STREAMLINE HEALTH SOLUTIONS INC.
Form 10-Q
September 10, 2009

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

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

For the quarterly period ended July 31, 2009

or

o **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	31-1455414
(State or other jurisdiction of incorporation or organization)	(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

Number of shares of Registrant s Common Stock ($.01 par value per share) issued and outstanding, as of September 10, 2009: 9,421,744.

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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, 2009	(Audited) January 31, 2009
Current assets:		
Cash and cash equivalents	$ 1,541,704	$ 3,128,801
Accounts receivable, net of allowance for doubtful accounts of $100,000	1,284,114	1,328,508
Contract receivables	797,707	502,373
Prepaid hardware and third party software for future delivery	392,104	681,540
Prepaid other, including prepaid customer maintenance contracts	1,272,473	802,951
Deferred income taxes	247,000	247,000
Total current assets	5,535,102	6,691,173
Property and equipment:		
Computer equipment	2,639,721	2,475,928
Computer software	1,515,847	1,405,407
Office furniture, fixtures and equipment	737,344	737,344
Leasehold improvements	574,257	574,257
	5,467,169	5,192,936
Accumulated depreciation and amortization	(3,965,791)	(3,625,408)
	1,501,378	1,567,528
Contract receivables, less current portion		321,500
Capitalized software development costs, net of accumulated amortization of $9,260,125 and $8,311,760, respectively	7,552,995	6,481,360
Other, including deferred income taxes of $1,628,000	1,655,686	1,670,891
	$ 16,245,161	$ 16,732,452

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, 2009	(Audited) January 31, 2009
Current liabilities:		
Accounts payable	$ 991,613	$ 759,577
Accrued compensation	350,720	299,000
Accrued other expenses	284,972	472,113
Deferred revenues	5,598,237	5,941,837
Total current liabilities	7,225,542	7,472,527
Long Term Liabilities:		
Deferred revenues, less current portion	930,734	1,313,977
Line of Credit	800,000	800,000
Other		48,842
Total Liabilities	8,956,276	9,635,346
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, 9,421,744 and 9,354,782 shares issued, respectively	94,217	93,548
Additional paid in capital	36,008,324	35,820,417
Accumulated other comprehensive income	4,811	
Accumulated deficit	(28,818,467)	(28,816,859)
Total stockholders equity	7,288,885	7,097,106
	$ 16,245,161	$ 16,732,452

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	
	2009	2008	2009	2008
Revenues:				
Systems sales	$ 440,539	$ 1,285,528	$ 787,583	$ 1,595,019
Services, maintenance and support	2,800,732	2,674,518	5,516,973	5,107,652
Application-hosting services	828,222	906,933	1,515,736	1,798,426
Total revenues	4,069,493	4,866,979	7,820,292	8,501,097
Operating expenses:				
Cost of systems sales	768,035	921,174	1,433,695	1,672,145
Cost of services, maintenance and support	1,315,986	1,169,821	2,380,116	2,259,337
Cost of application-hosting services	363,848	309,048	795,653	597,239
Selling, general and administrative	1,255,162	1,883,071	2,470,132	3,482,494
Product research and development	383,943	1,011,114	730,190	1,730,369
Total operating expenses	4,086,974	5,294,228	7,809,786	9,741,584
Operating income (loss)	(17,481)	(427,249)	10,506	(1,240,487)
Other income (expense):				
Interest income		2,205		7,759
Interest expense	(10,651)	(447)	(18,117)	(885)
Other income (expense)	16,183		19,003	
Earnings (Loss) before taxes	(11,949)	(425,191)	11,392	(1,233,613)
Income taxes	(6,000)	(3,500)	(13,000)	(10,000)
Net loss	$ (17,949)	$ (428,991)	$ (1,608)	$ (1,243,613)
Basic net loss per common share	$ (0.00)	$ (0.05)	$ (0.00)	$ (0.13)
Diluted net loss per common share	$ (0.00)	$ (0.05)	$ (0.00)	$ (0.13)
Number of shares used in per common share computations:				
Basic	9,379,237	9,275,335	9,367,144	9,267,910
Diluted	9,379,237	9,275,335	9,367,144	9,267,910

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)

