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## Conference Call Transcript

**STRM - Q1 2008 Streamline Health Solutions, Inc. Earnings Conference Call**

**Event Date/Time: May. 20. 2008 / 10:00AM ET**

## CORPORATE PARTICIPANTS

**Paul Bridge**

*Streamline Health Solutions, Inc. - CFO*

**Brian Patsy**

*Streamline Health Solutions, Inc. - President & CEO*

**Joe Brown**

*Streamline Health Solutions, Inc. - CIO & VP, Client Services*

**Gary Winzenread**

*Streamline Health Solutions, Inc. - VP, Product Development & Strategy*

## CONFERENCE CALL PARTICIPANTS

**Bill Bunn**

*Fort Washington Investment - Analyst*

**Mark Cahill**

*Analyst*

**Tom Carpenter**

*Hilliard Lyons - Analyst*

## PRESENTATION

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**Operator**

Good day, ladies and gentlemen, and welcome to the first quarter 2008 Streamline Health Solutions, Incorporated earnings conference call. My name is J.D. and I'll be your conference coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of today's conference. (OPERATOR INSTRUCTIONS)

I would now turn the call over to Mr. Paul Bridge, Chief Financial Officer. Please proceed, sir.

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

Thank you very much, operator. Good morning everyone. I'm Paul Bridge, the Chief Financial Officer of Streamline Health Solutions, Inc. and thank you for joining us. With me today to discuss the first quarter operating results are Brian Patsy, President and Chief Executive Officer, Gary Winzenread, Vice President, Product Development and Strategy, and Joe Brown, Vice President, Client Services and Chief Information Officer. All of us will be available to answer questions during the question-and-answer session. We have arranged for the webcast of this conference call to be recorded and will be available at the website listed in the quarterly press release for the next 30 days.

Before I begin our discussion, I would like to read the Safe Harbor statement. Statements made by Streamline Health that are not historical facts are forward-looking statements that are subject to risks and uncertainties. Future financial performance could differ materially from expectations of Management and the results reported now or in the past. Factors that could cause the financial performance to so differ include, but are not limited to, the impact of competitive products and pricing, product development, reliance on strategic alliances, availability of products produced from third-party vendors, the healthcare regulatory environment, fluctuations in operating results and other risks detailed from time to time in our filings with the U.S. Securities and Exchange Commission.

Yesterday we released our first quarter financial results. I would like to highlight the more significant aspects of our results. Our first quarter is traditionally not our strongest quarter and this one was no exception, especially after the very strong fourth quarter of last year. Traditionally, software licenses are skewed towards the second half of the fiscal year. Having said that, we are very pleased that our first quarter revenues this year were on budget for the current year, which we believe bodes well for the rest of the year. Total revenues for the quarter were \$3.6 million, down only slightly from the comparable prior period, primarily on lower system sales of software during the first quarter of this year, compared

with the first quarter of last year. However, it should be noted that our services maintenance support increased 13%, which included a very strong 43% increase in professional service revenues, as we continue to install previously signed contracts.

Our total backlog continues to exceed \$15 million, even after the reductions during the quarter, for previously contracted services, maintenance and support and application hosting services. We added to the backlog during the period for two new contracts which were signed during the quarter, with future deliverables which preclude current period revenue recognition. Overall, operating expenses increased only 4.5% over the comparable prior period, even as we continue to invest in our product development and sales and marketing infrastructure. Our operating loss of \$813,000 for the quarter was in line with our operating plan. The increased loss was the result of a combination of lower system sales, software license revenues, and the planned increased expenses. Research and Development expenses declined during the quarter because of the increased capitalized development costs this quarter relating to our new products under development.

We continue to monitor our expenses, cash balances and receivables carefully to ensure they are on plan vis-a-vis our revenues. We continue to be debt-free and our current cash balance exceeds \$2 million. We are continuing to negotiate with several potential lenders on our larger multi-year working capital facility we hope to have in place soon. Now I would like to turn the call over to Brian Patsy, who will discuss in greater detail some of the significant factors that affected the quarter and the prospects for the remainder of the year.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Thank you, Paul and good morning, everybody. This morning I will comment briefly on our financial results, and then discuss our sales activities and further expansion of our direct sales force, our business development activities, primarily on the international front, an update on our product development activities including upcoming product releases, and finally, I will discuss our expectations for a solid performance in 2008. After my remarks, we will conduct our usual question-and-answer session. Regarding our Q1 financial performance, our Q1 revenues of \$3.6 million and net loss of \$814,000 were consistent with traditional operating patterns and in line with Management's expectation. Q1 revenues were slightly behind last year's comparable quarter, primarily because we could not recognize revenue in the first quarter on a major system sale of two large -- to two large healthcare organizations that included a future deliverable of multi-language capabilities.

