

STREAMLINE HEALTH SOLUTIONS INC.

Form 10-Q

September 12, 2007

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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, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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 12, 2007: 9,245,320.

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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, 2007	(Audited) January 31, 2007
Current assets:		
Cash	\$ 509,118	\$ 3,316,614
Accounts receivable, net of allowance for doubtful accounts of \$200,000, respectively	1,409,914	2,281,313
Contract receivables	1,160,377	1,357,433
Prepaid expenses	874,969	545,430
Deferred tax asset	625,000	625,000
Total current assets	4,579,378	8,125,790
Property and equipment:		
Computer equipment	2,087,047	2,132,853
Computer software	993,856	847,328
Office furniture, fixtures and equipment	739,393	733,320
Leasehold improvements	577,737	568,098
	4,398,033	4,281,599
Accumulated depreciation and amortization	(2,937,798)	(2,704,329)
	1,460,235	1,577,270
Contract receivables	554,888	554,888
Capitalized software development costs, net of accumulated amortization of \$5,879,901 and \$5,116,568, respectively	3,990,024	3,753,361
Other, including deferred taxes of \$1,250,000, respectively	1,333,180	1,289,536
	\$ 11,917,705	\$ 15,300,845

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, 2007	(Audited) January 31, 2007
Current liabilities:		
Accounts payable	\$ 751,910	\$ 619,362
Accrued compensation	460,636	432,142
Accrued other expenses	464,304	541,904
Deferred revenues	2,756,540	3,693,668
Current portion of capitalized leases		91,002
Total current liabilities	4,433,390	5,378,078
Long-term debt		1,000,000
Capitalized leases		56,049
Non-current lease incentives	184,504	222,484
Stockholders' equity:		
Convertible redeemable preferred stock, \$.01 par value per share 5,000,000 shares authorized		
Common stock, \$.01 par value per share, 25,000,000 shares authorized, 9,245,320 and 9,211,399 shares issued, respectively	92,453	92,114
Capital in excess of par value	35,428,301	35,286,238
Accumulated (deficit)	(28,220,943)	(26,734,118)
Total stockholders' equity	7,299,811	8,644,234
	\$ 11,917,705	\$ 15,300,845

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	
	2007	2006	2007	2006
Revenues:				
Systems sales	\$ 101,215	\$ 1,706,646	\$ 864,339	\$ 2,915,308
Services, maintenance and support	2,195,530	2,070,082	4,325,019	3,898,349
Application-hosting services	906,470	805,978	1,793,257	1,617,472
Total revenues	3,203,215	4,582,706	6,982,615	8,431,129
Operating expenses:				
Cost of systems sales	580,315	929,511	1,363,622	1,555,918
Cost of services, maintenance and support	1,043,600	853,663	1,987,188	1,692,335
Cost of application-hosting services	279,730	297,146	555,159	577,376
Selling, general and administrative	1,404,337	1,502,742	2,821,671	2,917,620
Product research and development	949,446	758,687	1,755,901	1,518,366
Total operating expenses	4,257,428	4,341,749	8,483,541	8,261,615
Operating income (loss)	(1,054,213)	240,957	(1,500,926)	169,514
Other income (expense):				
Interest income	3,142	19,509	17,232	52,500
Interest expense	(8,687)	(41,739)	(19,376)	(83,165)
Loss on disposal of property and equipment	(11,546)		(11,546)	
Earnings (loss) before taxes	(1,071,304)	218,727	(1,514,616)	138,849
Income taxes		(4,000)		(4,000)
Net earnings (loss)	\$(1,071,304)	\$ 214,727	\$(1,514,616)	\$ 134,849
Basic net earnings (loss) per common share	\$ (0.12)	\$ 0.02	\$ (0.16)	\$ 0.01
Diluted net earnings (loss) per common share	\$ (0.12)	\$ 0.02	\$ (0.16)	\$ 0.01
Number of shares used in per common share computations:				
Basic	9,225,212	9,189,642	9,218,482	9,179,165
Diluted	9,225,212	9,684,189	9,218,482	9,755,786

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)

