FINAL TRANSCRIPT

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STRM - Q4 2006 Streamline Health Solutions, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter and fiscal year 2006 Streamline Health Solutions conference call. My name is Carrisa, and I will be your coordinator for today. (OPERATOR INSTRUCTIONS).

I would now like to turn the presentation over to your host for today's conference, Mr. Paul Bridge. Pleased proceed, sir.

Paul Bridge - *Streamline Health Solutions - CFO*

Thank you very much, operator. Good morning, everyone. I am Paul Bridge, the Chief Financial Officer of Streamline Health Solutions Inc. Thank you for joining us.

With me today to discuss the fourth quarter and the fiscal year 2006 operating results are Brian Patsy, President and Chief Executive Officer, and Bill Geers, our Chief Operating Officer. Brian, Bill and I 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 our quarterly press release for the next 30 days. Before I begin our discussions, 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 secured from third-party vendors, the health care regulatory environment, fluctuations in operating results and other risks detailed from time to time in our filings with the US Securities and Exchange Commission.

Yesterday we released our fourth-quarter and fiscal year financial results. I would like to highlight the more significant items. Total revenues decreased during our traditionally strong fourth quarter, primarily from a delay in the signing of several significant new agreements. This delay can be seen in the decline in system sales for the fourth quarter, which contributed to significantly flat -- substantially flat revenues for the full fiscal year compared to the comparable prior period. Brian will comment later on

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our uncharacteristic fourth-quarter results. Service, maintenance and support revenues increased 35% for the quarter and 19% year-to-date when compared to the prior comparable period. Our hosting services revenues increased more than 5% for the quarter and 7% for the full year. Our operating profit for the quarter and the full fiscal year declined as a result of the delay in signing new agreements.

Late in the fourth quarter we entered into a new $5 million revolving credit facility at favorable rates. Shortly after the fiscal year end, we repaid the outstanding balance of our debt, and for the first time since July 1998, we are debt free. Cash flow from operations was $2.5 million for the fiscal year, thus enabling us to repay our debt while still significantly investing in the Company's future, especially in the software development area. Our current backlog is approximately $15 million, an increase of 20% when compared to last year. $4.5 million is for maintenance agreements, $5.3 million is for hosting agreements and $5.2 million is for hardware, software and professional services yet to be delivered. We continue to monitor our expenses, cash balances and receivables carefully to ensure that they are on plan vis-a-vis our revenues.

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 fiscal year.

Brian Patsy - *Streamline Health Solutions - President & CEO*

Thank you, Paul, and good morning, everybody. This morning I will be commenting on our Q4 and fiscal year 2006 financial results and then briefly discuss significant events and milestones achieved throughout 2006, an update on our sales and business development activities, a progress report regarding our business process management and portal integration initiatives, our plans to achieve our long-term revenue growth objectives, and finally I will provide some guidance for 2007. After my remarks, Bill Geers, our Chief Operating Officer, will provide an update on our operating plans. After Bill completes his remarks, we will conduct our question and answer session.

Now I would like to discuss our financial results in some detail. As was noted in our press release, our fourth-quarter performance was clearly disappointing and well below management's expectations of approximately $7 million in revenue for the quarter. Our goal for 2006 was approximately 20% revenue growth, which if achieved would have put us in the $19 million revenue range. And so I want to be clear that our performance in Q4 was unacceptable as it relates to our stated goal of at least 20% revenue growth from year-to-year. However, I also believe it is important to put our performance in the context of our long-term expectations, which is to absolutely grow revenues over multiyear periods at a 20% rate or better. The fundamentals of our business continue to remain strong, and I still believe we have the capabilities and the market opportunities to achieve our long-term goals. I will elaborate a little later on the reasons why and the plans in place to achieve our long-term revenue growth objectives.

But first I want to discuss the facts surrounding our fourth-quarter results and how those results impact our expectations for 2007. We anticipated that several significant transactions would close in our fourth quarter, unfortunately a few of which were delayed. It is important to note that none of these opportunities were lost. In fact, one large transaction has already closed in the first quarter, and the remaining are near completion. As a result, should the remaining transactions be completed as anticipated in the first quarter, we can expect record revenues and an excellent start to 2007.

Accordingly we have revised upward our original revenue forecast and annual revenue growth expectations for 2007 to account for these additional transactions. In reviewing our revenue contribution for 2006, system sales accounted for 27% of revenues. Services, support and maintenance accounted for 52% revenues. Our highly profitable recurring ASP-based remote hosting services grew to approximately 21% of total revenues, and finally, our largest distribution partner, GE Healthcare, contributed 28% of total revenues or approximately $4.4 million up from approximately 12% of revenues in 2005. We consider more than $11 million or 69% of our 2006 revenues as reoccurring or highly predictable revenues, which includes professional services, support maintenance and ASP-based remote application hosting services.