At the end of the quarter, our backlog stood at \$15.3 million. Of that, \$6.3 million are revenues that will be generated from maintenance and hosting services, which are considered to be recurring revenues. For the just completed quarter, 72% of total revenues were recurring revenues. We believe that recurring revenues will increase in the future years as the percentage of our hosting customers grow in relation to our overall customer base. In addition, as we recognize revenues in future periods from completing future deliverables on our major sales in our backlog, our financial performance will be substantially improved.

Our Professional Services revenues increased sharply as we began implementation of numerous systems in our backlog. We expect our Professional Services to continue to grow based on our backlog, planned upgrades to current versions of our solutions and projected new sales implementations anticipated for the remainder of the year. Based on the business development activities undertaken during the quarter by our distribution partners and our direct sales force, we believe that fiscal year 2008 will yield improved operational and financial results. Based on the pipeline of anticipated contracts, we believe that future quarterly performance throughout fiscal year 2008 will be strong and, taken together, will produce improved results for the entire fiscal year. We continue to be debt-free and we believe we will generate positive cash flow at least through the second quarter of this year.

At this point I would like to review our sales and business development activities. Regarding our sales activities, as mentioned earlier, we signed a new major contract for two large healthcare organizations that involve the future delivery of a multi-language capability. This new system sale marks a significant milestone in our expansion to international markets. We expect an announcement regarding these new customers in the very near future. We now have a total of 13 potential new transactions of various sizes in our sales pipeline where we are in contract negotiations, vendor of choice or co-vendor of choice. This is up from seven reported last quarter. These 13 transactions represent approximately \$7.5 million in system sales revenue over the next 24 months, plus approximately \$10 million in total hosted revenues over the life of the potential contracts, which typically range from four to five years. As always, we are subject to typical delays that are part and parcel of our business, however, the point here is that we are now more actively engaged in a larger number of deals that have the potential to be closed, resulting in expanded backlog and revenue recognition in future quarters. We are very pleased with this development.

In that regard, we have recently expanded our direct sales staff again to generate additional market coverage and to complement the sales efforts of our three primary distribution partners, GE Healthcare, Emergis and Standard Register. We now have nine sales professionals, four account executives responsible for new business, two client managers responsible for selling into our installed base of customers, one revenue cycle sales specialist and two new dual account executive client managers. Supporting these nine sales professionals are eight additional sales support

personnel. We believe this recent expansion of our sales team will help us identify additional opportunities and allow us to further grow our sales pipeline in the second half of our fiscal year and beyond.

Regarding our business development activities, one of the highlights of our Company's performance in Q1 has been the rapid pace in which we are executing on our international expansion plans. As announced in Q4, we have a new partnership with Emergis, a TELUS company for distribution of our solutions in Canada. The integration we have built utilizing our streamlined integration tools or StreamIt with Emergis' Oasis electronic health record system has been deemed of high value by targeted Oasis customers by providing a more unified health record of patient data and documents. Emergis' sales, business development and consulting services teams have been actively consulting with their customers on these needs. Our partnership with Emergis has tremendous revenue potential and they are quickly building a pipeline of opportunities for our document management and workflow solutions across their customer base. We will keep you apprised of the continued execution of our international expansion plans in each of these quarterly earning calls this year.

I would also like to note that our relationship with GE Healthcare is a vital and very strong relationship that both parties are benefiting from. Of the 13 new transactions that were active during the quarter, GE Healthcare was instrumental in six of them going into our sales pipeline. We are pleased that they promote our workflow solutions to address document centric process issues within their prestigious client base. We expect this collaboration to become even more deeply embedded into each other's organizations in the coming years. As we do with Emergis and Standard Register, we value our relationship with GE Healthcare.

At this point, I would like to comment on our product development activities. Product development continues to invest resources in the design and the development of a new architectural platform that will enhance our solution's ability to seamlessly integrate into healthcare enterprises. The first version of this new architecture, which includes six key architectural elements, has been completed. We are currently building multiple workflow products on this new architecture. The first of these new workflows, financial screening workflow, which streamlines our customer's processes for handling charity care cases, is complete and in test with our beta partner. We expect the general availability announcement later this quarter. In addition to enabling enhanced integration of our solutions into the healthcare enterprise, we expect that our investment in our next generation architecture will shorten our time to market for product enhancements and new solutions. As a result, we should achieve better productivity and more frequent product releases in the workflow product family.