	2007	2006
Operating activities:		
Net (loss) earnings	\$ (1,514,616)	\$ 134,849
Adjustments to reconcile net (loss) earnings to net cash (used for) operating activities:		
Depreciation and amortization	1,113,719	933,171
Share-based compensation expense	55,571	53,029
Loss on disposal of property and equipment	11,546	
Cash (used for) provided by assets and liabilities:		
Accounts and contract receivables	1,068,455	(1,756,706)
Other current assets	(329,539)	(209,962)
Accounts payable and accrued expenses	111,233	(904,824)
Deferred revenues	(937,128)	1,147,357
Net cash (used for) operating activities	(420,759)	(603,086)
Investing activities:		
Purchases of property and equipment	(383,672)	(256,672)
Proceeds from disposal of property and equipment	138,775	
Long-term lease incentive	(37,980)	(32,948)
Capitalization of software development costs	(999,996)	(799,998)
Other	(43,644)	(24,092)
Net cash (used for) investing activities	(1,326,517)	(1,113,710)
Financing activities:		
Payment of long-term debt	(1,000,000)	(1,000,000)
Payment of capitalized leases	(147,051)	(41,745)
Exercise of stock options and employee stock purchase plan	86,831	85,318
Net cash (used for) financing activities	(1,060,220)	(956,427)
(Decrease) in cash	(2,807,496)	(2,673,223)
Cash at beginning of period	3,316,614	4,634,219
Cash at end of period	\$ 509,118	\$ 1,960,996
Supplemental cash flow disclosures:		
Interest paid	\$ 20,987	\$ 83,165

Income taxes paid	\$	6,775	\$	38,300
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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 1 BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. (Streamline Health or the Company) without audit, in accordance with U.S. generally accepted accounting principles for interim financial information, pursuant to the rules and regulations applicable to quarterly reports on Form 10-Q of the U. S. Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. 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, 2007, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2008.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company s significant accounting policies is presented beginning on page 40 of its fiscal year ending January 31, 2007 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. There has been no material change in the accounting policies followed by the Company during the current year.

Note 3 CHANGES IN BALANCE SHEET ACCOUNT BALANCES

The decrease in cash during the first six months results primarily from: the repayment of \$1,000,000 in long-term debt, acquisition of property and equipment in the amount of \$383,672, capitalized software in the amount of \$999,996 and the use of cash in the amount of \$420,759 for operations.

The decrease in accounts receivable results from collection of outstanding balances and lower revenues during the first six months.

Prepaid expenses consist of software and hardware awaiting installation (related to unrecognized revenue) and prepaid expenses, including commissions. The increase results from prepaid bonuses and commissions related to deferred revenues.

The increase in accounts payable results primarily from the timing of payments during the second quarter.

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The decrease in deferred revenues reflects the amortization of prepaid maintenance payments received in prior periods.

Note 4 EQUITY AWARDS

During the first six months of the current fiscal year, the Company granted 30,000 options at \$4.35 per share. During the same period, 20,000 options were forfeited and 16,500 options were exercised under all plans during the first six months. The expense relating to the fair value of equity awards included in the first six of fiscal year 2006 and 2007 operating expenses amounted to \$53,029 and \$55,571, respectively.

The assumptions used to calculate the fair value of equity awards granted are evaluated and revised, as necessary, to reflect current market conditions and prior experience.

Note 5 INCOME TAXES

The Company adopted Financial Accounting Standards Board Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), at the beginning of fiscal year 2007. FIN 48 requires the Company to evaluate whether the tax positions taken by the Company will more likely than not be sustained upon examination by the appropriate taxing authority. It also provides guidance on how a company should measure the amount of the benefit that the Company recognizes in its financial statements. As a result of the implementation of FIN 48, the changes to the Company's reserve for uncertain tax positions was accounted for as a \$27,791 adjustment to increase the beginning balance of retained earnings on the Company's balance sheet. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate adjustments that will result in a material change to its financial position during the next twelve months. Therefore, no reserves for uncertain tax positions have been recorded pursuant to FIN 48 as of January 31, 2007 and July 31, 2007.

The Company and its subsidiary are subject to U.S. Federal income tax as well as income taxes in multiple state and local jurisdictions. The Company has concluded all U.S. Federal tax matters for years through January 31, 2003. All material state and local income tax matters have been concluded for years through January 31, 2002.

The Company has a net operating tax loss carry forward in excess of \$29,000,000.

Note 6 EARNINGS PER SHARE

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

The 2007 diluted net (loss) per common share calculation, excludes the effect of the common stock equivalents (stock options and warrants), as the inclusion thereof would be antidilutive. The Company had approximately 455,000 equity award shares and 750,000 warrant shares outstanding at July 31, 2007 that were not included in the diluted net (loss) per share calculation

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as the inclusion thereof would be antidilutive.

The 2006 diluted net earnings per common share calculation, is based on the weighted average number of common shares outstanding adjusted for the dilutive effect of the common stock equivalents (warrants, stock appreciation rights (SAR), stock options and the employee stock purchase plan) of 494,547 shares in the second quarter and 576,621 shares in the first six months of 2006. The Company had approximately 55,000 stock options and 25,000 SAR s outstanding at July 31, 2006 that were not included in the diluted net earnings per share calculations as the inclusion thereof would be antidilutive.

Note 7 EMPLOYEE STOCK PURCHASE PLAN.

During the second quarter of 2007 the Company issued 17,421 shares of Common stock at \$3.56 per share in accordance with the Employee Stock Purchase Plan.