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As Paul noted earlier, our backlog currently stands at approximately $15 million, and we anticipate that it will grow significantly as a result of some revenue recognition rules that I will discuss later in my guidance.

Now I would like to briefly review significant events and milestones achieved in 2006. We signed several new major application hosting services customers during the year, one of which was through GE Healthcare. It is important to note that our relationship with GE Healthcare has been extended further to include remarketing of our hosted solutions. This is a direct result of our business development focus on expanding our relationship with GE Healthcare. We are hopeful of announcing the details regarding this new large hosted customer in the near future.

Our direct sales force closed several new contracts including Thomas Hospital, Nassau University Medical Center and Valley Baptist Medical Center, which is a mutual Streamline Health GE customer. We expanded our software license arrangement with Albert Einstein Health Network to an unlimited use enterprise license, which will include integration to their existing Lawson Human Resources applications. We expanded our portfolio of workforce solutions and established projects for further integration of our solution to GE Healthcare, Epic Systems and Eclipsys. Bill Geers will elaborate on these important projects in his remarks.

We established new remarketing relationships with both Standard Register and Healthcare Resolution Services also known as HCRS. Standard Register is a leading document services provider that has a large presence in the health care marketplace, offering electronic forms, forms printing services and registration automation software. HCRS is an outsourcing company that offers outsourced coding sources to health care organizations and the federal government. We're looking to GE Healthcare, Standard Register and HCRS to help us grow our ASP-based hosting services in 2007 and beyond.

During 2006 we were named by Forbes Magazine as one of the 200 best small companies. And finally, we are pleased to report that we now have over 150,000 authorized users utilizing our software and have over 180 health care facilities under contract.

At this point I would like to further discuss our sales and business development activities. Our current pipeline of qualified prospects remains very strong. Qualified sales leads currently stand at over 55 million in potential software revenue and over 75 million in potential total revenue. Because of our focus over the past year on our GE Healthcare channel, our qualified sales pipeline of GE opportunities now stands at over 22 million in software and over 38 million in total.

In addition to growing our GE Healthcare channel, we continue to focus our business development efforts to secure additional distribution partners. However, our top business partner priority remains GE Healthcare. I'm pleased to report that this focus is paying off as we increased our revenue through our GE Healthcare channel by 121% in 2006.

We are also leveraging the resources of our partnership with IBM. For example, in Q4 we began installing our software at customer sites utilizing the IBM WebSphere middleware components.

And finally, we're not limiting our sites to just the US market and are in discussions regarding some significant international opportunities.

And now I would like to discuss some exciting opportunities for us to expand and diversify our core business. As you know, Streamline Health provides business process improvement solutions utilizing six key technologies -- document workflow, document management, e-forms, Optical Character Recognition, interoperability tools and finally portal integration. A year ago we discussed our growth initiatives to expand into Business Process Management or BPM and portal markets. I'm pleased to report that we have been successful in launching these two important new initiatives for growth. We have secured our first contract for BPM consulting services with an existing large health care customer in the area of patient access and revenue cycle services. Our first BPM project is underway, and we hope to announce further details about the engagement and the customer in the very near future.

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You may remember that last year our goal was to launch our BPM services organization, and we are right on track. In addition, due to strong market interests, we have accelerated our plans to launch our portal services solutions in 2007, moving up our plans by one year.

Now I will provide some guidance for 2007. Our business plan was developed with the goal to continue to achieve revenue growth in the range of 20% over multiyear periods. Obviously last year we did not achieve our goal as a result of delayed contracts. Our 2007 business plan calls for layering on the additional revenue from these delayed contracts. As a result, our plans call for revenue growth in excess of 20% this year when you consider the carryover from delayed contracts from Q4. Furthermore, we expect approximately 50% of our annual revenues in the first half of our fiscal year as opposed to 40% in prior years.

In addition, we anticipate in 2007 approximately 41% of our total revenues from system sales, 43% from services, maintenance and support, and approximately 16% from application hosting services. Please note that our higher percentage of system sales expectations is related to the additional revenue expected from the transactions that were delayed from our Q4, as well as additional contributions anticipated from new distribution channels and BPM consulting and portal services.

And now I would like to comment on the important implications of some revenue recognition rules that may have an impact on our ability to recognize near-term revenue. To make a long story short, the bottom line is that software companies that provide a product roadmap or product development plans for future enhancement as a part of the selling or contract process cannot recognize any revenue for the proposed solutions until all the enhancements have been delivered. This can be very problematic for software companies that respond to request for proposals that specifically ask the software vendor to provide a product roadmap for future enhancements. So under these circumstances, if it is necessary to delay revenue recognition because of these revenue recognition rules, how can shareholders or investors determine whether Streamline Health is growing its revenues particularly when contracts are signed, software solutions are put into production, cash is received, and yet we are not able to recognize the revenue for those solutions until future product enhancements are delivered. We believe that one clear measure of our growth under these circumstances is to evaluate the growth in our cash position from quarter to quarter and year to year. We also believe we will experience an increase in our deferred revenues and backlog as software is installed and payments are received. Unfortunately revenue alone may not tell the whole story of a software company's growth, and therefore, evaluating growth will be much more complex. While cognizant of potential revenue recognition challenges for all software companies, including Streamline Health, in the future we will provide additional disclosure related to this matter so that investors can get a better picture of our growth. We're confident that our business will continue to grow in the 20% range on average annually over multiple years.