	2009	2008
Operating activities:		
Net loss	$ (1,608)	$ (1,243,613)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss (gain) on disposal of fixed assets	4,308	
Depreciation and amortization	1,338,653	1,394,915
Equity award expense	130,176	80,811
Long-term lease incentive	(48,842)	(48,842)
Changes in assets and liabilities:		
Accounts and contract receivables	70,560	1,389,813
Other current assets	(175,275)	(510,506)
Accounts payable and accrued expenses	142,283	(530,007)
Deferred revenues	(726,843)	(528,403)
Net provided by operating activities	733,412	4,168
Investing activities:		
Purchases of property and equipment	(374,114)	(449,267)
Capitalization of software development costs	(2,020,000)	(1,411,000)
Other	15,205	(24,662)
Net cash (used in) investing activities	(2,378,909)	(1,884,929)
Financing activities:		
Proceeds from stock purchase plan and exercise of stock options	58,400	64,443
Net cash provided by financing activities	58,400	64,443
Decrease in cash and cash equivalents	(1,587,097)	(1,816,318)
Cash and cash equivalents at beginning of period	3,128,801	2,189,010
Cash and cash equivalents at end of period	$ 1,541,704	$ 372,692
Supplemental cash flow disclosures:		
Interest paid	$ 17,989	$ 885
Income taxes paid	$ 9,686	$ 8,740

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), 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 months and six months ended July 31, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2010.

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, which established general accounting standards and disclosure for subsequent events. The Company adopted SFAS No. 165 during the second quarter of 2009. In accordance with SFAS No. 165, the Company has evaluated subsequent events through the date and time the financial statements were issued on September 10, 2009.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company s significant accounting policies is presented beginning on page 52 of its fiscal year 2008 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 fiscal year 2009.

Note 3 CHANGES IN BALANCE SHEET ACCOUNT BALANCES

The decrease in cash and cash equivalents during the first six months results primarily from cash generated by operating activities offset by the impact of investing activities, namely expenditures relating to software development costs and purchases of equipment.

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The decrease in prepaid hardware and third party software for future delivery is primarily due to the recognition of the cost of sale expense associated with revenue recorded during the current fiscal year.

The increase in contracts receivable is the result of the increase in the sales of customer contracts where revenue was recorded prior to the associated contractual customer invoicing milestones.

The increase in prepaid other, including prepaid customer maintenance contracts is the result of new prepaid maintenance contracts that are amortized over their service period along with increases in prepaid commissions on new application-hosting services contracts which are amortized over their contract periods.

The decrease in net property and equipment is primarily the result of depreciation and amortization further offset by purchases of equipment upgrades for internal operations and application hosting services and a small amount of fully depreciated assets written off due to obsolescence.

The increase in capitalized software development costs, net, is the result of certain projects reaching technological feasibility for which development cost began being capitalized relating to the development of the next generation of core software solutions and expanded work flow module development offset by amortization expense.

The increase in accounts payable results from the timing of vendor payments at quarter end.

The increase in accrued compensation results from the increase in the accrual of commissions to be paid in subsequent periods for significant sales made in the first and second quarter of fiscal 2009.

The decrease in accrued other expenses results from the timing of payments, adjustments to property tax accruals and product assurance accruals during the second quarter of fiscal 2009.

The amount shown for the line of credit represents total borrowings under the line.

The decrease in deferred revenues reflects the amortization of prepaid maintenance during fiscal 2009, net of any additional payments received in 2009.

Note 4 EQUITY AWARDS

During the first six months of the current fiscal year, the Company granted 27,000 options with a weighted average exercise price of $2.05 per share. During the same period 10,000 options expired with an average exercise price of $1.95 per share, and 6,000 options were exercised under all plans at an average exercise price of $1.50 per share.

On June 25, 2009 the Company granted restricted stock shares subject to the 2005 Incentive Compensation Plan as amended, to certain independent members of the Board of Directors. The shares have an approximate one-year vesting period. A total of 25,422 shares were issued with an average fair value of $2.95 per share.

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The Company adopted the standards of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment,* in fiscal year 2006, using the modified-prospective-transition method which requires expensing the fair value of the equity awards. The expense relating to the fair value of equity awards included in the second quarter and first six months of fiscal year 2009 and 2008 operating expenses amounted to $64,037 and $40,757 for the quarter and $130,176 and $80,811 for the first six months, respectively. The increase reflects the amortization of new grants and the cumulative effect of the amortization of option grants over the past three years. 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.

The fair value of the stock-based compensation as of July 31, 2009 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 4.25%, 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 .773 in 2009. The weighted average expected life of stock options are five years and have a forfeiture rate of zero.

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 that the Company recognizes in its financial statements. 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. Therefore, no reserves for uncertain tax positions have been recorded pursuant to FIN 48.

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, 2006. All material state and local income tax matters have been concluded for years through January 31, 2004.

Income tax expense reflects various state income taxes in which the Company does business.

Note 6 EARNINGS PER SHARE

The basic earnings (loss) per common share are calculated using the weighted average number of common shares outstanding during the period. The company has not included the outstanding stock options in the computation of diluted loss per share for the three and six months ended July 31, 2009 and 2008 because the effect would be anti-dilutive.