Note 8 DEBT

In January 2007, Streamline Health prepaid its then existing term debt and entered into a new three year \$5,000,000 working capital revolving line of credit facility, with an option for two one-year extensions. The loan is secured by all of the assets of Streamline Health and the loan agreement restricts Streamline Health from incurring additional indebtedness for borrowed money, including capitalized leases, etc. without lender consent. The Company is required to meet certain financial covenants, including minimum level of tangible net worth, minimum working capital, fixed charge ratio coverage and funded indebtedness to earnings before interest, taxes, depreciation and amortization ratio (EBITDA). These requirements may limit the borrowing under this credit agreement. At July 31, 2007, the Company did not meet three financial covenants for borrowing under the facility: minimum working capital; fixed charge coverage ratio and tangible net worth covenants. The bank has waived the covenants that the Company was not in compliance with at July 31, 2007 on the condition that the Company and the Lender agree to the terms of a restructuring of the Company s Note and Guarantee Agreement, on terms satisfactory to the Lender by October 10, 2007. Accordingly, the Company currently has the ability to utilize approximately \$1,000,000 of the line of credit. If the Company and the lender are unable to agree to revised terms by October 10, 2007, the Company would not be able to borrow under then facility, if needed, after October 10, 2007. Interest on this facility ranges from Prime minus 1% to Prime based on the amount borrowed to EBITDA. The Company pays a commitment fee on the unused portion of the facility of .35%. There were no amounts borrowed on the line of credit during the first two quarters of the current fiscal year and no amounts were outstanding at January 31, 2007 or July 31, 2007.

In 1998, Streamline Health issued a \$6,000,000 note which was repaid in full in July, 2004. In connection with the issuance of the note, Streamline Health issued Warrants to purchase 750,000 shares of Common Stock of Streamline Health at \$3.87 per share at any time through July 16, 2008. The Warrants are subject to customary antidilution and registration rights provisions.

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Note 9 WARRANTIES AND INDENMNITIES

Streamline Health provides for the estimated cost of the product warranties at the time revenue is recognized. Should products fail to meet certain performance standards for an initial warranty period, Streamline Health's estimated warranty liability might need to be increased. Streamline Health bases its warranty estimates on the nature of any performance complaint, the effort necessary to resolve the issue, customer requirements and any potential concessions, which may be required to be granted to a customer, which result from performance issues. Streamline Health's ASPeN application-hosting services guarantees specific up-time and response time performance standards, which, if not met may result in reduced revenues, as a penalty, for the month in which the standards are not met. Streamline Health's standard agreements with its customers also usually include provisions to indemnify them from and against third party claims, liabilities, damages, and expenses arising out of Streamline Health's operation of its business or any negligent act or omission of Streamline Health. To date, Streamline Health has always maintained the ASPeN performance standards and has not been required to make any material penalty payments to customers or indemnify any customers for any material third party claims. At July 31, 2007 and 2006, Streamline Health had a warranty reserve in the amount of \$250,000. Each contract is reviewed quarterly with the appropriate Streamline Health Client Manager to determine the need for a warranty reserve based upon the most currently available information as to the status of the contract, the customer comments, if any, and the status of any open or unresolved issues with the customer.

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

In addition to historical information contained herein, this Quarterly Report on Form 10-Q contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements, included herein. These risks and uncertainties include, but are not limited to, long sales cycles, the expectations and timing of the execution of new licensing agreements and the related timing of the revenue recognition related thereto, the impact that increased expenditures on infrastructure and products could have on operations which may not result in projected increases in revenues, the timing and implementation of new agreements, the impact of competitive products and pricing, product demand and market acceptance, new product development, key strategic alliances with vendors that resell Streamline Health products, the potential cancellation of existing contracts or clients not completing projects in the current backlog, the ability of Streamline Health to control costs, availability of products obtained from third-party vendors, the healthcare regulatory environment, 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. 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 other documents Streamline Health files from time to time with the Securities and Exchange Commission, including Annual Reports of Form 10-K, Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

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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, warranty obligations, 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.

RESULTS OF OPERATIONS

GENERAL

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. The Company's workflow and document management solutions bridge the gap between current, predominantly paper-based processes and transaction-based healthcare information systems by 1) electronically capturing document-centric information from disparate sources, 2) electronically directing that information through vital business processes, and 3) providing access to the information to authenticated users (such as physicians, nurses, administrative and financial personnel and payers) across the continuum of care. Streamline Health's systems are designed for enterprise wide deployment to seamlessly connect disparate departmental systems, or silos of independent technologies which create Friction Points™, in a common interoperable document management workflow solution.

