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Conference Call Transcript

STRM - Q1 2007 Streamline Health Solutions, Inc. Earnings Conference Call

Event Date/Time: May. 22. 2007 / 10:00AM ET

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Good day, ladies and gentlemen. Thank you very much for your patience. And welcome to the first quarter 2007 Streamline Health Solutions, Inc., earnings conference call. My name is Bill and I will be your conference coordinator for today.

(OPERATOR INSTRUCTIONS)

At this time, I'd like to turn the call over to your host for today's presentation, Mr. Paul Bridge, Chief Financial Officer. Please proceed, sir.

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. Thank you for joining us.

With me today to discuss the first quarter 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 the 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 recorded now or in the past.

Factors that could cause the financial performance to so differ include, but are not limited to, the extended length of sale cycles; the timing of the signing and implementation of new agreements; the impact of revenue recognition rules; development of new channels of distribution,

competitive products, and pricing; product development; reliance on strategic alliances, availability of products secured from third-party vendors; and the healthcare regulatory environment.

Fluctuations in the 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 quarterly results.

Total revenues of \$3.78 million were slightly less than the prior-year record first quarter revenues of \$3.85 million.

System sales declined for the quarter compared to the comparable prior period. This decline in the first quarter system sales resulted from the continuing delay in closing new business in the quarter, which Brian will discuss later.

Service, maintenance, and support revenues increased 17% when compared to the comparable prior period. The increase is due primarily to a 27% increase in recurring maintenance revenues.

Our hosting services increased more than 9% over the first quarter of last year because of the addition of four new clients since the close of the first quarter last year who elected to use our hosting option.

Our operating loss for the quarter was \$447,000, compared to \$71,000 in the first quarter of last year.

The increased operating loss was the result of -- lower software licensing revenues; the increased cost of system sales in the current quarter because of increased capitalized software amortization and increased cost of hardware and third-party products sold during the period; increased cost of providing professional services, as we hired additional personnel to implement the current backlog; and increased research and development expenses for our new products under development.

Our SG&A expenses remained essentially flat as we carefully monitor spending.

Research and development expenses increased during the quarter because of the increased cost this quarter relating to our new products under development.

At April 30th, 2007, our backlog was approximately \$13.9 million, compared to \$14.9 million at the end of the fiscal year.

The breakdown is as follows -- Streamline Health software licenses \$202,000, custom software \$297,000, hardware and third-party software \$408,000, professional services \$4.449 million, application-hosting services \$4.465 million, recurring maintenance \$4.088 million.

The decline in the backlog results primarily from the reduction in the backlog of professional services during the quarter.

The reduction in hosting services backlog is multi-year contracts are reduced each quarter until they are renewed.

And reductions in annual maintenance revenue backlog is the contracts are reduced each quarter until they are also renewed annually.

We continue to monitor our expenses, cash balances, and receivables carefully to insure they are on plan vis-a-vis our revenues.

Now I would like to turn the call over to Brian Patsy.

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

Thank you, Paul and good morning, everybody.

Today, I will keep my prepared remarks very brief to allow additional time for our question and answer session, thereby allowing more time to respond to specific questions.

This morning, I will comment in three areas--our Q1 financial results, our pipeline of qualified sales opportunities and business development initiatives, and finally updated guidance for the remainder of the year.

After my remarks, Bill Geers will provide a few brief remarks regarding our operational activities. And then we'll move into an extended question and answer session.

Regarding our Q1 performance, our revenues of approximately \$3.8 million were below management's expectations of exceeding last year's record first quarter revenues of \$3.9 million.

As discussed in our last earnings call, three large transactions were delayed from Q4 of last year. And we anticipated that they would close in Q1 of this year.

One of those transactions did close in the first quarter. And we expected that the remaining two would also close before the end of our first quarter.

Unfortunately, both anticipated contracts were not signed in Q1 due to protracted contract negotiations.

Although these contract negotiations have taken much longer than anticipated, we are confident they will close in our second quarter, thereby allowing the company to meet its first half expectations for the combination of reported revenue and revenue backlog growth.

As we also discussed in our last earnings call, according to current accounting rules, revenue may not be recognized for customer contracts where a product roadmap was provided or if future product deliverables are required as a part of the selling-contract process.

Therefore, upon closing of these two anticipated contracts, we may not be able to currently recognize the software licensing revenue component of these transactions because they do include provisions for future product deliverables.

As a result, we anticipate significant increases in our backlog of software revenues in Q2.

In light of the impact of revenue recognition rules, we will be reporting our software licensing revenue backlog on a quarterly basis, which we believe, when combined with reported revenues, provides shareholders with a better indication of our revenue growth performance.