Leveraging off our product development successes, we see a substantial growth opportunity ahead. As I indicated earlier in my comments, the combined sales efforts of our distribution partners and of our direct sales force positions us to substantially increase the number of transactions that enter into our sales pipeline, get closed and move into our backlog. And they expand -- and also to expand the recurring revenue that we generate going forward. We think this is a strong equation that will result in improved operational and financial performance and enhanced shareholder value. We are excited with the opportunities ahead. Let me conclude my remarks by reiterating that we anticipate a strong Q2 and Q3, based on the current contract negotiation activity. Furthermore, we also anticipate recognizing approximately \$2 million in additional revenue in the second half of the year, as a result of the completion of a future deliverable from a contract we signed last year which required us to defer recognition of revenue. As a result, we expect 2008 will be a solid year of performance. This concludes my formal remarks. I would like to turn the call over to Paul for the question-and-answer session. I have asked Gary Winzenread and Joe Brown to be available for this quarter's discussion should you wish to ask them any specific questions.

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

Thank you, Brian. Operator, may we have the first question, please?

**QUESTION AND ANSWER**

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**Operator**

(OPERATOR INSTRUCTIONS) Your first question will be from the line of [Bill Bunn] of Fort Washington Investment. Please proceed.

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**Bill Bunn - Fort Washington Investment - Analyst**

Good morning.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Good morning, Bill.

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**Bill Bunn - Fort Washington Investment - Analyst**

Last quarter you thought there would be four contracts closed in the first half and I think we've just heard about one. So you're still expecting three in the second quarter? Are you still on that forecast?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Substantially, yes. I need to clarify. We did close one large system sale that involves two healthcare organizations in the first quarter. We have several more for -- anticipated for the second quarter but essentially that is true.

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**Bill Bunn - Fort Washington Investment - Analyst**

What was the nature -- I'm not sure I understood what you did close there. You talk about a multi-language -- what was the word you used there? I'm looking it up on the press release here. What kind of contract is that, just to make sure I understand.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

It's a contract that is outside the borders of the U.S.

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**Bill Bunn - Fort Washington Investment - Analyst**

Okay. That is international then.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Correct. And it does involve the provision of multi-language capabilities in the product, which is why we will defer the revenue until those capabilities are delivered.

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**Bill Bunn - Fort Washington Investment - Analyst**

So that's one large system sale that involved two organizations somewhere outside the borders?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

That's correct. Two large healthcare organizations and several small ones. So it's a significant transaction for the Company and it's really a breakthrough for us, moving into international territory.

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**Bill Bunn - Fort Washington Investment - Analyst**

Is this --

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

We do anticipate an announcement on that in the very near future.

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**Bill Bunn - Fort Washington Investment - Analyst**

Is this an ASP style contract?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

No.

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**Bill Bunn - Fort Washington Investment - Analyst**

All right. So it's more of a direct model where you get the money up front?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

That's correct.

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**Bill Bunn - Fort Washington Investment - Analyst**

Okay. I noticed the application hosting has been essentially flat year-over-year, according to your revenue statement. Is that -- are you expecting that to begin growing again? Do I understand that from -- ?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

We do anticipate several transactions that are ASP-based over the next couple of quarters.

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**Bill Bunn - Fort Washington Investment - Analyst**

Okay. Have you lost customers within that category over the last year?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Not yet, no.

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**Bill Bunn - Fort Washington Investment - Analyst**

All right. You simply haven't had any over the last 12 months?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

We have added but the revenue hasn't really hit the revenue line yet because of the implementation cycle.

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**Bill Bunn - Fort Washington Investment - Analyst**

All right. So you -- that becomes a deferred item that is recovered later?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

No, as you recall with ASP, when we sign a contract, we don't recognize the revenue until the product is installed and in operations and we do it ratably each month based on the services provided.

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**Bill Bunn - Fort Washington Investment - Analyst**

Now, from a liquidity perspective, about \$1 million in cash was consumed in the past quarter from the January quarter to the April quarter. And I believe I heard someone -- I think Paul indicated that you thought that cash balance today was \$2 million and you reported \$1.2 million at the end of the quarter, so you've actually received at least \$800,000 in payments from those contracts just in the last few weeks?

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

Yes.

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**Bill Bunn - Fort Washington Investment - Analyst**

Okay. So you'll be cash flow positive through the first half. Does something change in the second half or you just don't have visibility at this point?

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

It's just visibility.

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**Bill Bunn - Fort Washington Investment - Analyst**

The second half typically is stronger. Does that generate cash or are you using cash to develop the projects?

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

It should generate cash, Bill, presuming that we deliver on our plan.

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**Bill Bunn - Fort Washington Investment - Analyst**

All right.

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

For growth.

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**Bill Bunn - Fort Washington Investment - Analyst**

Where do you stand with your line of credit with -- used to be with Fifth Third, it may still be there. Has that been renegotiated?