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Note 7 CONTRACTUAL OBLIGATIONS

The following table details the remaining obligations, by fiscal year, as of the end of the quarter. There are no capitalized leases or other commitments. Lease obligations beyond fiscal year 2012 are $4,758. There are no other contractual obligations beyond fiscal year 2012.

	Total	2009	2010	2011	2012
Line of Credit	$ 800,000	$	$ 800,000	$	$
Operating leases	669,520	382,937	224,011	43,540	19,032
Total	$ 1,469,520	$ 382,937	$ 1,024,011	$ 43,540	$ 19,032

Note 8 DEBT

Effective July 30, 2008, Streamline Health, Inc., a wholly owned subsidiary of Streamline Health Solutions, Inc., entered into a new revolving loan agreement with Fifth Third Bank, Cincinnati, OH, in the principal amount of $2,000,000. The interest rate on amounts borrowed will accrue at a variable rate ranging from the Prime Rate minus 1/2% to the Prime Rate plus 3%, (or an effective rate of 2.75% [prime minus 1/2 %] at July 31, 2009) based on the trailing twelve months earnings before interest, taxes, depreciation and amortization (EBITDA). The agreement contains other covenants including: Minimum Tangible Net Worth, Fixed Charge Coverage Ratio and Funded Indebtedness to EBITDA. The loan is guaranteed by the Registrant and is secured by a first lien on all of the assets of the Registrant and its subsidiary. The Company was in compliance with all covenants at July 31, 2009. The Company had borrowed $800,000 on the facility as of July 31, 2009. This facility is scheduled to expire on August 1, 2010.

Note 9 PRODUCT ASSURANCE AND INDEMNITIES

Streamline Health accrues for the cost of product assurance at the time revenue is recognized. Streamline Health accrued approximately $0 and $130,000 at July 31, 2009 and January 31, 2008, respectively. Each contract is reviewed quarterly with the appropriate Streamline Health Account Manager to determine the need for a product assurance 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. During the second quarter of 2009 the product assurance reserve balance of $72,000 relating to one customer, was written down to $0 due to the customer s migration away from a purchased, but unused solution. The Company has no further obligation to the client.

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NOTE 10 FINANCIAL INSTRUMENTS

During the second quarter of 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, which requires additional disclosures about the Company s objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related interpretations, and how the derivative instruments and related hedged items affect the financial statements. The adoption of SFAS No. 161 had no material financial impact on the Company s Condensed Consolidated Financial Statements. The Company uses foreign currency hedge instruments 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. The fair value of foreign currency forward contracts is $4,760 at July 31, 2009.

NOTE 11 FAIR VALUE MEASUREMENTS

During the first quarter of 2009, the Company adopted SFAS No. 157 for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

SFAS No. 157 also establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. SFAS No. 157 establishes and prioritizes three levels of inputs that may be used to measure fair value:

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

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability.

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The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of July 31, 2009.

	July 31, 2009			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total (a)
Assets:				
Foreign Currency Hedges	$	$ 4,760	$	$ 4,760
Total assets measured at fair value	$	$ 4,760	$	$ 4,760

(a) The total fair value amounts for assets and liabilities also represent the related carrying amounts.

NOTE 12 COMPREHENSIVE INCOME

Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains, and losses that under U.S. generally accepted accounting principles are recorded as an element of shareholders equity but are excluded from net income. The Company s other comprehensive income consists of the effective portion of foreign currency hedge instruments.

The following table summarizes the components of accumulated other comprehensive income, net of taxes, as of July 31, 2009.

	Three Months Ended July 31, 2009	Six Months Ended July 31, 2009
Net unrecognized gains on foreign currency hedges	$ 4,811	$ 4,811
Accumulated other comprehensive income	$ 4,811	$ 4,811

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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 o 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, product assurance, 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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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 solutions 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 solutions 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.

The Company s software solutions can be provided on a subscription basis via Software as a Service (also referred to as SaaS , hosting , or Cloud Computing) which is remotely hosted, or alternatively, licensed and installed locally. SaaS is the provision of dynamically scalable remote software, infrastructure and resources as a subscription service over a dedicated data communications line or virtual private line (VPN) via the Internet. Users of Software as a Service need not have knowledge of, expertise in, or control over the technology infrastructure in the hosting center that supports them.