When negotiating future potential contracts, we will certainly try to avoid including product roadmaps or future product deliverables wherever possible so that we can recognize the software revenue on a more timely basis.

Keep in mind that because of the large size of our individual transactions and our dependence on contract negotiation through certain remarketing partners, any delays in large system sales in excess of \$1 million in revenue, when compared to our historical quarterly revenue performance of \$4 million to \$6 million, have a significant impact on our quarterly results.

Therefore, when gauging our revenue growth, we encourage shareholders to consider our year-over-year performance and not become overly focused on quarterly comparisons.

We understand shareholders are disappointed in the inordinate delays in completing these transactions.

Management is equally disappointed. In order to minimize future fluctuations in our quarterly performance and maintain better visibility and consistency from quarter to quarter, we are working to accelerate the growth of our recurring revenues via hosted services and diversify our solution portfolio in the areas of business process management and portal services.

Now let me take a moment to briefly review our sales pipeline in business development activities.

Our total qualified sales pipeline, which includes software, maintenance, professional services, and third-party software and hardware, is over \$80 million, up from \$75 million from last quarter.

Please keep in mind that the qualified sales pipeline is only a gauge of the relative size of our current market opportunity. We do not expect to win or close all the opportunities in the qualified sales pipeline.

On the business development front, we continue to focus on expansion of our relationship with GE Healthcare to include further integration to GE's suite of Centricity Solutions, as Bill will discuss later in his remarks, and expansion of distribution channels for our hosted services offering, thereby helping us grow our recurring revenues at a great rate.

In closing, I would like to provide guidance on our expectations for the remainder of the year.

In prior years, our goal was to maintain annual revenue growth over multiple yearly periods in excess of 20%. In 2005, we achieved 26% revenue growth.

Last year, we did not achieve our goal of at least 20% revenue growth because of the delay in closing the three transactions mentioned previously.

This year, due to the delay and carryover of those three transactions into this fiscal year, we anticipate greater than 20% revenue growth when considering both reported revenue and increases in our backlog due to revenue recognition.

Although the last two quarters have been challenging due to contract delays, we are expecting significant growth in our revenue backlog in Q2 based on anticipated contract signing.

This concludes my remarks. I'd like to turn the call over to Bill Geers, our Chief Operating Officer, for his update.

Bill Geers - Streamline Health Solutions, Inc. - COO

Good morning. It's my pleasure to be with you today to discuss an operations update.

My comments will focus on the following topics -- our 2007 operating plan and an update on several high profile product development efforts.

With respect to our 2007 operating plan, I wanted to clarify a comment that I made during our Q4 2006 conference call.

During that call, I mentioned that we expect our operating expenses to increase approximately 30% this year.

But I did not comment on how this compares to our anticipated revenue growth.

To be clear, our 2007 operating plan has budgeted revenue growing at a faster rate than operating expenses on a year-to-year basis.

With that background, in the first quarter of this year, we managed our operating expenses very closely, which resulted in our actual expenses coming in significantly under what we had budgeted.

We will continue to carefully monitor expenses throughout the year to insure that they are in line with our revenue growth and overall operating plan objectives.

With respect to our 2007 product development efforts, there are three updates that I'd like to share with you.

First of all, as mentioned in our last conference call, we have a major product release that is installed at four beta sites.

This is the release that introduces a variety of significant enhancements across our entire product line, including extended interoperability, which will facilitate our efforts to integrate with additional clinical, financial, and administrative systems, thereby strengthening our enterprise-wide message.

We expect one of the four beta sites to go live before our next conference call, while the other three are expected to go live in our third quarter.

My next update focuses on our integration efforts with applications from other vendors. Based on substantial client interest in this area and its importance to our enterprise-wide message, we have made these projects a high priority for 2007.

Here's an update on what you can expect in this area over the coming months.

To begin with, we expect two additional integration projects to become generally available by our next conference call.

The first is our integration with GE's Centricity Business Solution. Centricity Business is GE's revenue-cycle management solution for large physician organizations and hospitals.

The second is our integration with the McKesson physician portal, which provides us with integration to the McKesson Clinical Information System.

Next, we expect the following two integration projects to become generally available in our third quarter.

The first is an important enhancement to our current integration with GE Centricity Enterprise Solution.

This enhancement will deliver significant benefits to physicians through a more seamless integration.

For those of you who may not be familiar with their product line, Centricity Enterprise is GE's integrated clinical and financial solution for hospitals. The second integration project that will be made generally available in our third quarter is our integration with Sunrise Clinical Manager from Eclipsys.

My next integration update deals with Centricity EMR, which is GE's clinical documentation workflow solution for the ambulatory setting.

