,000
2012		334,000		334,000
2013		320,000		320,000
2014		329,000		329,000
Thereafter		164,000		164,000
Total	\$ 2,000,000	1,776,000	365,000	\$ 4,141,000

On June 21, 2010, the Company entered into a Second Amendment to Lease Agreement with Alliance Street, LLC for the Company's principal executive offices. The term of the lease has been extended for a five year term expiring July 31, 2015.

On June 16, 2010 the Company entered into a minimum five year economic development incentive agreement with the City of Blue Ash, Ohio. This incentive agreement allows the Company to draw up to \$130,000 for critical business functions. The terms of the agreement allow for any balance drawn to be forgiven by the City of Blue Ash upon meeting certain employment criteria. No balance is outstanding as of July 31, 2010.

**NOTE F DEBT**

On October 21, 2009, the Company entered into an amended and restated revolving note with Fifth Third Bank, Cincinnati, OH. The terms of the loan remain the same as set forth in the revolving note entered into on July 31, 2008, as amended on January 6, 2009, except as follows: (i) the maximum principal amount that can be borrowed was increased to \$2,750,000 from the prior maximum amount of \$2,000,000; (ii) the maturity date of the loan has been extended to October 1, 2011 from August 1, 2010; and (iii) the interest rate on the outstanding principal balance will accrue at an annual floating rate of interest equal to the Adjusted Libor Rate (as defined in the revolving note) plus 3.25%. The interest rate on the note was 3.625% at July 31, 2010.

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In connection with the entering into of the revised revolving note, the Company also entered into an amended and restated continuing guaranty agreement. The terms of the continuing guaranty agreement remain the same as set forth in the guaranty agreement entered into on July 31, 2008, as amended on January 6, 2009, except that the covenant that formerly required the Company to maintain certain levels of minimum tangible net worth has been eliminated.

The note also continues to be secured by a first lien on all of the assets of the Company pursuant to security agreements entered into by the Company.

The Company was in compliance with all of the covenants at July 31, 2010. The Company pays a commitment fee on the unused portion of the facility of 0.06%. The Company had outstanding borrowings of \$2,000,000 under this revolving loan as of July 31, 2010.

**NOTE G FOREIGN CURRENCY**

Foreign currency hedge instruments are from time to time used to partially offset its business exposure to foreign exchange risk of the Canadian dollar for the Company's transactions with a current Canadian customer. The Company may enter into foreign currency forward and option contracts to offset some of the foreign exchange risk of expected future cash flows on certain forecasted revenue and cost of sales, and on certain existing accounts receivable and payable. However, the Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to immateriality. There were no outstanding foreign currency forward contracts at July 31, 2010.

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

In addition to historical information contained herein, this Report on Form 10-Q contains forward-looking statements relating to the Company's plans, strategies, expectations, intentions, etc. 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 executions 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 products and pricing, product demand and market acceptance, new product development, key strategic alliances with vendors that resell Streamline Health solutions, the ability of Streamline Health to control costs, availability of products obtained from third-party vendors, the healthcare regulatory environment, potential changes in legislation, regulatory and government funding affecting the healthcare industry, healthcare information system budgets, availability of healthcare information systems trained personnel for implementation of new systems, as well as maintenance of legacy systems, fluctuations in operating results and other risk factors that might cause such differences including those discussed herein, and including, effects of critical accounting policies and judgments, changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other similar entities, changes in economic, business and market conditions impacting the healthcare industry, the markets in which the Company operates and nationally, and the Company's ability to maintain compliance with the terms of its credit facilities, but not limited to, discussions in the most recent Form 10-K, Part I, Item 1. Business, Item 1A. Risk Factors, Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplemental Data. In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date thereof. The Registrant undertakes no obligation to publicly revise these forward-looking statements, to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in this and other documents Streamline Health Solutions, Inc. files from time to time with the Securities and Exchange Commission, including future Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Streamline Health's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Streamline Health to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent liabilities. On an ongoing basis, Streamline Health evaluates its estimates, including those related to product revenues, bad debts, capitalized software development costs, income taxes, support contracts, contingencies, and litigation. Streamline Health bases its estimates on historical experience and on various other assumptions that Streamline Health believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and revenue and expense recognition. Actual results may differ from these estimates under different assumptions or conditions.