Here are some of the reasons for our confidence. First, we anticipate a fast start to 2007 with several incremental deals carrying over from 2006. Our strong pipeline of sales opportunities bode well for the first half of 2007. We should experience better balance in our results between the first and the second half of the year. Our BPM and portal initiatives will contribute to our revenues this year, and finally we anticipate additional channel revenue in 2007 as a result of our business development efforts 2006.

This concludes my formal remarks. Now I would like to turn the call over to Bill Geers for his comments on our plans to expand our infrastructure to support our growth plans.

Bill Geers - *Streamline Health Solutions - COO*

Good morning. It is my pleasure to be with you today to discuss an operations update. My comments will focus on two primary topics. First, I will touch on 2006 highlights in three areas -- employee headcount, our client satisfaction initiatives and significant product introductions. Then I will provide a preview of 2007 in these areas -- planned headcount, operating expense projections and high-profile product development efforts.

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With respect to employee headcount, we ended 2006 with 105 employees, which represents an increase of 50% in total headcount over the past two years. During this period our most significant headcount growth has been in the product development area, and this investment has been critical in our ability to successfully deliver on the Streamline Health vision which Brian addressed in his comments.

I'm very pleased to report that the investments we have made over the past couple of years in our client satisfaction program, which is called Customers for Life, continued to reach significant dividends. To that point in 2006 we not only saw additional revenue contributions from our existing customers, which is a clear indication of their satisfaction with us, but we also saw our ranking on the [Class] top 100 list improve from 51st at the start of the Europe to 14 by the end of the year. For those of you who may not be familiar with Class, it is an independent research firm that regularly evaluates a wide variety of products and services from vendors like Streamline Health that serve the health care industry.

In terms of significant product introductions throughout 2006, as I mentioned in the November conference call, we successfully moved the next release of our complete product portfolio to beta testing. This major release introduced a variety of enhancements across our entire product line, including extended interoperability which facilitates our efforts to integrate with additional clinical, financial and administrative systems, thereby strengthening our enterprise-wide message. It is worth noting that this release is now installed in four beta sites, which is an increase of two sites since our last conference call, and we are on schedule to announce its general availability in the June/July timeframe.

Furthermore, in addition to expanding our portfolio of workflow solutions, we successfully delivered 10 integration projects in 2006, including our seamless integration with GE's Centricity Business solution, which complements our existing seamless integration with GE's Centricity Enterprise. We also successfully installed our seamless integration with EpicCare clinical information systems in our beta sites production environment.

Now for the preview of several significant 2007 operating plan highlights. To begin with, we expect our operating expenses to increase approximately 30%, which includes a headcount increase of about 10% as we continue to invest in resources to ensure our ability to successfully deliver on existing opportunities and execute on our business plan. The clear majority of these investments will be in three primary areas -- product development, sales and business development, and consulting services.

With respect to our 2007 product development efforts, there are three updates that I would like to share with you. First of all, as previously mentioned, the major product release that is now installed in four beta sites is expected to be generally available in the June/July timeframe, including our initial IBM portal integration. On the workflow front, in addition to moving the refer order workflow and the contract management workflow to general availability, we expect to introduce at least two additional workflow offerings throughout the year, including chart tracking workflow, which will allow organizations to track paper records, and cash posting workflow, which will allow automatic routing of explanation of benefit statements and remittance advices.

My final product development preview addresses our integration efforts with clinical, administrative and financial application from other vendors. As I mentioned in our last conference call, there is no component of the Streamline Health vision that has generated more interest among our clients and prospects than this initiative. Therefore, integration projects will continue to be a development priority in 2007.

The following integration projects will become generally available throughout the year. Our integration with GE's Centricity Business solution, our integration with the McKesson physician portal, Phase II of our integration with GE's Centricity Enterprise solution and our integration with Sunrise Clinical Manager from Eclipsys. In addition, we expect the initial phase of our integration with Lawson and PeopleSoft to be under development in our fourth quarter of this year. Finally, we are making plans to integrate with Centricity EMR, which is GE Healthcare's Physician Office solution.

In closing, market feedback on the Streamline Health vision continues to be very encouraging, and from an operational perspective, we intend to focus our resources in those areas that will ensure its realization and the successful execution of our 2007 operating plans.