To further expand our distribution capabilities through GE, our integration with the Centricity EMR product have been accelerated. We are very pleased to report that this integration effort will be completed in our second quarter, which is well ahead of schedule.

And we are currently considering beta sites. Finally, we still expect the initial phase of our integration with Lawson and PeopleSoft to be under development in our fourth quarter of this year.

My final product development update addresses the status of four workflow offering. Our Referral Order Workflow automates the routing of orders to scheduling personnel. And it will be installed in two beta sites by our next conference call.

We also have two workflows that will be installed in our beta sites during our third quarter, including our Contract Management Workflow, which allows for automated routing of contracts and other documents that require review, editing, and approval; and our Chart Tracking Workflow, which allows organizations to track paper records; and finally our Cash Management Workflow, which allows for automated routing of explanation of benefit statements and remittance advices, will be installed in a beta site in our fourth quarter.

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 insure its realization and the successful execution of our 2007 operating plan.

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

Paul Bridge - Streamline Health Solutions, Inc. - CFO

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

QUESTION AND ANSWER

Operator

Thank you very much, sir. (OPERATOR INSTRUCTIONS) Our first question comes from the line of Bill Bunn of Fort Washington Investments. Please proceed.

Bill Bunn - Fort Washington Investments - Analyst

Good morning.

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

Good morning, Bill.

Bill Bunn - *Fort Washington Investments - Analyst*

I guess I'm frankly puzzled on the sales and revenue side.

It doesn't seem like -- if I was GE, I'd be very unhappy with my acquisition of IDX because it seems like they cannot get the contract signed over there.

Either they're not doing business, or when they do do business, it's not necessarily sending any of it your way.

They have hardly any signings over the last four, five, six quarters, basically, one a quarter if we're really lucky.

And second, I'm puzzled about what's going on with the direct sales force that you have because it seems like -- and I may be off a quarter or so -- but it's been just about a year since the last direct sale. And I mean, it's well under one a quarter.

The market seems to be large with plenty of opportunities out there. It doesn't seem to be working. Could you help me understand where the deals are?

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

Sure, Bill. First of all, relative to the GE channel, it is very difficult to get these contracts completed. There's no question.

There is a significant backlog of contract opportunities with GE. And it's about the same as last quarter, \$22 million in software and \$38 million overall.

What we're running into is a lot of these deals that are in the pipeline today are customers, potential new customers are asking for product roadmaps. And from a revenue recognition point of view, that's very challenging.

And these contracts have been extended out as GE tries to configure a contract that allows both themselves and Streamline Health to be able to recognize the revenue. Part of that has caused some inordinate delays in contract negotiations.

Certainly, we're disappointed. I'm sure GE is disappointed as well. We do have many significant deals in the pipeline as it relates to GE, one of which is included in the two contracts that have been delayed.

And it's a significant deal that hopefully we'll be cleaning up and reporting as part of our second quarter results.

Relative to the direct sales force, we have closed direct deals within the last year. And Q3 is a good example. We had a challenge in terms of reporting the names of some of these customers. But we have some direct deals that we have closed over the last year.

And there are two significant ones that we should -- one which we should close in Q2, significant direct deal, and a second one which we hope to close before the end of Q2.

So the pipeline has grown a bit. But I would acknowledge that we probably need to accelerate our hiring of account executives to be able to kind of mind the backlog of opportunities that we have in the sales pipeline.

Bill Bunn - *Fort Washington Investments - Analyst*

Are you targeted internally more than one direct deal per quarter? Or is one or maybe even less than one on average about all you can do with the existing sales force?

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

Well, we have two account executives. And we look to have one per quarter from each. And then we have been trying to hire a third account executive. And it's been very challenging for us to do that.

We've got a couple candidates coming in the next two weeks. And hopefully, we'll be able to find a candidate that meets our needs so that we can expand our capabilities on the direct side.

Now we also require that in their sales goals that they close one GE deal per quarter. However, as you can imagine, that is somewhat out of their control. And they're in a support role to GE. And the deals are done on GE paper.

Bill Bunn - Fort Washington Investments - Analyst

Second question I have, then I'll pass it on to others -- I'm looking at the financials. And I'm comparing the cash in this quarter with the cash that was in the prior quarter, one quarter sequential. And I went from \$3.3-plus million down to \$749,000.

I know that you've used \$1 million to pay down some debt along the way. And you had \$808,000 operating loss in there. It looks like -- I cannot reconcile this cash number. I'm coming up about \$750,000, \$760,000 short.

Is that the right number? Where did the money go?

Paul Bridge - Streamline Health Solutions, Inc. - CFO

Well, if you look at the --

Bill Bunn - Fort Washington Investments - Analyst

And I'm trying to do two accounts here. I'm trying to come up with sources and uses. And I'm coming up \$750,000 short.