Streamline Health provides hosted SaaS to The Health Alliance of Greater Cincinnati, Catholic Healthcare West, T. J. Sampson Community Hospital, Bronx Lebanon Hospital Center, Patty A. Clay Medical Center, Marion General Medical Center, the University of California San Francisco (UCSF), Massena Medical Center, Columbus Ohio Vital Statistics, 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 Parkview Health, Pro Health Care, Peace Health, Texas Health Resources, Sarasota Memorial Hospital, the Albert Einstein Healthcare Network, Beth Israel Medical Center, 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 (PHI) 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, financial and administrative systems, and use document management 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, financial and administrative healthcare information from a single permanent and secure repository, including clinician s handwritten notes, laboratory reports, photographs, insurance cards, human resource documents, 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 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 document management platform, application workflow modules and image and web-enabling tools that allow for the seamless merger of back office functionality with existing Hospital Information Systems at the desktop.

The Company offers its own document imaging/management infrastructure (accessANYware™) 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 administrative departments. Furthermore, these systems have been specifically designed to integrate with any Clinical Information System through various means, including our proprietary software integration tool, STRM-IT℠. For example, Streamline Health has integrated its solutions with selected systems from Telus Health (a Telus company) (Oacis Electronic Medical Record), Siemens Medical Solutions USA Inc. (Siemens), Cerner Corporation, Eclipsys Corporation, Lawson Software, and GE Healthcare (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.

The Company operates primarily in one segment as a provider of health information technology solutions that streamline healthcare information flows within a healthcare facility. The financial information required by Item 101(b) of Regulation S-K is contained in Item 6 Selected Financial Information of the Company s January 31, 2009 Form 10-K.

All references to a fiscal year refer to the fiscal year commencing February 1 in that calendar year and ending on January 31 of the following year.

Beginning in 1998, Streamline Health pioneered offering customers the ability to obtain its workflow solutions on an application-hosting basis as an Application Service Provider (ASP), which is now often referred in the information technology industry as Software as a Service (SaaS). Streamline Health established a SaaS hosting center, and installed Streamline Health s suite of document workflow and document management solutions within the hosting center. Under this arrangement, customers electronically capture document-centric information at the healthcare facility and securely transmit the data to the hosting center. The hosting services center stores and manages the document-centric data using Streamline Health s suite of applications, and customers can view, print, fax, route and process the information from anywhere using the Streamline Health web-enabled applications.

Historically, Streamline Health has derived most of its revenues from recurring SaaS hosting services, recurring maintenance fees, professional services and system sales involving the licensing, either directly or through remarketing partners, of its workflow and document management solutions to healthcare organizations. In a typical transaction, Streamline Health, or its remarketing partners, enter into a fee-for-service SaaS subscription agreement or a perpetual license agreement for Streamline Health s software applications and may license to sell other third-party software and hardware components to the healthcare organization. Additionally, Streamline Health provides professional services, including implementation, training, and product support, as well as Business Process Management Services (BPM) consulting for customer document workflow applications.

Streamline Health earns its highest margins on proprietary Streamline Health software and SaaS hosting services and the lowest margins on third-party hardware and software. Sales to customers may include different configurations of Streamline Health software, third party components (hardware and 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.

The decisions by a healthcare provider to replace, substantially modify, or upgrade its information systems are a strategic decision and may involve a large capital commitment requiring an extended approval process for licensed and locally installed solutions. 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 for licensed solutions 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

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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 facilities (annual operating expense model) or the number of concurrent users (concurrent use model) 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 SaaS-based hosting services solutions, the SaaS hosting services agreements generally provide for utilizing Streamline Health s software and third-party software on a recurring subscription or, for smaller departmental solutions, a fee per transaction basis.

The SaaS-based hosting services were designed to overcome obstacles in the buying decision such as large capital commitment, length of implementation, and the scarcity of time for healthcare organization personnel to implement new systems. Streamline Health believes that large healthcare organizations and smaller healthcare providers are looking for this type of subscription-based solution because of the ease of implementation and lower entry-level costs. Streamline Health is focused on its SaaS model of delivery and believes this business model is especially well suited for the medium to small acute care facility marketplace as well as the ambulatory marketplace. The Company 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 SaaS-based document workflow solutions. The Company also continues to market system sales as appropriate to match customer needs.

Generally, revenues from licensed, locally installed systems sales are recognized when an agreement is signed and solutions are made available to end-users. Revenue recognition related to routine installation, integration and project management are deferred until the work is performed. Revenues from consulting and training services are recognized as the services are performed. Revenues from SaaS-based hosting services are recognized on a subscription or per transaction basis as information is captured, stored, retrieved and processed. Revenues from short-term support and maintenance agreements are recognized ratably over the term of the agreements. Billings to customers recorded prior to the recognition of the revenue are classified as deferred revenues. Revenues recognized prior to progress billings to customers are recorded as contract receivables.