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I would like to now turn the call over to Paul Bridge for the question-and-answer session.

Paul Bridge - *Streamline Health Solutions - CFO*

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

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Bill Bunn, Fort Washington Investment.

Bill Bunn - *Fort Washington Investment - Analyst*

First, a little tidying up here because I missed part of Paul's first comments. My understanding is that you paid off all of your debt subsequent to the release or subsequent to the end of the quarter, and so you are now debt free?

Paul Bridge - *Streamline Health Solutions - CFO*

Yes.

Bill Bunn - *Fort Washington Investment - Analyst*

Well, congratulations on that. Could you go back to the software recognition issue there? I just want to make sure your auditors I think I understand are telling you that across the industry the rules have changed? Could you tell us more about what has changed and when it changed?

Paul Bridge - *Streamline Health Solutions - CFO*

Well, yes. All the big four accounting firms have interpreted the original 97.1 statement of position and all of the subsequent interpretations from EITF and from the SEC, that if you get to a certain level of specificity in your proposals or in your context with regard to future enhancements, the rules say that you cannot recognize that until you deliver that enhancement under the theory that enhancement was part of their buying decision and they bought that. So, therefore, you have to delay the recognition of the revenue until you deliver that enhancement, even if it is one item.

Brian Patsy - *Streamline Health Solutions - President & CEO*

This is Brian. To further clarify, what that means is that if we, Streamline Health, have an off-the-shelf solution, which we do, it is called our HIM Suite, which we bid in an RFP response to a potential customer to the tune of $1.5 million in revenue for software and we also bid a new product, specifically in this hypothetical example for administrative functions, to do contract management or some new application; even though that application or that feature is de minimis in the scheme of things, according to these rules, we cannot recognize any of the $1.5 plus million in revenue until that feature is delivered, even if it takes years.

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Bill Bunn - *Fort Washington Investment - Analyst*

So could you walk me through a hypothetical accounting statement here? Let's say there's a contract for $1 million that you have just executed on, but there is one outstanding issue under the product roadmap. How do all these issues flow through the income statement and land on the balance sheet?

Paul Bridge - *Streamline Health Solutions - CFO*

Well, first of all, you would add it to your backlog, so your backlog would increase. Okay? You would not recognize the revenue in the P&L until you deliver the piece. However, if you are installing the existing software and they are providing you with cash upfront, which they will come, that would result in an increase in our deferred revenue liability on the balance sheet. So all of the transactions would be balance sheet oriented until you recognized the revenue when the enhancement was delivered.

Bill Bunn - *Fort Washington Investment - Analyst*

All right. So we would know it only because differed revenue rises?

Paul Bridge - *Streamline Health Solutions - CFO*

And the backlog. We intend to provide greater detail should that happen in the future with regard to these deferred revenue recognition contracts.

Bill Bunn - *Fort Washington Investment - Analyst*

All right. So deferred revenue goes up, you will tell us what the backlog is, and we will also be able to see that in some fashion on the cash-flow statement?

Paul Bridge - *Streamline Health Solutions - CFO*

Well, yes, because the cash will come in presumably on the contract in the normal course.

Bill Bunn - *Fort Washington Investment - Analyst*

If I understand this correctly, this is affecting every company large and small, as small as yours, as large as GE and everybody in between?

Paul Bridge - *Streamline Health Solutions - CFO*

Yes. I talk to people in companies in the $1 billion range, and they are all getting the same information from their CPA firms who are not ours.

Bill Bunn - *Fort Washington Investment - Analyst*

Okay. Let me move on to a new topic. That is with regard to stock sales. There have been two people, Eric Lombardo, who has been selling for quite a long time every quarter, and now Sharon Patsy, who -- not to -- with respect was married to Brian but is no longer. Is there any restrictions placed on these people as to how much they can sell within a given period of time?

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Paul Bridge - *Streamline Health Solutions - CFO*

Yes, Eric Lombardo is selling under Rule 144, and he is limited to a certain number per quarter based upon the prior quarter. If you go out and look at the Form 4's on the SEC website, you will see that they have not sold a significant number recently.

With regard to Sharon Patsy, she is selling under 10b5 plan, and she also is limited to the numbers of shares that she can sell. And if you go out and look at again the Form 4's on the EDGAR website, you will see that she has not sold any in awhile.

Bill Bunn - *Fort Washington Investment - Analyst*

Well, in awhile was what January last time or something like that?

Paul Bridge - *Streamline Health Solutions - CFO*

Probably in January but in a small amount.

Bill Bunn - *Fort Washington Investment - Analyst*

Between the two, if I can extrapolate the past four, five or six months and go out, there's many hundreds of thousands of shares potentially sold per year. Is there any way to absorb that through group --

Paul Bridge - *Streamline Health Solutions - CFO*

Well, Mr. Lombardo to date since 11/1/05, if you would go out to the website, you would find out he sold about 450,000 shares. And Sharon Patsy since May of '06 has sold about 95,000.