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

It was extended for 90 days while we're negotiating with other potential lenders.

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**Bill Bunn - Fort Washington Investment - Analyst**

Okay.

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

For a larger line and for a multi-year facility.

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**Bill Bunn - Fort Washington Investment - Analyst**

All right. That's it for now. I may get in the queue later. Thank you.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Welcome.

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**Operator**

Next question is from the line of [Mark Cahill].

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**Mark Cahill Analyst**

Good morning, gentlemen, and congratulations on that international deal. Actually, I'd like to get a little more color on the Emergis company. Could you guys give us an idea of the size of their sales force, the regions that they're in.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

First of all, Emergis is a very large company that was recently over the last six months acquired by TELUS, which is a multi-billion dollar international company based in Canada. The sales force is quite large. Frankly, I don't know the exact numbers, but it's certainly in the 10 to 20 range of direct salespeople in Canada. They have several people in the U.S. as well as account executives in Australia and the Pacific Rim. So it's a pretty substantial size company.

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**Mark Cahill Analyst**

When you say Pacific Rim, are you referring to Japan? China? What's the Pacific Rim countries, you think?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

All the countries in that category, yes.

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**Mark Cahill Analyst**

Okay. Do they sell much here in the United States?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Actually, they have several installs in the United States and it's kind of a long history. The product that they market is called Oasis, which is --

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**Mark Cahill Analyst**



Right.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

-- an acronym for open architectural clinical information system. It was highly successful in the United States and they acquired the rights to that product and have taken it forward. So we hope to not only leverage the relationship in Canada, but to assist our partners in their marketing efforts in the United States.

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**Mark Cahill Analyst**

Are they competing against the likes of GE? Who is their main competition here?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

They offer a couple of solutions, a clinical information system as well as a clinical data repository and so I think they probably compete head to head with the major clinical information system providers in the U.S. as it relates to the clinical information system solution. Not so much with the other solution, the clinical data repository. So again, we are working with them to leverage our relationship in the U.S., but not at the expense of our other partners.

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**Mark Cahill Analyst**

Apart from Canada, what's the next largest country or market that they are going after? Do you have any idea?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

I would say Canada is number one. U.S. number two. Australia would be number three and the Pacific Rim would be four.

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**Mark Cahill Analyst**

With regards to Streamline business, is Emergis going to focus on their existing customers first?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Yes. Clearly, we want to approach every one of the customers in their installed base with our integrated solution, primarily in Canada and we're having great success in that regard. And then as net new opportunities come about, we certainly would work with them to offer our solution in those new opportunities as well. But primarily, the installed base is how we're kicking it off.

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**Mark Cahill Analyst**

Do you have any opportunities for hosting business through Emergis?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Yes.

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**Mark Cahill Analyst**

Okay. How was -- this is Scott Winzenread's area, so congrats to him. He deserves a lot of credit for that.

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**Brian Patsy** - *Streamline Health Solutions, Inc. - President & CEO*

Yes, it was a significant relationship and it will deliver significant results and he worked a long time on that, as you know.

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**Mark Cahill Analyst**

Right, right. Is he going to have a language problem dealing with the sales pitch process? Is that coming -- is that a factor for -- ?

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**Brian Patsy** - *Streamline Health Solutions, Inc. - President & CEO*

No, because our relationship with Emergis includes provisions for them to help us in terms of French language communications, not only for the sales effort but also for our support effort and the help desk.

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**Mark Cahill Analyst**

Right. The demand for information technology outside of the U.S., is it greater in Canada, Australia, et cetera?

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**Joe Brown** - *Streamline Health Solutions, Inc. - CIO & VP, Client Services*

Hey, Mark, this is Joe Brown. I guess it's the difference between a socialized system versus free market system. If you're aware, the U.K. has an HIT nationwide integrated health record initiative that they've been working on for several years, so they're spending real dollars each year in implementing that. The U.S. got started a little later than those other countries, but I think the demand is very similar. It's just the government initiatives are different.

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**Mark Cahill Analyst**

Are they further ahead or behind in the buying cycle?

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**Joe Brown** - *Streamline Health Solutions, Inc. - CIO & VP, Client Services*

I would say they're further ahead. We really didn't get started in the U.S., the government came up with a commission probably '04, '05 time frame. These other countries have been -- they've established a goal for integrated national health records probably five, six, seven eight years that predated our initiative. So I would say they're ahead, yes.

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**Mark Cahill Analyst**

All right. The systems that you might have encounter in Australia and the Pacific Rim, are these going to be new systems to you guys? They're not going to be Cerner or GE or is this going to be something that's totally foreign to your system?