Paul Bridge - Streamline Health Solutions, Inc. - CFO

Have you looked at the cash flow statement attached to the press release? You'll see that we used about \$500,000 for capitalized software development.

Bill Bunn - Fort Washington Investments - Analyst

Okay.

Paul Bridge - Streamline Health Solutions, Inc. - CFO

And we purchased about \$221,000 worth of property and equipment.

Bill Bunn - Fort Washington Investments - Analyst

Yes, I'm trying to work through this [T] account because you had some of your accounts were sources. And some were uses.

So we do this offline. But it just seems like -- I can't reconcile where the cash went when I went through it.

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

Okay. Well --

Bill Bunn - *Fort Washington Investments - Analyst*

Could you talk more about the capitalized software? Is that an increase over past quarters? Is that a change in strategies?

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

Yes, it's an increase. But it's based upon the amount of work that's being done by the development department.

Bill Bunn - *Fort Washington Investments - Analyst*

Okay. It's driven by the -- it's more driven by the development department and the level of work they're doing than anything else.

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

It's all development. In other words, they derive it. In other words, if they're working on more, it goes up. If they're working on less, it goes down.

Bill Bunn - *Fort Washington Investments - Analyst*

So the question is cash has gotten a bit short here as of late. So what's plan B if the deals that possibly would come in don't come in?

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

Well, we do have the working capital facility.

Bill Bunn - *Fort Washington Investments - Analyst*

Okay.

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

And we haven't borrowed on that yet. And I don't foresee that in the near future.

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

There are several large maintenance renewal contracts coming up where we get the money up front for the following year from a cash flow point of view.

Bill Bunn - *Fort Washington Investments - Analyst*

All right.

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

Also, keep in mind that when we do apologies for the revenue recognition rules and what that does to reported revenue, please understand that we get cash up front for consummation of those contracts.

Bill Bunn - Fort Washington Investments - Analyst

Right.

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

Typically, it's 25% to 30% upon signing and another 20% upon shipment. So approximately half of the software revenue goes into the coffers in a front-loaded fashion.

Bill Bunn - Fort Washington Investments - Analyst

All right. I'll pass. I may be back later in the call, then. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of [Mark Cahill]. Please proceed.

Mark Cahill Analyst

Good morning, gentlemen.

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

Morning, Mark.

Mark Cahill Analyst

In the past, you've mentioned the win rate on the pipeline has been above average. We didn't actually see that in 2006 because of the delays. I'm wondering. Is there some kind of a sales lag effect that we're in the middle of here?

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

Well, that's a good point, Mark. Our close rate is above average -- excuse me -- our win rate is above average. But frankly, our close rate is below average right now.

We're kind of in the doldrums of trying to get some large transactions out of the contract negotiation process. So we haven't lost any significant deals.

But we just--things have slowed down. And I can give you some further color commentary on the two large deals. And believe me, management is as disappointed as shareholders are with the inordinate delay.

One of the deals was a direct deal, very large. And we actually were very close to signing that contract in December-January timeframe, which would've hit last year's results irrespective of revenue recognition rules. And what happened is they had a capital hold.

So everything was queued up and ready to go. And they put a capital hold on that project. And it's just been released. So that's very good news for us.

Mark Cahill Analyst

Good.

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

So that gives you some comment on what happened. It was just a matter of waiting for that capital hold to be released. And that's just out of our control.

The second deal is the GE deal, very large deal, very involved in terms of an extensive use of our solutions throughout the entire enterprise.

And what has delayed that fundamentally has to do with the product roadmap and with potential customers asking for our mutual plans for integration going forward. And that is what's caused the delay.

And as most of the market is looking for tighter, better, further integration between the two business partners, GE and Streamline Health, we have integration today.

But they wanted to know what the future holds in terms of not only bringing Centricity Enterprise more integrated into Streamline Health solutions, but also some of their other business units.

And frankly, that's what's caused the delay. And we've gone through that process of educating them and informing them on our mutual plans. And that simply is taking a long time.

Mark Cahill Analyst

All right. So we have a differentiation between the win rate and the close rate.

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

Exactly. What I'm saying is that we typically are above average on the win rate. It's better than 30%, which is pretty good.

Mark Cahill Analyst

Now 30% off of the --

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

The total pipeline.

Mark Cahill Analyst

Yes, but that's been about \$50 million over, roughly, the past year.

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

Right.

Mark Cahill Analyst

\$50 million and over.

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

Yes.

Mark Cahill Analyst

So that's a --

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

There's two pipeline that I report. And this quarter, I just reported the total pipeline because I was fearful of confusing shareholders.

Mark Cahill Analyst

Right.

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

So I just gave the total pipeline, which includes third-party components.