In 2002, Streamline Health entered into a five year Remarketing Agreement with IDX Information Systems Corporation, which was subsequently acquired by GE Healthcare, a unit of the General Electric Company in January 2006. Under the terms of the Remarketing Agreement, IDX/GE was granted a non-exclusive worldwide license to distribute all Streamline Health document workflow and document management software including accessANYware™, Coding Workflow, and SaaS-based hosting services to its customers and prospective customers, as defined in the Remarketing Agreement. The Agreement has an automatic annual renewal provision and, after the initial five year term, which ended January 30, 2007, can be cancelled by IDX/GE upon 90 days written notice to the Company. This automatic annual renewal provision now extends the agreement through January 30, 2010. The Company has no reason to believe that the agreement will not continue to be renewed annually or will be terminated.

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As to licensed, locally installed software, under the terms of the Remarketing Agreement, Streamline Health records this revenue when the solutions are made available to end-users. Royalties are remitted to Streamline Health based upon GE sublicensing Streamline Health s software to its customers. Thirty percent of the royalty is due 45 days following the end of the month in which GE executes an end-user license agreement with its customer. The remaining seventy percent of the royalty is due from GE, in varying amounts based on specific milestones, 45 days following the end of the month in which a milestone occurs.

In December 2007, Streamline Health entered into an agreement with Emergis, Inc., which was subsequently acquired by TELUS, a large international telecommunications corporation based in Canada, in January 2008, under which Telus Health (formerly Emergis) is integrating Streamline Health s accessANYware™ document management repository and document workflow applications into its Oacis (Open Architecture Clinical Information System) Electronic Medical Record (EMR) solution.

In May 2008, Streamline Health and Telus Health announced their agreement to provide their integrated document management and workflow solution at the eight hospitals representing the Centre hospitalier de l Université de Montréal (CHUM) and the McGill University Health Centre (MUHC). Telus Health integrated Streamline Health s accessANYware document management and chart completion workflow solution into its Oacis electronic medical record solution. The integrated solution addresses clinicians need for immediate access to patient records in hybrid environments, where electronic health records still coexist with paper. CHUM and MUHC will be the first sites in Canada to deploy the integrated solution.

In May 2009, Streamline Health in collaboration with Telus Health announced that, consistent with its international expansion plans, the Company s document workflow solutions will be integrated into the electronic medical records solution for multiple facilities within an additional leading Canadian healthcare region. Streamline Health has now secured two large international contracts for implementation of its solutions at a total of over 18 healthcare facilities. As a result, pending General Availability status for its multi-lingual product release, the Company expects to recognize approximately $1.6 million in software licensing revenues plus additional implementation services in the Company s fourth fiscal quarter of 2009. In addition, the Company expects its backlog will increase several million dollars as a result of anticipated installation and maintenance services fees over the term of the agreements. To date, no software revenues have been recorded for these transactions because the contracts call for Streamline Health to deliver a French language version of its software. A beta version of this software was delivered to TELUS in July, 2009 as part of the process to achieve the product s General Availability status as planned later this fiscal year.

In July 2009, Streamline Health entered into an agreement to provide its integrated document management and workflow solution to an existing hosted customer. This project will add approximately $954,000 over a five year term to the current relationship. The solution will create an online centralized repository of all requested pre-surgery documents coupled with smart software that alerts and tracks the entire process and workflow. The solution also includes robust compliance reporting as well as an interface to the customer s surgery scheduler. The revenues for the hosted solution, and the professional services provided by the agreement are recognized in accordance with the Company s revenue recognition policies as described in the preceding paragraphs.

In 2009, Streamline Health launched its Business Process Management Services (BPM) group, which is a dedicated consulting department focused on delivering custom document workflow solutions for our existing installed base of customers and new customers who have a need for stand-alone document workflow applications to improve departmental business processes. BPM services include custom workflow development, business process management, strategic planning, and custom reporting, among other consulting services. These new services will complement our existing professional services, which focus primarily on installation of our standard off-the-shelf software solutions.

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 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.

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At July 31, 2009, 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 $23,397,000 compared with $26,179,000 and $17,692,000 at the end of the fourth and second quarter of 2008 as follows:

	July 31, 2009	January 31, 2009	July 31, 2008
Streamline Health Software Licenses	$ 2,012,000	$ 1,027,000	$ 1,981,000
Custom Software	166,000	278,000	349,000
Hardware and Third Party Software	407,000	562,000	1,227,000
Professional Services	3,805,000	4,691,000	5,296,000
Application Hosting Services	11,634,000	13,043,000	4,605,000
Recurring Maintenance	5,373,000	6,578,000	4,234,000
TOTAL	$ 23,397,000	$ 26,179,000	$ 17,692,000