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**Joe Brown** - *Streamline Health Solutions, Inc. - CIO & VP, Client Services*

I think what Brian said, Oasis is a clinical system we're familiar with. We have one shared customer here in the U.S. that has that so we're very familiar with it. The GE, McKesson, Siemens, Cerner, they're international. We see those systems as being easy to integrate with. We've integrated with those. There could be some home grown systems that we haven't seen, but we have integrated with home grown systems here in the U.S., so we expect we'd be able to integrate with those. But I would defer any specific integration questions to Gary Winzenread.

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**Mark Cahill Analyst**

Okay. I'm just wondering, the Pacific Rim, do they get Cerner or GE? Are they already there?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Well, this is Brian. Mark, certainly the key to our success and differentiation among the players you've just mentioned is that we offer an enterprise document management and workflow platform that plug and plays or integrates with all the major players and that differentiates us, so we can work with multiple vendors. It's really a key to our success. So our integration capabilities are fundamental to being able to plug and play seamlessly with these players and the more vendors there are installed in an organization, the stronger our story gets, as you can imagine, because we're independent. So this product that I mentioned called StreamIt is a really exciting product that allows us to do just that. Gary, you want to comment further?

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**Gary Winzenread - Streamline Health Solutions, Inc. - VP, Product Development & Strategy**

Well, I think that -- Brian mentioned integration we feel is a strength. Our approach has been to build standard interfaces that can call or be called by other systems and while each one presents a specific challenge, perhaps, we haven't seen the technical complexity vary a great deal because we've kind of approached it in this sort of standard way. So I think we feel like we're in the strongest position we can be in to integrate regardless of what we run into.

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**Mark Cahill Analyst**

Okay. I know you guys are storing a lot of data here. Is data management something you guys will ever get involved with?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

I'll let Gary handle that.

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**Gary Winzenread - Streamline Health Solutions, Inc. - VP, Product Development & Strategy**

I think we see our core competency as creating business solutions that include both documents and data in the healthcare enterprise. I think we see data management as more of an IT centric, sort of a subfunctional capability. So while we need to expand our storage in the use of key health care data elements as we expand our product set, we'll probably continue to focus on providing solutions that make effective use of the data, rather than focusing on data management as a core competency.

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**Mark Cahill Analyst**

I've got some other questions. I'll let some other people jump in the line here.

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**Operator**

Your next question will be from the line of Tom Carpenter of Hilliard Lyons. Please proceed.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Good morning gentlemen. Brian and salesforce, congratulations on the international win.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Thank you.

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**Tom Carpenter - Hilliard Lyons - Analyst**

I know there's integration efforts down the road. Sounds like it's a multi-facility organization or regional network. Do you have a quarter in mind when you will recognize the opportunity? Of revenue?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

First of all, Tom, let me clarify something. The integration effort is actually completed. We are integrated with Oasis. What is the future deliverable is the internationalization or the multi-language portion of it. The answer to your question is it is multiple facilities and we anticipate completing our future deliverables sometime in fiscal year 2009. So the revenue recognition will flow into next year.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Got it. Are there any other outstanding RFPs for a combined integrated Streamline and Emergis solution?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Yes. We're very active with their direct sales organization. We've had numerous joint sessions, training. This relationship's going to get up to speed very quickly and we're very pleased to say.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Excellent. You mentioned \$2 million of revenue you're going to recognize in the second half of this year. I'm guessing that's from Children's Hospital of Dallas, which you announced last year. Can you give us a breakdown of the software system revenue versus the services revenue? Are they going to be split about 50/50?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

\$1.1 million of it is software. The rest of it is services and third party components.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. Do you have an idea where that's third quarter or fourth quarter?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

I'd rather not speculate. Second half. Nice try.

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**Tom Carpenter - Hilliard Lyons - Analyst**

It's so important to keep that information confidential. Going back to last quarter's conference call transcript on page four, you mentioned that we anticipate consummating at least two large transactions in our first quarter. Later on in a couple sentences you said one of those will be a large direct ASP opportunity. Based on the statements you made it didn't look like that closed in the quarter. Can you give us an idea of the delay?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

That opportunity is imminent.