The Company's workflow-based products and services offer solutions to specific healthcare business processes within the Health Information Management (HIM) and revenue cycle, such as: remote coding, abstracting and chart completion, remote physician order processing, pre-admission registration scanning, insurance verification, secondary billing services, explanation of benefits processing, release of information processing and other departmental workflow processes.

The Company's products and services also create an integrated document-centric repository of historical health information that is complementary to, and can be seamlessly bolted on to existing transaction-centric clinical, financial and management information systems, allowing healthcare providers to aggressively move toward fully Electronic Medical Record (EMR) processes while improving service levels and convenience for all stakeholders. These integrated systems allow providers and administrators to dramatically improve the availability of patient information while decreasing direct costs associated with document retrieval, work-in-process, chart completion, document retention and archiving.

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The Company's software solutions can be provided on a subscription basis via remote application-hosting services or licensed and installed locally. Streamline Health provides ASPeNSM, Application Service Provider-based remote hosting services to, The University Hospital, a member of the Health Alliance of Greater Cincinnati, M.D. Anderson Cancer Center, and Children's Medical Center of Columbus, OH, among others. In addition, Streamline Health has licensed its workflow and document management solutions, which are installed at leading healthcare providers including Stanford Hospital and Clinics, the Albert Einstein Healthcare Network, Beth Israel Medical Centers, the University of Pittsburgh Medical Center, Medical University Hospital Authority of South Carolina, and Memorial Sloan-Kettering Cancer Center, among others.

The Company's applications allow authenticated users, such as physicians, nurses, administrative and financial personnel, and payers with access to patient healthcare information that exists in disparate systems across the continuum of care and improve operational efficiencies through business process re-engineering and automating labor-intensive and demanding paper environments. Streamline Health's applications and services are complementary to existing clinical and financial systems, and use document imaging and advanced workflow tools to ensure users can electronically access both structured (transaction-centric) and unstructured (document-centric) patient data and all the various forms of clinical and financial healthcare information from a single permanent and secure repository, including clinician's handwritten notes, laboratory reports, photographs, insurance cards, etc.

The Company's workflow solutions offer value to all of the constituents in the healthcare delivery process by enabling them to simultaneously access and utilize Streamline Health's advanced technological workflow applications to process information, on a real-time basis from virtually any location, including the Physician's desktop, using web-based technology. Streamline Health's solutions integrate its own proprietary imaging platform, application workflow modules and image and web-enabling tools that allow for the seamless merger of back office functionality with existing Clinical and Financial Information Systems at the desktop.

The Company offers its own document imaging/management infrastructure (Foundation Suite) that is built for high volume transaction processing and is specifically designed for the healthcare industry. In addition to providing access to information not previously available at the desktop, Streamline Health's applications fulfill the administrative and regulatory needs of the Health Information Management, Patient Financial Services and other hospital departments. Furthermore, these systems have been specifically designed to integrate with any Clinical Information System. For example, Streamline Health has integrated its products with selected systems from Siemens Medical Solutions USA Inc. (Siemens), Cerner Corporation, and IDX Information Systems Corporation (IDX) (now part of GE Medical see below) applications, thus enabling customers to use our solutions without the expense of replacing entire software systems to gain the software functionality. By offering electronic access to all the patient information components of the medical record, this integration completes one of the most difficult tasks necessary to provide a true Electronic Medical Record. Streamline Health's systems deliver on-line enterprise wide access to fully updated patient information, which historically was maintained on a variety of media, including paper, magnetic disk, optical disk, and microfilm.

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The Company operates in one segment as a provider of health information technology solutions that streamline healthcare information flows within a healthcare facility.

Historically, Streamline Health has derived most of its revenues from recurring application-hosting services, recurring maintenance fees, professional services and system sales involving the licensing, either directly or through remarketing partners, of its Health Information Management Workflow and Revenue Cycle Management Workflow solutions to Integrated Healthcare Delivery Networks (IDN). In a typical transaction, Streamline Health, or its remarketing partners, enter into a perpetual license or fee-for-service subscription agreement for Streamline Health's software application suite and may license or sell other third-party software and hardware components to the IDN. Additionally, Streamline Health provides professional services, including implementation, training, and product support.

Streamline Health earns its highest margins on proprietary Streamline Health software and application-hosting services and the lowest margins on third-party hardware and software. Sales to customers may include different configurations of Streamline Health software, hardware, third party software, and professional services, resulting in varying margins among contracts. The margins on professional services revenues fluctuate based upon the negotiated terms of the agreement with each customer and Streamline Health's ability to fully utilize its professional services, maintenance, and support services staff.

Beginning in 1998, Streamline Health began offering customers the ability to obtain its workflow solutions on an application-hosting basis as an Application Service Provider (ASP). Streamline Health established a hosting data center and installed Streamline Health's suite of workflow products, called ASPeN (Application Service Provider eHealth Network) within the hosting data center. Under this arrangement, customers electronically capture information and securely transmit the data to the hosting data center. The ASPeN services store and manage the data using Streamline Health's suite of applications, and customers can view, print, fax, and process the information from anywhere using the Streamline Health web-based applications. Streamline Health charges and recognizes revenue for these ASPeN services on a per transaction or subscription basis as information is captured, stored, retrieved and processed.