This is an increase of 32% over the second quarter backlog of a year ago. In the subsequent quarters since July 31, 2008, Streamline Health experienced a large increase in new hosting business instead of the traditional pattern of mostly new purchase or directly licensed software contracts by its new clients. As a result, the Streamline Health software component of this backlog initially declined and was offset by large increases in the hosting backlog. The increase in the Streamline Health software component is due to the previously announced Canadian software contract signed this fiscal year. The single largest contributor to backlog from July 31, 2008 to July 31, 2009 relates to the significant growth in our Application Hosting Services backlog. From January 31, 2009 to July 31, 2009 backlog declined 11% which is reflective of the Company recognizing revenues from sales made in 2008 in the first six months of 2009, and the suspension of one small hosting client during the first quarter, due to economic factors, and an expected reduction in the rollout of services from another hosting client as adjusted in the second quarter due to the client s recent organization changes. The related products and services are expected to be delivered over the next two to three years.

Streamline Health s master agreements 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 2008, 2007 and 2006 were approximately $7,331,000, $6,861,000 and $5,711,000, respectively. Maintenance and support revenues are expected to continue to increase in fiscal 2009 as existing commitments are renewed and new customers are added.

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. A termination or installation delay of one or more phases of an agreement, or the failure of Streamline Health to procure additional agreements, could have a material adverse effect on Streamline Health s business, financial condition, and results of operations.

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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, customized programming provided and timing of the recognition of revenues under generally accepted accounting principles. Conversely, 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.

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.

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

REVENUES

Revenues for the three months ended July 31, 2009, were $4,069,493 compared with $4,866,979 in the comparable quarter of 2008. The quarter-over-quarter decrease was a result of a decrease of approximately $845,000 in systems sales due to the revenue associated with one large contract recorded in the second quarter of fiscal 2008; and a $79,000 decrease in application hosting revenues is primarily due to the previously announced loss of a large hosting customer in July of 2008. Declines in these revenue categories were offset by an increase of approximately $126,000 in professional services and maintenance and support revenues primarily relating to the services provided to the newer hosting customers that are going into production.

Revenues for the first six months ended July 31, 2009, were $7,820,292, compared with $8,501,097 reported in the comparable period of 2008. The decrease was primarily a result of decreased systems sales revenues of approximately $808,000 due to the revenue associated with one large contract recorded in the second quarter of fiscal 2008. The decrease in license revenues was coupled with a decrease in application-hosting services revenues of approximately $283,000 over the comparative six month period. This decrease in application hosting is primarily due to the previously announced loss of a large hosting customer in July of 2008. This loss of revenue has been partially offset by revenues from new hosting contracts. Revenues from new hosted customers won since July of 2008 continue to incrementally roll out in fiscal 2009. When these application-hosting services are totally implemented, these new customers are expected to generate revenues approaching the revenues attributed to the loss of the large hosting customer in July 2008. The Company continues to aggressively pursue additional application-hosting customers which will replace the revenue decreases in purchased solutions and migrate to the hosted solutions which create a more consistent stream of revenues.

Decreases in systems sales and application hosting revenues were offset by increases in maintenance and support revenues of approximately $205,000 and increases of $204,000 in professional services revenues for the comparative six month periods due to normal scheduled annual increases in maintenance billing rates, and increased professional service activity for new hosting customers.

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. The cost of system sales for the three months ended July 31, 2009 was $768,035 compared with $921,174 in the comparable prior period. The decrease in the cost of sales is primarily the result of the reduced capitalized software amortization expense pending general release of our latest generation product line. Cost of systems sales as a percentage of systems sales may vary from period-to-period depending on hardware and software configurations of the systems sold or add-on sales delivered. The cost of systems sales as a percentage of systems sales for the second quarter of fiscal 2009 and 2008 were 174% and 72%, respectively. The relatively fixed cost of the capitalized software amortization compared to the variable nature of system sales each quarter causes these percentages to vary dramatically, especially in those periods where systems sales are low. The cost of systems sales as a percentage of systems sales for the first six months of fiscal 2009 and 2008 were 182% and 105%, respectively. The increased percentage is primarily reflective of the decrease in software licensing revenues during the second quarter, offset by decreased capitalized software amortization during the current periods 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. The cost of services, maintenance and support for the three months ended July 31, 2009 was $1,315,986 compared with $1,169,821 in the prior period. This increase is due to increased professional services staffing costs and third party maintenance contract costs associated with supporting an increased customer base. As a percentage of services, maintenance and support revenues, the cost of such services, maintenance and support was 47% and 44% for the second quarter of fiscal 2009 and 2008, respectively. As a percentage of services, maintenance and support revenues, the cost of such services, maintenance and support was 43% and 44% for the first six months of fiscal 2009 and 2008, respectively.