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**Tom Carpenter - Hilliard Lyons - Analyst**

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Okay. Excellent. And just so I'm crystal clear, can you go over the sales force breakdown again? I think you said you have nine, four new business, two client managers, one revenue cycle and two that are new dual account managers?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Yes, that's correct. The two new hires are combination of account executive and client manager.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. Can you help me understand the difference between the four that are focusing on new business versus the two that are dual?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Sure. The four that are new business, if you recall, our steady state through most of last year was two focused on new business. We added two more for a total of four. Those two were added in the second half of the year. They basically have a geographic territory and they hunt for new business, net new business. And the specialist focuses on kind of domain knowledge regarding the revenue cycle and then we have two current, or former, I should say current client managers that focus exclusively on adding new workflows and expanding our existing solutions within our existing customer base.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. Got that.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

That could involve an upgrade of our software to a new version. It could involve installing our software in additional hospitals within the healthcare enterprise. It could involve installing new applications that weren't previously installed. And finally, it could involve selling some of our new workflows. So that's what the client manager is responsible for. We call them farmers versus the hunters. The two new hires, and this is kind of a new twist for us, we decided to get them up to speed even quicker, we're going to give them a combination of existing customers, while they go off and hunt for new customers. And this way, they can get engaged with our existing client base, get familiar with our products even faster. So we're going to try this and see if we can get them -- get their feet on the street even faster.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. And with -- I guess in the first quarter you closed an Emergis deal. In the fourth quarter there were two deals via GE. Last year, children's was direct is that correct?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

That's correct.

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**Tom Carpenter - Hilliard Lyons - Analyst**

I guess one of the things looking from the outside on the direct side, maybe we haven't gotten the bang for the buck over the last year that we would expect. You have a large pipeline with the 13 deals which is up quite a bit. You said six of those were via GE. Are the rest direct? Are there several with some of your partners like a HERAE or Standard Register.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

The remainder are direct. We picked up the pace. It certainly helps that we have more feet on the street.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. Can you bring us up to speed on HERAE and Standard Register? We haven't seen a lot of activity out of those partners.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Well, first of all, HERAE, we have several deals in the pipeline. It's been a rough road for us to get that relationship off the ground. It's kind of a new approach and so there's some missionary work required. We're focusing on the installed base right now. We have a couple of existing installed base customers who are in the latter stages of the sales cycle. But it's very slow, to be candid. The reason we're pursuing this is the revenue potential is very large. But we really have to establish a beachhead for that solution and, as I said, it's been difficult simply because we're doing some missionary work in terms of educating the market on the benefits of that combined solution. Standard Register, as you have known over my previous earnings calls, it's a relationship that goes way back that hasn't delivered over the last several years. So we kind of went back to the drawing board last fall. I'm very excited about that relationship. In fact, I do believe you'll be hearing some news in the very near future about the success of the new approach. So we're off and running and I do expect to have some contribution from that relationship this year.

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**Tom Carpenter - Hilliard Lyons - Analyst**

In the past, I think that was expected to be via ASP. Is that still the case?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Mostly ASP but there may be opportunities for installing it locally. But I think that the initial thrust will be predominantly ASP.

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**Tom Carpenter - Hilliard Lyons - Analyst**

And a question for Gary or Joe, I don't want them to feel left out. Can you bring us up to speed on some of the workflow modules or new interoperability capabilities with healthcare vendors you are working on this year?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

I'll let Gary handle the workflow question, since he's responsible for the development cycles.

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**Gary Winzenread - Streamline Health Solutions, Inc. - VP, Product Development & Strategy**

I maybe didn't understand the question very well. Could you repeat it for me?

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**Tom Carpenter - Hilliard Lyons - Analyst**

Sure. Could you give us an idea of some of the new modules or workflows you are working on? And I think last year you went live with Epic or Eclipsys interoperability. Can you bring us up to speed if there's any new ones you're working on this year or how some of those efforts are paying off in new wins or the pipeline and the selling process.

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**Gary Winzenread - Streamline Health Solutions, Inc. - VP, Product Development & Strategy**

So from an integration perspective, we are working on an integration with -- hang on a second. I have a -- sorry about that -- with Lawson, with one of our customers. We would hope to have that integration live in the next quarter. Workflows, we're building a preoperative workflow. We're building a cash management workflow. We're building a workflow that is going to allow our customers to configure the capabilities -- the native

capabilities of our workflow architecture, so that they can solve some of their specific problems based on their own customization. So you should expect to hear more about those before the year's out.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. And can you give us an idea of how those -- I think the Lawson's thing is what the direct deal you guys announced last year unless there's a new version of Lawson's that you guys are working on. But with the workflows, can you help us understand more how those translate into new wins or if you're mainly selling those into the installed base?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Let me take that. This is Brian. When we approach the market with our enterprise story, we focus on and make the point that we have an enterprise solution for both document management and workflow. And in approaching our prospects, we look at three silos of technologies that are typically installed in those institutions. Obviously, clinical information systems, financial information systems, and lastly is administrative information systems. That's a huge differentiator for Streamline in that we are building workflow solutions that address the non-medical, non-billing applications in a hospital, such as supply chain management, human resources, materials management, et cetera.