The decisions by a healthcare provider to replace, substantially modify, or upgrade its information systems are strategic decisions and often involve a large capital commitment requiring an extended approval process. Since inception, Streamline Health has experienced extended sales cycles. It is not uncommon for sales cycles to take six to eighteen months from initial contact to the execution of an agreement. As a result, the sales cycles can cause significant variations in quarter-to-quarter operating results. These agreements cover the licensing, implementation and maintenance of the system, which typically takes place in one or more phases. The licensing agreements generally provide for the licensing of Streamline Health's proprietary software and third-party software with a perpetual or term license fee on either an unlimited number of users (site license) or a specific number of users (concurrent users license) that is adjusted upward depending on the number of concurrent users using the software. Site-specific customization, interfaces with existing customer systems and other consulting services are sold on a fixed fee or a time and materials basis. Alternatively, with Streamline Health's ASP services solution, the application-hosting services agreements generally provide

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for utilizing Streamline Health's software and third-party software on a fee per transaction or recurring subscription basis.

ASPeN services was designed to overcome obstacles in the buying decision such as large capital commitment, length of implementation, and the scarcity of time for Healthcare information systems personnel to implement new systems. Streamline Health believes that large IDNs and smaller healthcare providers are looking for this type of ASP application because of the ease of implementation and lower entry-level costs. Streamline Health believes its business model is especially well suited for the medium to small acute care facility marketplace as well as the ambulatory marketplace and is actively pursuing remarketing agreements, in addition to those discussed below, with other Healthcare information systems and staff outsourcing providers to distribute Streamline Health's workflow solutions. Streamline Health's quarterly operating results have varied in the past and may continue to do so in the future because of various reasons including: demand for Streamline Health's products and services, long sales cycles, and extended installation and implementation cycles based on customer's schedules. Sales are often delayed because of customers budgets and competing capital expenditure needs as well as customers' personnel resource constraints.

Delays in anticipated sales or installations may have a significant impact on Streamline Health's quarterly revenues and operating results, because substantial portions of the operating expenses are fixed and the revenues are more variable.

UNEVEN PATTERNS OF QUARTERLY OPERATING RESULTS

The Company's revenues from 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 customized programming provided. Revenues from maintenance services do not fluctuate significantly from quarter-to-quarter, but have been increasing, on an annual basis, as the number of customers increase. Revenues from ASP application-hosting services operations are expected to increase over time as more hospitals outsource services to Streamline Health's ASP Division, its partners begin to utilize the software, and existing customers increase the volume of documents stored on the systems and the number of retrievals increases. The loss of any current client would make it difficult to realize such increases.

The Company's revenues and operating results may also vary significantly from quarter-to-quarter because of a number of other factors, many of which are outside the Company's control. These factors include the relatively high purchase price of a system, unpredictability in the number and timing of systems sales, length of the sales cycle, delays in the implementation process and changes in the customer's financial condition or budget and the sales activities of the remarketing partners. As a result, period-to-period comparisons may not be meaningful with respect to the past operations of the Company nor are they necessarily indicative of the future operations of the Company.

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REVENUES

Revenues for the second fiscal quarter ended July 31, 2007, were \$3,203,215, compared with \$4,582,706 reported in the comparable quarter of 2006. Revenues for the six months ended July 31, 2007, were \$6,982,615, compared with \$8,431,129 reported in the comparable prior period in 2006. The year-to-date decrease was primarily a result of decreased system sales including software licenses and hardware resulting from the delay in the signing of contracts in negotiations and the inability to recognize revenue on a significant new contract until such time as the site specific integration of our standard software required by the customer can be completed, which was offset to some extent by increased maintenance and support revenues. Traditionally, the first two quarters are the most challenging because of the seasonality of software licensing revenues, which the Company has experienced in the past, with a greater portion of the annual revenues recorded in the later two quarters.

OPERATING EXPENSES

Cost of Systems Sales

The cost of systems sales includes amortization of capitalized software development costs on a straight-line basis, royalties and the cost of third party software and hardware. Cost of systems sales as a percentage of systems sales may vary from period-to-period depending on the mix of hardware and software of the systems or add-on sales delivered. The cost of systems sales as a percentage of systems sales for the second quarter of fiscal 2007 and 2006 were (573%) and 54%, respectively. The cost of systems sales as a percentage of systems sales for the first six months of fiscal 2007 and 2006 were (158%) and 53%, respectively. The increased percentages reflects a significant decline in software licensing and hardware and third party software component revenues during the current quarter and year-to-date and increased capitalized software amortization during the current period when compared to the comparable prior periods.