Mark Cahill Analyst

Right, right.

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

And --

Mark Cahill Analyst

But if I just do straight math, you're talking about roughly \$15 million worth of business you've won. You just can't close it.

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

Well, I'd rather not comment on the size of the deals other than they're well in excess of \$1 million.

Mark Cahill Analyst

Right.

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

I just don't want to get into that kind of granularity. But they're very large transactions, no question. And they aren't the only transactions that we anticipate in Q2. So --

Mark Cahill Analyst

That's what I was going to ask next. On your--these two deals, it sounds like you're going to eventually close them. It's just a very frustrating process.

But there's got to be quite a few other deals out there that you're trying to close also.

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

Well, in terms of our expectations, management's expectations, if you go back to Q4 of last year, clearly I documented that we expected approximately \$7 million in revenue. And we did not achieve it --

Mark Cahill Analyst

Right.

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

Which is why we didn't achieve our numbers last year. And I want to be very clear that our business plan for this year continues to anticipate and plan and put resources in place to grow revenues 20% with the qualifier that because of accounting rules now some of that will be in reported revenue and some in revenue backlog.

Having said that, those three deals that carried over, we layered on top of or added to our expectations--

Mark Cahill Analyst

Right. I understand.

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

--for this year. Now so Q4 was below our expectations because of the three transactions. We expected them in Q1. They didn't happen. One of them of the three happened.

We now are looking for them to be delivered in Q2 in addition to one other large deal and one hosting deal. So that's a total of four deals in Q2.

And if those all get delivered as anticipated, we still are on track for achieving half of our annual expectations. And I used the word expectations to include reported revenue and revenue backlog --

Mark Cahill Analyst

Right.

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

-- half of our expectations for the year in the first half of the year, which is much improved over our previous quarterly performance.

Mark Cahill Analyst

Right. And that's going to be under the new guidelines on how you recognize revenue, so --

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

That's right. So that's why we're providing that additional detail. And I think an important question to ask is when do we anticipate that the backlog will be achieved.

And that, of course, depends on what is included in the contract and the timing of delivery of those enhancements.

Mark Cahill Analyst

Right. It seems to me that the sales model that you have in place, it just hasn't gained momentum and hasn't overtaken the expense side of the aisle. The infrastructure investment that's been going on for the past two years, I think is great.

And you should do that. That's building yourself--creating the growth opportunities.

But the -- using the leveraging of your partner's sales force hasn't work. Don't you think -- I think your direct sales force is working pretty hard. They actually did close quite a few deals in the second quarter of last year.

So they actually have contributed from what I can tell. And it seems to me--I'd love to have you hire more direct sales people because they actually are contributing.

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

Well, Mark, that's a fair point. And let me say that we've held the line on expenses to make sure that they're in line with our revenue. And therefore, we are well below our expense budget for the first quarter, well below it.

Frankly, most of that is on the development and implementation side. We want to make sure that we continue to grow our sales force to grow our revenue opportunity.

We just had some challenges in getting the right kind of senior account executive on board. We also have plans to expand our client manager program in terms of mining our existing customers.

So we're focused on growing that. But we're holding expenses in line until such time as these contracts are delivered. And then we'll allow for again expenses to follow revenues, if you will, to make sure that we don't get ahead of ourselves.

Mark Cahill Analyst

Right. I understand you had to get the expense generators, that's the infrastructure that you had to put in place. It just seems you need more revenue generators now.

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

Well, here's a couple of comments on the business development front. First of all, you know, and I've said repeatedly, that we've really focused our resources on the GE channel. And there's two factors at play there.

One is just winning deals with our integration with Centricity Enterprising, there's been a backup of deals that very candidly is a result of some challenges we have with trying to negotiate contracts to allow us to recognize revenue in a more current period. And that's a very complicated process as you can imagine.

Mark Cahill Analyst

Right.

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

The pipeline has not shrunk. It's actually grown. But it's kind of a damned up effect of some large deals as we work through these revenue recognition rules.

Secondly, we've spent a lot of cycles working with senior GE management in terms of doing integration, as Bill commented about, with the other business units, the Centricity EMR and Centricity Business.

We have a lot of beta sites going for that integration and plan for that integration, which this year will open up additional channel opportunities to work with those other business units.

They do not sell our software on their paper. But it does create additional opportunities as we sell our products into large healthcare organizations that have products from those other business units. We typically win the enterprise.

And then we -- it allows us to sell additional software out into some of the ambulatory clinics and physician practices. So that will help us grow our GE revenues more than just through our original relationship that is with this Centricity Enterprise group.

We've also spent some cycles looking to add additional business partners. There is a short list in terms of who we're negotiating with.