At Children's of Dallas, as Gary mentioned, we're building some custom or configurable workflows that they can utilize to really image enable or document image enable their Lawson system in areas of supply chain management and administrative services. So a typical example is accounts payable where you have a shipper, you have a product delivered to the loading dock and it has a shipper and you need to match that shipper with an invoice. So we have the capability of scanning that information and launching it within the Lawson system seamlessly and allowing them to view their Lawson application while viewing documents in context. So long story short, we're going to take advantage of the fact that we've developed these integrated solutions to go into the market space and find customers and prospects that utilize Lawson or PeopleSoft or Oracle or any ERP system and try to leverage the success we're having with our existing customer.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. In the past year you have added a new international partner, which is nice. I don't know what metric, if you want to call it tripling of your direct sales force, or what metric you want to add, but you have added four new account managers in the past. I think the commentary always was that the biggest gating factor for you guys was distribution. You sound like you have a lot more of that. Fix the Standard Register relationship, is this the year where the rubber meets the road and you deliver the type of results that we all believe you're capable of?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

That's essentially true. We have three significant partners and other partners as well in different spaces. But with international, Emergis is our go-to partner and, domestically, GE with some opportunity for Emergis as well. And I think the relationships with those two organizations can allow us to fulfill our potential in terms of distribution. That's typically for the large enterprise opportunities because that's where those two players have their success. And to complement that, it's really key that we get the Standard Register relationship to bear fruit for us this year and beyond to go after stand-alone opportunities and departmental solutions. So we're trying to complement the high end of the market with the low end of the market through our Standard Register relationship. Once we get all those being productive, I think you'll see the kind of results that you've been hoping for.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. And I guess with all these positive things on the horizon and your potential contracts going to 13 from seven, it would be a stock price around \$2 down significantly over the past year, it would be nice to see the executives pony up and buy some shares in the open market with all the good things you think you have on the horizon.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

I would agree.

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**Tom Carpenter - Hilliard Lyons - Analyst**

Okay. Thank you. Good luck.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Thank you.

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**Operator**

(OPERATOR INSTRUCTIONS) Your next question will be from the line of Mark Cahill. Please proceed.

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**Mark Cahill Analyst**

I've got some more questions for you. Just some kind of like follow-up questions. Last quarter you mentioned you had approximately \$1.1 million in revenues due -- that will be coming due to future deliverables. Now you're talking about \$2 million. Is that a cumulative number or are those separate transactions?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Let me add some color commentary, Mark. The \$1.1 million is Streamline Health software. And associated with that software is also services and third party components. So the total is actually \$2 million, \$1.1 of which was Streamline Health software. So the real number is \$2 million.

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**Mark Cahill Analyst**

I got you.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

We deferred not only the software but the services and the third party components until the deliverable is met for the software.

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**Mark Cahill Analyst**

Okay.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

That may be a little confusing. But the real number is \$2 million.

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**Mark Cahill Analyst**

Right. The \$2 million in cash level that Paul had mentioned, is that because you closed the international deal late in the quarter and there was a 30 day delay when they actually have to pass along the upfront fee?

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

No. It was just normal collection of our receivables.



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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

We haven't received the cash yet from that transaction, so that's not in those numbers.

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**Mark Cahill Analyst**

Okay. Do you have a similar arrangement, I think you have with GE, where it's like a 30-day or 45-day window where you sign a contract and they pass along upfront fee.

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

It's a different arrangement, but basically we're going to get paid in installments.

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**Mark Cahill Analyst**

Okay. With respect to GE, we haven't heard anything about the other divisions that you were looking into, I think it's GE Centricity business.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Yes. We have completed integration to GE Centricity business. We actually have the solution installed in one of our customers. And our account executives are always looking for GE installed base opportunities, primarily where we're installed in the enterprise, where we can extend out to the business office solution because of that integration. So that will create incremental opportunities to extend into our existing installed base. It's somewhat challenging to go beyond that and look for net new Centricity business opportunities, simply because we don't have a large sales force that can go out and look for those smaller transactions. However, as we get Standard Register up to speed, that will create some leverage for us to be engaged in net new opportunities where they may have Centricity business installed. So we're going to leverage the Standard Register sales force to really help us identify prospects and opportunities.

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**Mark Cahill Analyst**

That makes good sense.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Regarding Centricity EMR, that integration has been built within our -- within Gary's organization. We actually have a customer now that plans on implementing the integrated solution at some point over the next 12 months. And at that point, we would again use the same leverage of our Standard Register relationship to identify opportunities to sell Centricity EMR into net new opportunities.