Cost of Application-hosting services

The cost of application-hosting services operations increased approximately 18% during the second quarter of fiscal 2009 when compared to the comparable period in 2008, as the cost of providing these services is relatively fixed, but subject to inflation for the goods and services it requires. The cost of application-hosting services for the three months ended July 31, 2009 was $363,848 compared with $309,048 in the prior period. The increase is primarily attributable to increased depreciation and third party maintenance expense as a result of the growing data center operations. As a percentage of application-hosting revenues, the cost of application-hosting was 44% and 34% for the second quarter of fiscal 2009 and 2008, respectively. These increased percentages are primarily attributable to the expense increases as noted, and the loss of a large application-hosting customer in July 2008 as previously noted above. As a percentage of application-hosting revenues, the cost of application-hosting was 53% and 33% for the first six months of fiscal 2009 and 2008, respectively. The increase represents a one-time expense of approximately $65,000 relating to certain licenses which were expensed during the first quarter of 2009, and increases in maintenance and depreciation expenses on new equipment related to operating the data center as noted above.

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. Selling, General and Administrative expenses for the three months ended July 31, 2009 and 2008 were $1,255,162 and $1,883,071, respectively. Selling, General and Administrative expenses for the six months ended July 31, 2009 and 2008 were $2,470,132 and $3,482,494, respectively. This decrease of 33% and 29% over the respective comparable prior periods is due to effective cost management measures taken including; planned reductions in sales and administrative expenses, the continued suspension of bonus plans, and strategic decreases in headcount within the organization. The Company has been able to capitalize on efficiencies gained in the current three and six month periods by reducing expense and increasing cash flow. Commission plans for sales personnel were not suspended and commissions were paid and will continue to be accrued. The total decrease in bonus compensation expense for the quarter ended July 31, 2009 was approximately $182,000 and $325,000 compared to the corresponding three and six month periods. The financial impact of efficiencies gained during the prior three quarters will continue to have a positive effect on subsequent quarters in 2009.

Product Research and Development

Product research and development expenses consist primarily of compensation and related benefits; the use of independent contractors for specific near-term development projects; and an allocated portion of general overhead costs, including occupancy. During the second quarter of fiscal 2009, research and development expenses decreased approximately $627,000 or 62% when compared with the comparable prior quarter of fiscal 2008. This is primarily a result of certain research and development projects reaching technological feasibility resulting in increased capitalized software development costs associated with the new products under development. The Company capitalized, in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, approximately $1,071,000 and $511,000 of product research and development costs in the second quarter of fiscal 2009 and 2008 and approximately $2,020,000 and $1,411,000 in the first six months of fiscal 2009 and 2008, respectively. These increases in capitalized development costs relate primarily to costs incurred to bring to market the next generation of accessANYware™ and workflow products.

Operating profit (loss)

The operating (loss) for the second quarter of fiscal 2009 was $(17,481) compared with an operating (loss) of ($427,249) in the second quarter of fiscal 2008 due to cost reduction measures taken to significantly reduce selling, general and administrative expenses; and an increase in services, maintenance, and support revenues from new and existing customers. The operating profit for the first six months of fiscal 2009 was $10,506 compared with an operating (loss) of ($1,240,487) in the first six months of fiscal 2008. The improvement in earnings for the six months ended July 31, 2009 is the result of the approximate 20% decrease in operating expenses, even though total revenues decreased 8% year-over-year.

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

The increase in interest expense for the three and six month period ending July 31, 2009 is because the Company had increased borrowings and amounts outstanding in more months than in the comparable prior periods in 2008.

Net (loss)

The net (loss) for the second quarter of fiscal 2009 was $(17,949) ($0.00 per share) compared with a net (loss) of $(428,991) ($0.05 per share) in the second quarter of fiscal 2008. The net (loss) for the first six months of fiscal 2009 was $(1,608) ($0.00 per share) compared with a net (loss) of $(1,243,613) ($.13 per share) in the first six months of fiscal 2008. The reduced net loss for the three months and six months ended July 31, 2009 is the result of efficiencies gained from improved cost management. These improvements were offset by the decrease in application-hosting and licensed system revenues.

Management continues to believe that the healthcare document management and workflow market will continue to grow and expects significant growth coming from the Company s hosting services. Management believes it has made, and continues to make, 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, particularly for its SaaS hosting services.

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, 2007 and 2008. 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.

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LIQUIDITY AND CAPITAL RESOURCES

During the last six fiscal years, Streamline Health has funded its operations, working capital needs, and capital expenditures primarily from cash generated by operations and bank loans. Streamline Health s liquidity is dependent upon numerous factors that 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 solutions 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 $800,000 line of credit which expires August 2010, and the non-cancelable operating leases of $670,000 payable over the next four years. Capital expenditures for property and equipment in 2009 are not expected to exceed $800,000. At July 31, 2009, Streamline Health had a cash balance of $1,541,704.