Of course, any time you're in negotiations with a new strategic partner, that doesn't necessarily assure that we could come to mutual terms. But our goal is to expand our distribution capabilities for our hosting services.

So some of the significant partners that we'd like to add would focus on our hosting services offering, either remarketing or complimenting our hosting services.

I also want to comment on Standard Register. And I think candidly that relationship has not delivered the kind of revenue either party would like.

And in fact, we met with senior management just a few weeks ago to talk about the whys of that.

And there were a lot of issues that came to light in terms of how we compensated account executives on both sides and how we qualified. And we really worked very hard to clear up some of those roadblocks to get that relationship going.

And we -- I will personally be involved, along with the general manager of the Standard Register unit that we work with, to go out and personally get this thing jump started.

And that is one of the relationships that will help us grow our recurring revenues through our hosted offering.

They have plans to generate revenue in excess of six figures. And so do we. But we have to get this thing jump started. So that's one where I have been disappointed, as they have as well.

Mark Cahill Analyst

In the past, you have referred to the Standard Register as a referral partnership. Now -- I think it was in the last conference call, you referred to them as a remarketing partner.

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

Actually, they're both. And here's the distinction. Standard Register is remarketing our repository.

They have an offering that automates document-intensive functions in the registration area that's formerly called PLUE, Patient LinkUp Enterprise.

There's a new name for it. But irrespective of the name, we--when they sell that solution and scan documents through that solution, they didn't have a means of retaining the documents in the repository.

So they will actually be remarketing our repository to allow for the retention of those documents. So that's a remarketing relationship.

In return, we will be remarketing some of their solutions as it relates to eForms, which is one of our strategic technologies.

In addition to that, as we mutually sign up customers, there's a referral arrangement where we can up sell from that registration solution up to the full enterprise suite of products that we have.

That's a referral arrangement where those kinds of sales would be on our paper. So there's a lot of interaction between the two companies. And I hope that clarifies the relationship.

Mark Cahill Analyst

Yeah, I just think it's best to incentivise the sales force. Give them a bonus to get a deal done.

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

Well, candidly, that's exactly where we missed the mark.

We didn't -- both sides didn't compensate the account executives enough to get their attention because they have a full product line to be concerned about.

So we wanted to get their attention. And we did. We upped the commission structures on both sides.

And in addition to that, we have a very aggressive marketing program for incentive bonuses to get this thing jump started. And I'm a big believer that compensation drives behavior. And we've fixed that problem.

The other thing that we're doing is personally I will be involved as well as the general manager of Standard Register to go out on some very strategic pulls with some of our largest mutual customers to make sure that we get this thing jumpstarted.

So we're getting lots of attention on this because we both want this thing to work and deliver revenues this year.

Mark Cahill Analyst

Right. Outside of GE and Standard Register, are you happy with your business development team?

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

I am. There's a lot of things that are in the works that I frankly can't comment on because of the sensitivity. In generic terms, there's a pretty decent sized list of opportunities to form relationships.

I can tell you in generic terms we're focusing on the expansion of our distribution capabilities for hosted services primarily so that we can level out diversity that's in our quarterly revenues because our current revenues are more visible.

Standard Register was one of those that we signed. Actually, there are others.

And secondly, we're looking at opportunities to find partnerships that will allow us to expand and diversify our solution portfolio to complementary lines of business, such as business project, process management, and another one that you may have heard briefly spoken about, which is medical banking, which is a natural extension of some of our workflows to tie in the banks and the payers.

So there are several opportunities where we will form strategic business partnerships with companies that have a presence in one or both of those markets that you'll be hearing about over the coming months. [It's not] that we don't want to really spend a lot of time on until we announce those relationships.

Mark Cahill Analyst

Yeah, and frustrating just because I just haven't seen any real tangible results outside of GE, and that's it.

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

And that's a fair point. Again, we're working very hard and we're very busy on the business development side, very busy.

Mark Cahill Analyst

Getting back to actually GE, Bill Geers mentioned Centricity EMR in the last conference call. But no one actually talked about it. That's a third division that you guys are now involved in.

Could you put a little more meat on that bone and tell us what that's about?

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

Yes, there are multiple business units within GE Healthcare. And just to briefly review, the one that we originally worked with, which was the former IBX organization, is now called Centricity Enterprise.

They have a large-scale clinical information system for basically the hospital or the inpatient side of the business primarily. It involves a lot of different modules. That is where we started. That is where we are signing deals.

We are their enterprise document management, document workflow solution that complements the transactional system of Centricity Enterprise.

The second division is called Centricity Business, which is formerly -- well, there's a couple of solutions within that. But that's basically the business office solution, which is a lot of scheduling and patient financial services solutions.