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**Mark Cahill Analyst**

Would that be an area of huge growth with all this talk about universal healthcare, which I equate as free healthcare, that's how people think of it, is that a huge opportunity for that line of business?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

I believe it is. As I mentioned in previous earnings calls, document management typically has a growth expectation of about 20 to 25% year-to-year and it's been fairly consistent. However, leveraging workflow and business process management through departmental workflows to me has tremendous upside as well as moving out into the ambulatory sector. Our challenge has always been distribution in terms of not having the capability of hiring an army of salespeople to go out and knock on departmental doors. That's why it's really critical that we find a partner such as

Standard Register, who has a large reach and a large installed, base where we can leverage our solutions down the food chain to the departmental level, the small hospital level, the ambulatory and physician practice level. It's probably imprudent from an incremental sales cost point of view for us to go out and hire direct salespeople so it's important that we utilize our existing sales force leverage through a large distribution partner such as Standard Register. So the bottom line is once we get that relationship and those opportunities moving with some success, I think we can anticipate even greater growth in 20 to 25% in that sector.

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**Mark Cahill Analyst**

I'm just guessing that there's going to be huge lines for this free healthcare if it ever actually becomes a reality. The Standard Register, are they going to be -- what's your timing when they're going to be kind of out of the gates and selling the products? Is it this quarter?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Well, they're out of the gates and they're coming around the bend. So they haven't crossed the finish line yet but the race is on.

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**Mark Cahill Analyst**

Okay. The pre-operative solution that you've been working on, is that going to be near final release late this quarter or third quarter?

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**Gary Winzenread - Streamline Health Solutions, Inc. - VP, Product Development & Strategy**

I would say that it's a little bit too early to tell. We have multiple customers that are very interested in pre-operative. And we want to make sure we release the right functionality set to be able to address as many of those customers as we can. Certainly I'd like to see it in that time frame. We also need to validate the decrease in overall effort that's required to deliver a workflow based on the workflow architecture. So if those things come out the way we expect, I think that's a likely outcome. But it's too early to predict that.

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**Mark Cahill Analyst**

Given this new architecture you're working with, and the faster turnaround, will there be a resulting shorter beta phase?

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**Gary Winzenread - Streamline Health Solutions, Inc. - VP, Product Development & Strategy**

I think so. I think workflow's being departmental as opposed to some of our other projects that are a little bit more enterprise, we would expect the beta phase to be shorter. It does depend on the customers and the cycles that they use to help test the product but I would expect it maybe to be a 30- to 60-day beta phase where we might look at three months or more for our larger products.

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**Mark Cahill Analyst**

The implementation schedule, it's kind of hard for me to -- you haven't announced any particular names, so I have to kind of refer to past quarters. I think there was -- was there a deal in the third quarter of 2007? I'm trying to get --

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

There's several implementations under way with existing customers that --

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

Yes, Mark, we have a lot of backlog. We're still working -- at the end of the year you have the holiday season, so Q1 we really start getting re-engaged with implementations and Children's Dallas and there's several others in the backlog that we're actually getting around to now and part of

that, what constrains us is customer resources available to work with us. We can't implement a system without their cooperation and making their resources available. So I think you're seeing a result of that backlog coming through in Q1, certainly in Q2 and Q3 more so.

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**Mark Cahill Analyst**

Will that backlog number of roughly \$16 million start increasing because of all these scheduled implementations?

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

No, well, as we sign more deals, it will either stay the same or grow but we're going to obviously when we implement these systems, the backlog is reduced. But as we add systems, then it does go into the backlog.

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**Mark Cahill Analyst**

Okay. Is the pipeline number still around \$70 million, \$80 million?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

Actually, it's slightly north of that and I do anticipate it to grow, now that we have more people on the street. So as you saw, the number of contracts that we're engaged in has gone up substantially.

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**Mark Cahill Analyst**

Right.

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

And so --

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**Mark Cahill Analyst**

we might see a significant bump at the end of the next quarter?

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**Brian Patsy - Streamline Health Solutions, Inc. - President & CEO**

I hope so. There's a ramp-up period for some of the new folks, but the whole intent here is to really deliver on the contracts that are in the pipeline right now, the 13, which will bode well for our next couple of quarter results. And then with the new people we've hired, the intent is to have them productive by the end of Q3, Q4 to continue to grow the pipeline, carry us into the momentum into next year.

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**Mark Cahill Analyst**

All right. Good. That's it for me. Thank you.

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**Operator**

There are no more questions at this time. I'll turn the call back over to Paul Bridge for closing remarks.

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**Paul Bridge - Streamline Health Solutions, Inc. - CFO**

I thank everyone for joining us and wish to advise you that the second quarter earnings release is currently scheduled for release on Monday, August the 25th, 2008, and the corresponding conference call is currently scheduled for Tuesday, August 26th, 2008 at 10:00 a.m. eastern time.

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**Operator**

Thank you for your participation in today's conference. This concludes our presentation and you may now disconnect. Have a great day.

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