Bill Bunn - *Fort Washington Investment - Analyst*

All right. So over .5 million in that timeframe; .5 million in a year in a Company with this kind of float is still a large number. Is there any way that can be absorbed by some sort of strategic investor, some technique somehow that we can limit the volatility there?

Paul Bridge - *Streamline Health Solutions - CFO*

Possibly. We occasionally get calls at the Company, and we refer those people to them.

Bill Bunn - *Fort Washington Investment - Analyst*

All right. Shifting to application hosting, there were some comments made on the call about nonrenewed relationships with General Electric. If you could expand on that, I would appreciate it. But in particular, it is my understanding that GE itself has entered into that kind of hosting process. Are you, in effect, competing with them? How do you guys separate the market and not step on each other when you're out doing that?

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Brian Patsy - *Streamline Health Solutions - President & CEO*

Good question, Bill. This is Brian. First of all, it is not a renewed relationship with GE. Let me clarify, it is an expanded relationship with GE. And just as a historical fact, as you know, we're originally signed a distribution agreement with IDX who was acquired by GE. We then focused more than half of our business development effort on the GE channel for obvious reasons. It is an enormous upside opportunity for us with a significantly large company in the space.

But the original agreement with IDX did not -- although it contemplated remarketing our Hosted Solutions, they did not. And the reason they did not was because they did not have their own Hosted Solution; therefore, it did not make sense for them to remarket ours.

The good news, the double good news, we have expanded our relationship with GE Healthcare really in parallel with their efforts to launch their own hosted services solution. And so this is not a conflict. It is not a channel conflict at all. We are collaborating such that we are letting the market decide -- in other words, GE can now remarket our Hosted Solution in our hosting center, which indeed this first hosting contract is actually in our hosting center, or they can remarket it through their hosting center. So really there is no -- we are indifferent either way. The reason that they chose ours is that the customer timing-wise wanted to get up and running sooner than GE Healthcare through their hosting center could bring them online.

Bill Bunn - *Fort Washington Investment - Analyst*

So you are saying your revenues are not affected depending on the customer choice?

Brian Patsy - *Streamline Health Solutions - President & CEO*

Minimally. There's a difference in transfer remuneration between our hosting center and GE's based on some of our overhead by putting it in our hosting center. But it is minimal.

Bill Bunn - *Fort Washington Investment - Analyst*

Let me ask one more and then I will pass. There was a tantalizing tidbit there, and I did not quite get all the details about something to the extent that you might have some international opportunities. Could you expand on that a little bit?

Brian Patsy - *Streamline Health Solutions - President & CEO*

All I can say at this point is that we are in discussions with a third-party, with a third-party organization that has international presence, as well as with a potential customer in the international market. So that is very exciting for us, and it can be a significant opportunity for us.

Operator

Alan Shore, AFA Financial Group.

Alan Shore - *AFA Financial Group - Analyst*

I had a follow-up on Bill's question. Number one on the revenue recognition, the expenses associated with that revenue, how are you going to book that, and when does that get booked?

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Paul Bridge - *Streamline Health Solutions - CFO*

We would, in effect, capitalize it as a prepaid cost until we recognize the revenue. (multiple speakers). You have to match the revenues and expenses.

Alan Shore - *AFA Financial Group - Analyst*

Okay. So they do allow you to do that? You don't have to show the expense?

Paul Bridge - *Streamline Health Solutions - CFO*

They require you to do it.

Alan Shore - *AFA Financial Group - Analyst*

Right. Okay. The second question on the share sales, I don't think that the answer -- Paul, the answer that you gave I don't think is acceptable, that when you get people that are interested in buying blocks of stock, you will refer them on to people that own blocks of stock. My question would be, are you doing or are you planning to do anything specific to absorb some of these large stock sales that are pending out there?

Brian Patsy - *Streamline Health Solutions - President & CEO*

This is Brian. Let me be very specific that issue is in our mind share at a board level. It is a significant issue. We are cognizant of the overhang of these shares, and we have had dialogue regarding mitigating that situation. Obviously I cannot go into details, but this is absolutely being discussed at the board level. And I can assure you that we will do whatever we can do facilitate the opportunity to remove that overhang. The details of how I obviously cannot discuss.

Alan Shore - *AFA Financial Group - Analyst*

Okay. Well, over the last I guess three weeks, we have seen a significant increase in volume, a significant decrease in share price. You have alluded to the fact that it is either Eric or Sharon. Do you have any clue or idea where if this is retail, institutional? Do you have any idea what is going on?

Paul Bridge - *Streamline Health Solutions - CFO*

No, we don't. I mean I look at the information daily from NASDAQ, and if you look at the number of sales and the number of shares, it looks like it is retail because there's no block trades, and even though there might be high volume of 28,000 shares a day, it's a large number of trades.