We do not -- and on the former, on the Centricity Enterprise, when we get a GE Healthcare deal, it's on their paper. They sign the deal. They control the contract process.

With Centricity Business, we have integration to that solution. But they do not sell it on their paper.

What's going on in the marketplace is that as we win enterprise deals for Centricity Enterprise and we find out that within that healthcare enterprise they also had either Centricity Business or Centricity EMR, which I'll describe in a minute, they mutual customers are asking that they use Streamline Health solutions as opposed to GE-offered solutions because they want to use us across the entire enterprise with a common look and feel.

That is why the integration to Centricity Business is so important because it will create additional opportunities for revenue for us, probably on our paper. And we have a beta site at University of Virginia and others.

And then the third division is Centricity EMR, which is really the physician practice management piece of GE, smaller physician practices.

And again, our mutual customers who have that solution installed have asked that we integrate our solution across the entire enterprise to include those two products.

And that's why Bill commented that we have accelerated our integration plans there, again to create more opportunities for us to move product.

Mark Cahill Analyst

Is there a great opportunity in the Centricity EMR field there?

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

Well, again, the opportunity as we see it today is within our mutual installed base of extending our solution out further.

Hopefully, down the road, we can actually go after net new business starting in a department and working our way up. But that's a ways off. And initially, we want to start with just tapping our installed base of mutual opportunities.

Mark Cahill Analyst

How long will the integration process take?

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

I'll let Bill comment.

Bill Geers - Streamline Health Solutions, Inc. - COO

Well, I mean, we are at this particular point will be finishing our integration work in our second quarter. We're actually very, very close with respect to that effort, Mark.

So our hope is that we will identify a beta site then here in the second quarter. So the integration work itself is virtually complete.

Mark Cahill Analyst

Okay. Switching to the IBM portal development area, in the last conference call, you said that Streamline is moving up our plans by one year.

What happened there that you could do that? Your product developers working overtime, or --?

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

Well, great question, and it needs further comment.

First of all, I have gone out and visited with our strategic customers over the last six to nine months to share our vision for diversification into new lines of business, primarily business process management and portal connectivity, as we've discussed many times.

What I was doing was informing our strategic customers of our plans to extend our solution and connect our solution into some new lines of business and get their feedback in terms of their level of interest in using some of our solutions.

And I've been very pleased that there are several opportunities for us to get--retain to do some business process management initiatives first of all.

And the reason that's very synergistic is we would like to offer consulting services to look at document-centric business processes within organizations and where we have not developed a solution, a workflow, work collaterally with our installed base to develop new ones for the market that have broad market appeal.

And in doing so, our customers would benefit in terms of being involved in developing the solution.

And they would get preferential treatment in terms of the cost of that solution for being an early adopter. That program is underway.

We have brought in some resources to provide those consulting services. And we have several opportunities underway in terms of negotiating some business process management engagements.

Now as a part of that, and my plans originally were to get that off the ground, get some competency and some track record and then ultimately -- and ultimately, would be within the next 18 months -- move into providing some portal integration services.

What I found was that there was equal opportunity for getting involved earlier in developing some portal integration as there was with business process management.

So as a result of that, we've accelerated our plans to really run those two programs in parallel. We've answered several RFPs.

And I need to comment further on our relationship with IBM as it relates to portals and portals in general. You mentioned our product development group.

We are outsourcing the development of the portal solution to a group that has extensive experience in portal development.

And so that solution will be developed by third parties that we have an arrangement with.

And relative to IBM, it's very critical that we, as Bill described, get the integration, the IBM portal solution WebSphere, which will create market opportunities for us directly and through the IBM sales force. But that's a very high-end solution.

So we also have an alternative solution, which is more of a middle-market solution for portal development, which uses open source.

So we actually have a very broad solution set that can meet the various needs of some of our customers. And I'm very excited about that end of our business.

Mark Cahill Analyst

For the existing customers, what's the impetus to buy this new product?

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

Well, there's a wide open market opportunity for portal development. It's a very fragmented market.

And there's several myths regarding portals. It is not highly penetrated. It is not dominated by IBM.

And there's a lot of opportunity in the marketplace, particularly what we would describe as the middle market, which is the 200 to 600-bed hospitals to do portal development.

And let me give you some examples.

Primarily, for us to start, we're focusing on administrative portals, such as employee portals or business-to-business portals that allow hospitals to extend out into the communities and give their employees access to important information like 401(k) plans and their vacations and so forth.

That's where we're going to be starting. But our clear intent is to expand our solution set to include patient portals, physician portals, et cetera.

And to our delight, there isn't a lot of penetration of those types of solutions in the healthcare marketplace today.

Mark Cahill Analyst

Are you there?

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

Yes.