Cost of Services, Maintenance and Support

The cost of services, maintenance and support includes compensation and benefits for support and professional services personnel and the cost of third party maintenance contracts. As a percentage of services, maintenance and support revenues, the cost of such services, maintenance and support was 48% and 41% for the second quarter of fiscal 2007 and 2006, respectively. As a percentage of services, maintenance and support revenues, the cost of such services, maintenance and support was 46% and 43% for first six months of fiscal 2007 and 2006, respectively. The increased costs reflect an increase in providing the support services.

Cost of Application-hosting services

The cost of application-hosting services operations remained approximately the same for the second quarter and first six months of 2007 when compared to the second quarter and first six months of 2006, as the cost of providing these services is relatively fixed. As a percentage of application-hosting revenues, the cost of application-hosting was 31% and 37% for the second quarter of fiscal 2007 and 2006 and 31% and 36% for the first six months of fiscal 2007 and

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2006, respectively. The decrease in the cost percentage reflects the 11% increase in revenues from new and existing clients combined with a 3.8% decrease in operating costs.

Selling, General and Administrative

Selling, General and Administrative expenses consist primarily of compensation and related benefits and reimbursable travel and living expenses related to the Company's sales, marketing and administrative personnel; advertising and marketing expenses, including trade shows and similar type sales and marketing expenses; and general corporate expenses, including occupancy costs. During the second quarter and first six months of fiscal 2007, Selling, General and Administrative expenses were slightly less than the comparable prior periods.

Product Research and Development

Product research and development expenses consist primarily of compensation and related benefits; the use of independent contractors for specific development projects; and an allocated portion of general overhead costs, including occupancy. During the first two quarters, research and development expenses decreased 16% when compared with the comparable prior period primarily as a result of increased capitalized software. The Company capitalized, in accordance with Statement of Financial Accounting Standards No. 86, approximately \$500,000 and \$400,000 of product research and development costs in the second quarter and \$1,000,000 and \$800,000 in the first six months of fiscal 2007 and 2006, respectively.

Operating profit (loss)

The operating loss for the second quarter of fiscal 2007 was (\$1,054,213) compared with an operating profit of \$240,957 in the second quarter of fiscal 2006. The decrease in the operating profit is the result of the lower systems sales, primarily software licensing revenues and planned increased operating expenses.

The operating loss for the first six months of fiscal 2007 was (\$1,500,926) compared with an operating profit of \$169,514 in the first six months of fiscal 2006. The decrease in the operating profit is the result of the lower systems sales, primarily software licensing revenues and planned increased operating expenses.

Interest income consists primarily of interest on invested cash. The decrease in interest income results from decreased average cash balances.

Interest expense relates primarily to: the long-term debt which was retired during the first quarter of 2007, interest expense on the capitalized leases and the commitment fee on the revolving credit facility.

Net Earnings (loss)

The net loss for the Second quarter of fiscal 2007 was (\$1,071,304) (\$.12 per share) compared with a net earnings of \$214,727 (\$.02 per share) in the second quarter of fiscal 2006. The

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decrease in the net earnings is the result of the decreased systems sales, especially software licensing revenues, increased operating expenses, offset by lower interest income and expense, net as noted above.

The net loss for the first six months of fiscal 2007 was (\$1,514,616) (\$.16 per share) compared with a net earnings of \$134,849 or \$.01 per share) in the first six months of fiscal 2006. The decrease in the net earnings is the result of the decreased systems sales, especially software licensing revenues, increased operating expenses, lower interest income and offset to some extent by lower interest expense, net as noted above.

Management continues to believe that the healthcare document imaging and workflow market is going to be a significant market. Management believes it has made significant investments in the talent and technology necessary to establish the Company as a leader in this marketplace, and continues to believe the Company is well positioned to experience significant revenue growth.

Since commencing operations in 1989, the Company has incurred operating losses. Although the Company achieved profitability in fiscal years 1992, 1993, and 2000 through 2006, the Company incurred a net (loss) in fiscal years 1994 through 1999. In view of the Company's prior operating history, there can be no assurance that the Company will be able to achieve consistent profitability on a quarterly or annual basis or that it will be able to sustain or increase its revenue growth in future periods. Based upon the expenses associated with current and planned staffing levels, profitability is dependent upon increasing revenues.

LIQUIDITY AND CAPITAL RESOURCES

During the last five fiscal years, Streamline Health has funded its operations, working capital needs, and capital expenditures primarily from a combination of cash generated by operations, a \$3,500,000 term loan in 2004 and a revolving credit facility entered into in January 2007. Streamline Health's liquidity is dependent upon numerous factors to include: the timing and amount of revenues and collection of contractual amounts from customers, amounts invested in research and development, capital expenditures, and the level of operating expenses, all of which can vary significantly from quarter-to-quarter.