Alan Shore - *AFA Financial Group - Analyst*

All right. Thanks very much, gentlemen.

Operator

Tom Carpenter, Hilliard Lyons.

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Tom Carpenter - *Hilliard Lyons - Analyst*

I read some of the stuff on the revenue recognition. Are there some easy fixes where you can change how you word some of the contracts because it does seem rather silly that if you are doing a $1.5 million deal, you might add enhancements over the next year or two that could be $50,000 or $100,000 of that contract if they would not let you recognize the $1.5 million until you installed either an update or a small module that you plan to include down the road.

Brian Patsy - *Streamline Health Solutions - President & CEO*

This is Brian. Let me frame the challenge for all software companies, and then I will respond to your question. Clearly some of our specific challenge is that this was an evolving discussion with our accounting firm, and these rules really came into focus the first part of this year for us.

The challenge that we have is that we are out trying to earn new customers and new business, and we're responding to request for proposals and have done so for quite some time. So there is a gap there between this knowledge and what we may have already responded.

Now going forward, we're clearly going to try to avoid providing product roadmaps in our peer responses. But let me frame that for you. In my experience approximately half of the opportunities that we have include a request for proposals. Almost all of those requests for proposal ask the software vendor for a product roadmap. It is just part of the selling process.

Tom Carpenter - *Hilliard Lyons - Analyst*

Of course.

Brian Patsy - *Streamline Health Solutions - President & CEO*

That is the challenge. Now what we're going to try to do is avoid, as best we can providing those product roadmaps so that we can recognize revenue in a more realistic fashion based on the cash flow from the customer and putting those products into production. We're not going to always be successful in doing that, and if we have a choice of winning the business by providing the product roadmap or losing it because we don't, guess which way we're going to go?

So that is why we will provide further information in those examples to show the markets and the investors our growth -- we win a multimillion dollar deal, and yet we may not be able to recognize much of the revenue, if any of the revenue at all. We are trying to mitigate that and minimize it in our processes going forward, but frankly there are some RFP responses out there where the horses are out of the barn so to speak.

Tom Carpenter - *Hilliard Lyons - Analyst*

But one thing you may want to consider is almost doing a pro forma -- like a little small three or four line, a pro forma revenue or income statement, just a three or four liner in your (indiscernible) release if this is going to be a big issue going forward. Because if there is a $1.5 million deal that you guys closed in the quarter you cannot recognize, that is pretty big for a company that does 20 to $25 million annually in revenue.

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Brian Patsy - *Streamline Health Solutions - President & CEO*

Well, part of the challenge for us, and because of our growth objectives as I've clearly outlined in my remarks, we will be developing a lot of new products. And that is because the market is coming to us and asking us to do so. That is a good thing; not a bad thing. And, as you can imagine, if potential customers want to enjoy those new products, we have got a challenge in terms of sharing with them the roadmaps for those products. It is really more acute for companies that are growing like us as opposed to companies that are static that have a product that has been on the shelf for a long time. So, in some respects, it is unfair. And to your point, we will do what is necessary whatever that may be to inform the investors and the markets of our growth. Whatever form that may take.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. Going back to some of the stuff that was in the release and in your remarks, it looks like in Q3 '06 you guys talked about two deals slipping. One of them sounded like it was a small deal that closed before you guys reported last time, so I think that was an ASP deal. Maybe a large system sale deal slipped into Q4 '06. This time you guys had three deals slip from Q4 '06. It sounds like you already closed one of them. Was that a straight software deal, or was that an ASP deal?

Brian Patsy - *Streamline Health Solutions - President & CEO*

The deal was a straight software deal, a large deal. All three were very large.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. And so if that is a large software deal and you guys did $802,000 in revenue in the fourth quarter and system sales it sounds like you've already booked more than that in the first quarter, is that a fair statement?

Paul Bridge - *Streamline Health Solutions - CFO*

Well, I would have to go back and get all the specific details on that, but it is going to be a big number.

Brian Patsy - *Streamline Health Solutions - President & CEO*

Let me share this with you. If you look at our guidance for last year, which I said in my remarks was a target of about $19 million, you do the math in terms of where we ended up and connect that to those three large deals. That gives you a feel for what is carrying over into this year. I would have to caution you that some of that revenue recognition may fall into the wrong bucket in terms of this accounting rule issue. So we're looking at that very closely, and we're working through those.

Tom Carpenter - *Hilliard Lyons - Analyst*

I'm sure that would be -- I hope it does not happen that way, but going back to that, it sounds like if you had already closed one big deal, that this quarter is already going to be bigger than last quarter, which would be positive. You talked about the other two deals. I don't know what is the exact wording you used in the press release, but it sounded like you were fairly confident of closing those over the next month so that they would be in the first quarter?