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**General**

Founded in 1989, Streamline Health Solutions, Inc. ( Streamline Health® or the Company ) is a healthcare information technology company, which is focused on developing and licensing proprietary software solutions that improve document-centric information flows and complement and enhance existing transaction-centric hospital healthcare information systems. In addition Streamline Health provides consulting services specializing in enterprise connectivity, systems integration, and departmental process improvement. The Company sells its products and services in North America through its direct sales force, and its reseller partnerships. The Company also sells to direct remarketers, hospitals, clinical and ambulatory services.

Document imaging and workflow management technologies like those provided by Streamline Health are essential elements of a complete Electronic Health Record because they allow for the storage of unstructured data. Unstructured data may consist of patient record elements other than discrete data, such as hand written physician or nursing notes and physician orders, photographs, audio, video, and outside correspondence.

Streamline Health's solutions create a permanent document-based repository of historical health information that is complementary and can be seamlessly integrated with existing disparate clinical, financial and administrative information systems, providing convenient electronic access to all forms of patient information from any location, including secure web-based access. These integrated solutions allow providers and administrators to link existing systems with documents, which can dramatically improve the availability of patient information while decreasing direct costs associated with document retrieval, work-in-process, chart processing, document retention, and archiving. Healthcare providers have significant need to streamline document-centric information flows to eliminate business process friction points. Streamline Health's vision for its customers is a fully integrated business process across departments, vendors and existing clinical, billing and administrative applications. These comprehensive, cost-effective information systems deliver rapid access to fully updated and complete patient information. Streamline Health's strategy is to remain a leader in document management and workflow technologies that supplement the existing Clinical Information System, and provide cost savings and enhanced safety through improved access to critical patient data. The Company's systems and services can also help a provider's existing system to achieve meaningful use under the HITECH provisions of the American Recovery and Reinvestment Act of 2009 (ARRA). These benefits encourage physicians to adopt the Company's solutions because of convenient access to documents not typically available in data-centric clinical information systems.

The Company operates primarily in one segment as a provider of health information technology solutions that streamline healthcare information flows within the healthcare facility. The financial information required by Item 101(b) of Regulation S-K is contained in Item 6. Selected Financial Information section of the Company's January 31, 2010 Form 10-K.



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**Executive Overview**

In 2009, the Company successfully made its fifth-generation software architecture (accessANYware 5.0) generally-available. This development effort included the consolidation of technology platforms onto the Microsoft.NET platform, and also the internationalization of the software to reach international markets. This internationalization specifically included French Canadian language capabilities as part of Streamline Health's agreements with the Centre hospitalier de l'Université de Montréal (CHUM), the McGill University Health Centre (MUHC), and L'Agence de la santé et des sociaux de Montreal (l'Agence) via our distribution partner Telus Health. Prior versions of accessANYware are still available for sale, and the Company continues to provide full product support for prior versions, as we anticipate several years before all existing accessANYware customers complete a transition to accessANYware 5.0. The Company will roll out accessANYware 5.0 over the next several years. We have had positive reception to the product at the installed locations in Canada, and the Company's sales team is actively informing new and existing customers of its benefits.

In 2009, the Company established a Business Process Management (BPM) consulting services division to take advantage of what the Company believes is a significant growth opportunity to provide departmental document workflow solutions and Business Process Optimization Services. Many industry consultants believe healthcare organizations face an ever increasing demand to improve business processes and reduce costs, especially in the current economic climate. Business Process Management is a proven discipline which allows organizations to improve their business operations by identifying, automating and optimizing existing labor-intensive business processes that cause bottlenecks and inefficiencies. In February of 2010, the company entered into an agreement with the Children's National Medical Center to provide BPM services to customize an enterprise audit compliance solution, AuditACE. In addition to this strategic customer, the Company has had a positive response from other customers who are looking for ways to help manage the growing federal, state mandates and payer requirements for audit compliance. The Company views this service offering as a potential driver of significant growth.