Streamline Health's customers typically have been well-established hospitals or medical facilities or major HIS companies that resell Streamline Health products which have good credit histories and payments have been received within normal time frames for the industry. However, some healthcare organizations have experienced significant operating losses as a result of limits on third-party reimbursements from insurance companies and governmental entities. Agreements with customers often involve significant amounts and contract terms typically require customers to make progress payments.

Streamline Health has no significant obligations for capital resources, other than the noncancelable operating leases of approximately \$1,061,000 payable over the next four years. Capital expenditures for property and equipment in 2007 are not expected to exceed \$500,000.

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During the three prior fiscal years, Streamline Health has made significant investments for capital expenditures, increased its sales and marketing, product research and development and its support and consulting expenses, and made significant debt reductions. This resulted in significant net cash outlays over the last three fiscal years. Although Streamline Health reduced staffing levels and related expenses during 2003 and 2004, the stringent expense controls and reduced staffing, caused by the necessity to retire the long-term debt, hampered the growth of revenues in fiscal year 2003 and 2004. Accordingly, to continue to achieve increasing revenues and profitability it was necessary for the Company to significantly increase the sales and marketing expenses in fiscal 2005, 2006 and 2007. The Company believes that this strategic initiative to expand sales and marketing should produce improved results later in 2007 and beyond as the expanded sales and marketing efforts begin to produce results. However, there can be no assurance Streamline Health will be able to do so. At July 31, 2007, Streamline Health had cash on hand of \$509,118.

Streamline Health carefully monitors operating expenses. As a result of the current levels of revenues and operating loss, for the foreseeable future, Streamline Health will need to continually assess its revenue prospects compared to its then current expenditure levels. If it does not appear likely that revenues will increase, it may be necessary to reduce operating expenses or raise cash through additional borrowings, the sale of assets, or issue additional equity, or a combination thereof. Certain of these actions will require current lender approval. However, there can be no assurance Streamline Health will be successful in any of these efforts. If it is necessary to significantly reduce operating expenses, this could have an adverse effect on future operating performance.

Streamline Health believes that its present cash position, combined with cash generation currently anticipated from operations and the available credit facility, will be sufficient to meet anticipated cash requirements for the short term. However, continued expansion of the Company will require additional resources. The Company may need to incur additional debt, obtain an additional infusion of capital, or a combination of both, depending on the extent of the expansion of the Company and future revenues. However, there can be no assurance Streamline Health will be able to do so.

To date, inflation has not had a material impact on Streamline Health's revenues or expenses.

SIGNED AGREEMENTS BACKLOG

Streamline Health, or its remarketing partners, enter into master agreements with customers to specify the scope of the system to be installed and services to be provided, the agreed upon aggregate price and the timetable for implementation. The master agreement typically provides that the Company, or its remarketing partner, will deliver the system in phases pursuant to the customer's purchase orders, thereby allowing the customer flexibility in the timing of its receipt of systems and to make adjustments that may arise based upon changes in technology or changes in customer needs. The master agreement also allows the customer to request additional components as the installation progresses, which additions are then separately negotiated as to price and terms. Historically, customers have ultimately purchased systems and services in addition to those originally contemplated by the master agreement.

Although there can be no assurance that

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customers will continue in the future to expand their systems and purchase additional licenses and services, Streamline Health believes, based on its past experience, that its customers will expand their existing systems.

At July 31, 2007, Streamline Health has master agreements, purchase orders or royalty reports from remarketing partners for systems and related services which have not been delivered, installed and accepted which, if fully performed, will generate future revenues of \$15,805,426 as follows:

Streamline Health Software Licenses	\$1,360,196
Custom Software	317,238
Hardware and Third Party Software	980,058
Professional Services	4,903,871
Application Hosting Services	4,002,995
Recurring Maintenance	4,241,068

The related products and services are expected to be delivered over the next two to three years.

Streamline Health's master agreements also generally provide for an initial maintenance period and give the customer the right to subscribe for maintenance and support services on a monthly, quarterly, or annual basis. Maintenance and support revenues for fiscal years 2006, 2005 and 2004 were approximately \$5,617,000, \$5,104,000 and \$5,220,000, respectively. Maintenance and support revenues are expected to increase in 2007.

The commencement of revenue recognition varies depending on the size and complexity of the system; the implementation schedule requested by the customer and usage by customers of the application-hosting services.

Therefore, Streamline Health is unable to predict accurately the revenue it expects to achieve in any particular period. Streamline Health's master agreements generally provide that the customer may terminate its agreement upon a material breach by Streamline Health, or may delay certain aspects of the installation. There can be no assurance that a customer will not cancel all or any portion of a master agreement or delay installations.