Brian Patsy - *Streamline Health Solutions - President & CEO*

That is correct.

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Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. Going back to GE, you guys have talked a lot about GE over the past year. It looks like in the first half of the year, based on the revenue, you guys -- GE contributed to revenue in the second half of the year just based on the system sales being less than what you were forecasting. It looked like that had dropped off. So can you give us some comfort about the health of the GE relationship because just based on the third and fourth-quarter performance, I don't know if something changed or just deals slipped on the GE side, but something is not clicking there with your all system sales in the second half of '06.

Brian Patsy - *Streamline Health Solutions - President & CEO*

This is Brian again. First of all, the health of the GE relationship is superb and getting better. I need to remind you that we grew the GE revenue channel by 121% last year.

Tom Carpenter - *Hilliard Lyons - Analyst*

That looks like that was in the first half of the year. The second half of the year it looks more quiet (multiple speakers)

Brian Patsy - *Streamline Health Solutions - President & CEO*

First half of the year, correct. And, as I have stated in the past, we normally expect a large storage in the Q4 from GE. Of the three or more deals that we were discussing that carried over, two of those were GE, which was disappointing not only for us but for them. Also keep in mind that we don't have direct control of the timing of that. So even GE was disappointed in terms of those things, the contract negotiations being extended.

So I still believe because of the way software companies work that a lot of revenue from software companies comes in their Q4. That should continue to be the case this year with GE. But the positive is, we have a great start to 2007, and we should anticipate a great finish because of the traditional patterns of GE revenue.

Tom Carpenter - *Hilliard Lyons - Analyst*

I'm sorry, Brian, I was busy writing some stuff down. Did you say that -- how many of the deals of three deals that slipped, how many of those were attributable to GE and how many were direct?

Brian Patsy - *Streamline Health Solutions - President & CEO*

Two were GE and one was direct.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. You also mentioned in your remarks that you guys, I believe you used the word, that you closed a large ASP deal with GE? That is your first -- the first.

Brian Patsy - *Streamline Health Solutions - President & CEO*

We did.

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Tom Carpenter - *Hilliard Lyons - Analyst*

The first (inaudible). Do you anticipate giving us details on that during this quarter?

Brian Patsy - *Streamline Health Solutions - President & CEO*

We hope so. That is always a challenge in terms of getting permission and approvals to release the information in a press release. There's three parties involved -- the hospital, GE and us. And we're not -- we are anxious to do that, but it just takes time.

Tom Carpenter - *Hilliard Lyons - Analyst*

Based on your all's -- I think in the past you guys have indicated that it takes maybe two to three quarters to get the ASP up and running. With that in mind, should we start including revenue from that in the third or fourth quarter this year, or is this going to be a longer install because it is the first one with GE?

Paul Bridge - *Streamline Health Solutions - CFO*

No, it is going to start in the first quarter, late in the first quarter.

Tom Carpenter - *Hilliard Lyons - Analyst*

That is fantastic.

Brian Patsy - *Streamline Health Solutions - President & CEO*

And I would also comment, I know that there's been some frustration in the markets relative to news, and I have said many times we have some challenges in terms of getting permission. Sometimes we don't get permission. The customer does not wish to have the information made public for various reasons. In the future we're going to give it a reasonable amount of time to try to get permission, and if not, we will issue press release generically to at least keep the markets informed that we are signing new deals as opposed to being silent.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. Fantastic. I have got --

Brian Patsy - *Streamline Health Solutions - President & CEO*

That will help.

Tom Carpenter - *Hilliard Lyons - Analyst*

I have got two more questions, and I will drop back into queue. Something new in the press release and also in your remarks I never heard you mention before, but you talked about international distribution opportunities. Can you provide some additional color on that?

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Also in 2006 you signed Standard Register and the HC -- whatever company. Those really did not have an impact on revenue unfortunately. Do you anticipate some of these new distribution partners you're talking about for '07 actually making a meaningful contribution to revenue?

Brian Patsy - *Streamline Health Solutions - President & CEO*

To your first question regarding international opportunities, due to the sensitivity of the negotiations which are well underway -- well underway -- I would rather not be any more specific than it involves a new partner and a new customer outside the borderers of the United States. We are very excited about that. I would rather not give further detail as to where that falls and who that potential partner is.

Tom Carpenter - *Hilliard Lyons - Analyst*

Do they already work with one of your existing partners?