Streamline Health experienced a growth in application-hosting services contracts over the past two fiscal years. Many organizations in the current health information technology marketplace are shifting from licensed software which is locally installed in the health care organization's data center to hosted software solutions installed in the Streamline Health hosting center. As capital markets have been tight, it is often advantageous for healthcare providers to explore hosted solutions which have limited initial capital outlays. In addition, ARRA has provisions which increase the financial benefits to the hospitals who achieve meaningful use of health information technology in the near term. Coinciding with the release of accessANYware 5.0, and market climates observed, the Company has made a dramatic shift in strategy towards our hosted delivery model. A desirable byproduct of the hosted model is much better visibility for future revenue streams based on backlog fulfillment from hosted contracts over typical five year or more contract periods; as well as a high percentage of contract renewals after the initial term. As we continue to gain traction in our hosted recurring revenue model, traditional license sales can provide a significant impact to our operating results. The Company believes this combination is key to our long term success and return on investment for the Company's stockholders. In the near term, management's intention is to measure its success by revenue and revenue backlog, and level of earnings before interest, taxes, depreciation and amortization (EBITDA), rather than net profits.

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**Operating Results**

New bookings for the quarter, excluding maintenance services, were in excess of \$2 million. These new bookings consisted of a new enterprise license contract, a large add-on enterprise license sale, and three Business Process Management (BPM) departmental workflow solutions. Bookings reflect the aggregate of signed contracts and/or completed customer purchase orders approved and accepted by the Company as binding commitments to purchase its products and/or services. New bookings do not include maintenance services as these tend to be recurring in nature on an annual or more frequent basis.

The Company recognized revenues in the three and six month period ending July 31, 2010 of \$4,676,000 and \$8,220,000, compared to \$4,069,000 and \$7,820,000 in the comparable prior period. The increased revenues recognized over the prior three and six month periods are derived primarily from an increase in proprietary software systems sales, as well as recurring revenues recognized from application-hosting and maintenance revenues. The Company incurred operating losses in the three and six month period ending July 31, 2010 of \$28,000 and \$1,229,000 respectively. Comparatively, the Company incurred a loss of \$17,000 and operating profit of \$11,000 respectively, for the three and six month periods ending July 31, 2009. Operating expenses in the three and six month period ending July 31, 2010 were \$4,704,000 and \$9,449,000 respectively, compared to \$4,087,000 and \$7,810,000 in the comparable prior three and six month periods. The increase in operating expenses was due to several factors including an increase in amortization of capitalized software development costs. This increase in amortization expense is primarily due to the general release of accessANYware 5.0 in late fiscal 2009. In addition to amortization expense, the Company increased investments made in professional services staffing, customer, professional fees, and increased compensation expenses.

The Company's revenues from proprietary systems sales have varied, and may continue to vary, significantly from quarter-to-quarter because of the volume and timing of systems sales and delivery. Professional services revenues also fluctuate from quarter-to-quarter because of the timing of the implementation services, project management, and timing of the recognition of revenues under generally accepted accounting principles. Conversely, revenues from hosted systems sales, and maintenance services do not fluctuate significantly from quarter-to-quarter, but have been increasing, on an annual basis, as the number of customers increase. Substantial portions of the operating expenses are fixed; therefore operating profits are expected to vary depending on the factors that drive fluctuations in revenues and the mix of proprietary versus hosted contracts sold.

**Table of Contents****Quarterly Statement of Operations<sup>(1)</sup>**

	Three Months Ended July		Six Months Ended July 31,	
	2010	31, 2009	2010	2009
Systems sales	20.5%	10.8%	13.5%	10.1%
Services, maintenance and support	60.5	68.8	65.4	70.5
Application-hosting services	19.0	20.4	21.1	19.4
Total revenues	100.0	100.0	100.0	100.0
Cost of sales	56.3	60.2	63.4	58.9
Selling, general and administrative	32.2	30.8	39.0	31.6
Product research and development	12.1	9.4	12.6	9.3
Total operating expenses	100.6	100.4	114.9	99.9
Operating profit (loss)	(0.6)	(0.4)	(14.9)	0.1
Other income (expense), net	(1.0)		(0.3)	
Income tax net benefit			(0.1)	(0.1)
Net earnings (loss)	(1.6)%	(0.4)%	(15.2)%	0.0%
Cost of systems sales				