Streamline Health's largest application hosting client has informed us that it is in the process of internally developing its own software application using a third party tool kit, which software the client intends to use in place of our ASP services. We believe that the client's ability to develop substitute software that would have the same robust functionality as Streamline Health's current ASP offering will be a major software development undertaking.

Therefore, we are unable to determine if or when this client will discontinue the use of our ASP services. Our current agreement with this client is scheduled to expire on March 31, 2008, and we have mutually agreed to extend that agreement on a month to month basis for up to an additional year ending March 31, 2009.

The potential lost revenues from this client, approximately \$1.7 million annually, a termination or installation delay of one or more phases of any other significant contract, and/or Streamline Health's failure to procure additional ASP revenues or Software licensing revenues, could have a material adverse financial impact on Streamline Health's business, financial condition, and

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results of operations. We believe that Streamline Health will be able to mitigate these potential risks by obtaining additional ASP clients and/or Software license revenues in the future.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of the annual report on Form 10-K for the fiscal year ending January 31, 2007. The Company exposures to market risk have not changed materially since January 31, 2007.

Item 4. Controls and Procedures

Streamline Health maintains disclosure controls and procedures that are designed to ensure that there is reasonable assurance that the information required to be disclosed in Streamline Health's Exchange Act reports 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 Streamline Health'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-14(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.

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of Streamline Health's senior management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Streamline Health's disclosure controls and procedures to provide reasonable assurance of achieving the desired objectives of the disclosure controls and procedures. Based on that evaluation, Streamline Health's management, including the Chief Executive and Chief Financial Officer, concluded that there is reasonable assurance that Streamline Health's disclosure controls and procedures were effective as of the end of the period covered by this report and there have been no material changes in Streamline Health's internal control or in the other controls during the six months ended July 31, 2007 that could materially affect, or is reasonably likely to materially affect, internal controls over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Streamline Health is, from time-to-time, a party to various legal proceedings and claims, which arise, in the ordinary course of business. Streamline Health is not aware of any legal matters that will have a material adverse effect on Streamline Health's consolidated results of operations or consolidated financial position.

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Item 1A Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A, Risk Factors in the annual report on Form 10-K for the fiscal year ending January 31, 2007. The risk factors have not materially changed since January 31, 2007. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. In addition, risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company, its financial condition and/or operating results.

Item 3. DEFAULTS UPON SENIOR SECURITIES

The Company is not in default under its existing Loan Agreement.

Item 6. EXHIBITS

(a) Exhibits

- 3.1 Certificate of Incorporation of Streamline Health Solutions, Inc. (*)
- 3.2 Bylaws of Streamline Health Solutions, Inc. (*)
- 4 Revolving Note (*)
- 11 Computation of Earnings (Loss) Per Common Share
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a -14(a) and Rule 15d 14(a) of the Securities Exchange Act, as Amended
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a -14(a) and Rule 15d 14(a) of the Securities Exchange Act, as Amended
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

(*) Incorporated herein by reference from, the Registrant's SEC filings.

(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: September 5, 2007

By: /s/ William A. Geers
William A. Geers
Chief Operating Officer

DATE: September 5, 2007

By: /s/ Paul W. Bridge, Jr.
Paul W. Bridge, Jr.
Chief Financial Officer and Treasurer

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INDEX TO EXHIBITS

Exhibit No.	Exhibit
3.1(a)	Certificate of Incorporation of Streamline Health Solutions, Inc. f/k/a/ LanVision Systems, Inc. Previously filed with the Commission and incorporated herein by reference from, the Registrant's (LanVision System, Inc.) Registration Statement on Form S-1, File Number 333-01494, as filed with the Commission on April 15, 1996.
3.1(b)	Certificate of Incorporation of Streamline Health Solutions, Inc. f/k/a LanVision Systems, Inc., amendment No. 1 Previously filed with the Commission and incorporated herein by reference from Exhibit 3.1(b) of the Registrant's Form 10-Q, as filed with the Commission on September 8, 2006.
3.2	Bylaws of Streamline Health Solutions, Inc. Previously filed with the Commission and incorporated herein by reference from Exhibit 3.2 of the Registrant's Form 10-Q, as filed with the Commission on June 5, 2007.
4	Revolving Note, and associated documents, dated January 20, 2007, between Streamline Health, Inc. (a wholly owned subsidiary of the Registrant) and the Fifth Third Bank. (Previously filed with the Commission, and incorporated herein by reference from, Exhibit 10 of the Registrant's Form 8-K, as filed with the commission on January 25, 2007.)
11	Computation of Earnings (Loss) Per Common Share

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31.1	Certification of Chief Executive Officer pursuant to Rule 13a -14(a) and Rule 15d 14(a) of the Securities Exchange Act, as Amended
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