Brian Patsy - *Streamline Health Solutions - President & CEO*

Not to my knowledge, no. To your second question, in terms of Standard Register and HCRS, I will expand that to GE. All three -- GE, Standard Register and HCRS -- should add much more incremental revenue to our hosting ASP-based solutions this year. GE because we now have the capability of remarketing our hosted solution through their channel which is significant. Standard Register candidly took some time to get off the ground. We're very aggressively promoting that relationship on both sides. We have aggressive marketing plans that we will be implementing to promote it, to bonus our account executives to sell it, and we anticipate a much better contribution on the ASP side from the Standard Register relationship, as well as the HCRS relationship. It just takes time to get those off the ground. So our ASP revenues will see some impact this year from those relationships.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. Because last year was a local bit slower on the ASP side than the prior year. I think we were looking for double-digits, and you guys were in the single digits. So you expect that to go back up to the double-digits?

Brian Patsy - *Streamline Health Solutions - President & CEO*

We're hopeful of that. Absolutely. I will tell you, part of the health there is the boost we got from the one large GE hosted customer. That will add significant revenue.

Tom Carpenter - *Hilliard Lyons - Analyst*

Right. I just want to make sure I heard Bill correctly and see if I can match this stuff with some of your statements. Bill threw out a number there that I thought was kind of high. He talked about operating expenses going up 30% this year versus '06.

Bill Geers - *Streamline Health Solutions - COO*

Correct.

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Tom Carpenter - *Hilliard Lyons - Analyst*

What is the biggest cause of that? Do you have a lot of integration projects going on out there? Because Brian is talking about 20% plus revenue, but I think it is actually going to have to be quite a bit higher than that if you guys want to get some operating leverage.

Bill Geers - *Streamline Health Solutions - COO*

Right. The net of that is that it really gets back to our people costs, which generally is what, 70% of our total expenses, Paul?

Paul Bridge - *Streamline Health Solutions - CFO*

Yes.

Bill Geers - *Streamline Health Solutions - COO*

And what happened is that we did -- we will add a limited number of people this year, but we also added people late last year. So in the second half of last year. So you really did not get the full sense of that expense last year. We will see that this year. So that is the reason for that.

Brian Patsy - *Streamline Health Solutions - President & CEO*

This is Brian. One other point to make is that the type of people we're hiring are further up the food chain from a compensation point of view. These are experts in their field. So we're bringing on some people that are highly comped in order to deliver on these contracts.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. I did not know if some of it was -- some of the operating expense increased was also in some of your new initiatives. I can understand if you are bringing in some new sales folks, it might be more variable cost as opposed to fix costs on the BPM or the portal side.

Brian Patsy - *Streamline Health Solutions - President & CEO*

That is exactly right.

Operator

Bill Bunn, Fort Washington Investment.

Bill Bunn - *Fort Washington Investment - Analyst*

Given the operating increase of 30%, do you foresee yourselves being internally funded this year, or would you have to tap that new bank line?

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Paul Bridge - *Streamline Health Solutions - CFO*

Well, we hope to be internally funded, but we do have the standby line of credit facility in case we need it because we also have to collect our receivables and manage our cash accordingly.

Bill Bunn - *Fort Washington Investment - Analyst*

One follow-up on Alan Shore's question about who might be trading lately, and I think Paul indicated that he had checked some NASDAQ sources. I did not jot them down, so I'm not sure exactly what he referenced. I'm by no means an expert on this, but wouldn't the stock transfer agent have that information?

Paul Bridge - *Streamline Health Solutions - CFO*

Well, most of our stock is held by a street name account, and the stock transfer agent only handles people who have certificates.

Bill Bunn - *Fort Washington Investment - Analyst*

Okay.

Paul Bridge - *Streamline Health Solutions - CFO*

Since I am the CFO, I have access to NASDAQ reports, and I can go in there and get the number of trades by day. I can get the number of shares traded. I can get the number of block trades and things like that. And when you have 28,000 shares traded but you have got 100 trades, you can just do the math and see that they are small. And I also am able to look and see whether there are any block trades. And there have not been any block trades lately.

Bill Bunn - *Fort Washington Investment - Analyst*

If an institution was selling, would you not be able to see that?

Paul Bridge - *Streamline Health Solutions - CFO*

No, in most institutions we have to wait until the end of the quarter and look for the 13F's and the 13G's which they file.

Bill Bunn - *Fort Washington Investment - Analyst*

And the stock transfer agent would not be able to assist there?

Paul Bridge - *Streamline Health Solutions - CFO*

No. As I said, stock transfer agent only handles the people who have certificates in their hands, not street name accounts.

Operator

(OPERATOR INSTRUCTIONS). You have no further questions at this time.

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Bill Geers - *Streamline Health Solutions - COO*

I thank everyone for joining us and wish to advise you that our first-quarter earnings release is currently scheduled for release on Monday, May 21, 2007, and a corresponding conference call is currently scheduled for Tuesday, May 22, 2007 at 10:00 AM Eastern time.

I would also like to remind everyone that the 2007 annual meeting will be held on Wednesday, May 23, 2007 beginning at 9:30 AM at the offices of the Company, and we look forward to seeing you if you are able to attend the annual meeting.

Operator, thank you. That is the end of the call.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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