During the five 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 five fiscal years. Accordingly, to achieve increasing revenues and profitability it was necessary for the Company to significantly increase the sales and marketing and product development expenses over the past five years, including capitalized software in fiscal 2007, 2008 and 2009. The Company believes that a significant shift in market demand toward hosted services is occurring as a result of better market adoption, numerous customers with a history of hosting success, and more recently, economic developments that have created scarce capital dollars for most hospital organizations. Our strategic initiatives to reorganize our resources to focus on software as a service via our hosting solutions, and growth into Canada, should produce improved results in 2009 and beyond as recurring hosted revenues are anticipated to grow. However, there can be no assurance Streamline Health will be able to do so.

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, which the Company undertook late in the third quarter 2008 and into 2009 through attrition, bonus suspension, and downsizing of the staff, 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 further reduce operating expenses, this could have an adverse effect on future operating performance.

As of September 2009 the Company is finalizing a modification to the existing revolving loan agreement with Fifth Third Bank, Cincinnati, OH, to increase the line of credit available to $2,750,000. We anticipate the proposed agreement will modify the interest rate on the facility to a rate of LIBOR plus 3.25%. The anticipated new agreement term is two years maturing in September 2011. All pledged collateral, financial covenants and requirements are expected to remain unchanged from the current agreement in place at July 31, 2009.

Streamline Health believes that its present cash position and expected availability under the line of credit, combined with cash generation currently anticipated from operations, will be sufficient to meet anticipated cash requirements for the short term. 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 future expenses and revenues of the Company. 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). FSP FAS 157-2 permitted delayed application of SFAS No. 157, Fair Value Measurements, for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted the provisions of SFAS 157, except for portions related to the non-financial assets and liabilities within the scope of the deferral provided by FSP FAS 157-2. The Company determined the adoption of SFAS 157 to include all nonfinancial assets and liabilities did not have a material impact on the Company s financial condition or operating results.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets. FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS 142, Goodwill and Other Intangible Assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The Company determined that the adoption of FSP 142-3 did not have a material impact on the consolidated financial statements of the Company.

In April 2009 the FASB issued FSP 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends SFAS 107 to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this amendment for the interim reporting period ending July 31, 2009.

In May 2009, the FASB issued SFAS 165, Subsequent Events , which establishes general standards of account for disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition, and the circumstances under which an entity should recognize events or transactions identified. The statement also sets forth the required disclosures for material subsequent events or transactions. The Company adopted the statement as of July 31, 2009.

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 ended January 31, 2009. The Company s exposures to market risk have not changed materially since January 31, 2009.

Item 4T. 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 Interim 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 Interim 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 Interim 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 quarter ended July 31, 2009 that could materially affect, or is reasonably likely to materially affect, internal controls over financial reporting.

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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.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report and the risk factors set forth below, 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 ended January 31, 2009; and in Part II, Item 1A. Risk Factors in the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2009 (the 2009 First Quarter 10-Q). The risk factors in the Annual Report, and in the 2009 First Quarter 10-Q; have not materially changed since April 30, 2009. The risk factors described below, in the Annual Report on Form 10-K, and in the 2009 First Quarter 10-Q, 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.

Foreign Currency Risk

In connection with the Company s expansion into foreign markets, the Company is a receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect the Company s net sales and gross margins as expressed in U.S. dollars. There is also a risk that the Company will have to adjust local currency product pricing due to competitive pressures when there has been significant volatility in foreign currency exchange rates.

Item 3. DEFAULTS UPON SENIOR SECURITIES

The Company was in compliance with all financial covenants at July 31, 2009.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of the Company s stockholders was held on May 27, 2009. The Company previously reported the results of the matters voted on at such annual meeting in Part II, Item 4, of the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2009, which Item 4 is incorporated herein by reference.

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Item 6. EXHIBITS
(a) Exhibits

3.1(a)	Certificate of Incorporation of Streamline Health Solutions, Inc. (*)
3.1(b)	Certificate of Incorporation of Streamline Health Solutions, Inc., amendment No. 1 (*)
3.2	Bylaws of Streamline Health Solutions, Inc. (*)
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 10, 2009	By: /s/ J. Brian Patsy J. Brian Patsy Chief Executive Officer
DATE: September 10, 2009	By: /s/ Donald E. Vick, Jr. Donald E. Vick, Jr. Interim Chief Financial Officer

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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 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 the Registrant s Form 10-Q, as filed with the Commission on June 5, 2007
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
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