Mark Cahill Analyst

Okay. The tool that you created, the portal tools, it's my understanding that a lot of that stuff will already be installed within the existing customers, right? They'll already have a part of the product there?

Bill Geers - Streamline Health Solutions, Inc. - COO

This is Bill, Mark. That's correct.

Mark Cahill Analyst

You just have to sell them the last 50% or whatever that number's going to be.

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

Well, Mark, let me comment. This is Brian. Let me comment further.

The integration of the IBM technology into our solution allows Streamline Health to plug and play with the WebSphere portal for those hospitals that choose that platform.

And so it's important for us to support it. But the integration efforts and the portal efforts that we have are much broader than just IBM WebSphere.

Mark Cahill Analyst

Right.

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

And it isn't necessarily -- doesn't necessarily require some of our backend solutions to move into this market.

Now the good news about portal development is that a portion, a significant portion of it does involve what we describe as content management or document management, document workflow. But it's much more than that.

So it's important for our solutions to plug and play with the portal standards. But it doesn't always require some of our solutions to move into that marketplace.

Mark Cahill Analyst

Right. Back to business development, it was on the last conference call you mentioned (inaudible - audio gap) as a possible international partner. Are you still on track talking to those people?

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

Yes, we are. Again, that's part of the -- on the list of what business development has been working very hard to consummate.

And again, I don't want to pre-announce anything. So I'll just make the comment that we are working with an international partner.

Mark Cahill Analyst

Okay. Just two more questions from me. It was about two years ago Streamline announced the resigning of two large hosting deals.

One was a three-year extension, one was a two-year extension. Did that two-year customer resign?

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

They did.

Mark Cahill Analyst

Okay. Good. And the last question, kind of a general question, Cerner in the past, in their conference calls, particularly their year-end conference call, said that their average customer uses only six of their 60 modules.

It sounds like it's mainly the CPOE products. Doesn't that leave a lot of room open for you guys, a lot of opportunity there?

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

Well, it potentially can leave a lot of opportunity. But remember, we don't necessarily compete with Cerner with similar solutions. A lot of what they're describing are what I would describe as transactional solutions that --

Mark Cahill Analyst

Right.

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

-- manage orders and results and lab and pharmacy and so forth. CPOE is certainly a piece of that.

Mark Cahill Analyst

It seems like a lot of the customers, the hospitals and health networks, have focused on transaction-oriented products the past five years. And they actually haven't gone to the document-centric products yet. They're just getting to them.

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

And we also agree with that. Frankly, our biggest challenge is distribution and getting the word out, which is why we need to hire more account executives and sign more business partners and extend the partnerships we have, such as GE Healthcare. And your point is well taken.

And that is that there's been a lot of money and a lot of cycles invested in clinical billing and administrative information systems that are primarily transactional or database oriented.

Our vision and our focus is on the document-centric needs of hospitals, which frankly over the last ten years have been somewhat ignored.

Now some of the major transactional solutions out there do offer document management solutions to complement their transactional systems. Cerner is a good example of that.

Our point is that if you buy Cerner's document management solution, it only is effective within the Cerner silo or whatever solutions they involve.

We have more of an enterprise approach to work with all the various clinical billing and administrative information systems.

Therefore, we believe that you need to take an enterprise approach to document management, document workflow as well as some of the other technologies we offer with eForms, Optical Character Recognition, interoperability, and portal connectivity.

So that message is being heard. Our challenge, as I've said many times before, is getting the word out and getting distribution so that we can get the message out.

Mark Cahill Analyst

That's your business development team. And I can't stress enough, you've got to get them moving.

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

We hear you loud and clear.

Mark Cahill Analyst

Got to break the log jam. All right, that's it for me. Thank you, gentlemen.

Operator

Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Tom Carpenter of Hilliard and Lyons. Please proceed.

Tom Carpenter - Hilliard and Lyons - Analyst

I feel like I've been waiting on the most popular ride for 45 minutes at the amusement park.

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

Thanks for being patient.

Tom Carpenter - Hilliard and Lyons - Analyst

Yeah, that was a long wait. Brian, I want to reconcile something you've been talking about on this call with the reality.

I've been following this company for -- I don't know -- roughly a year and a half. And since that time, you guys have signed deals with Standard Register. You've expanded the GE deal into some other areas.

I think you -- on the ASP side with hosting and some of the solutions that you just talked about. And you also signed, I guess, a reseller hosting thing with the one company that focuses on government contracts.

And you talk about how you're very pleased with the business development side and the person that's in charge of that.

But by my recollection, you've had one deal -- and I think that was the GE ASP deal that hit in the fourth quarter--from the business development side.

So you say you're pleased with it. But on the revenue side, we haven't seen the results. What gives?

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

Well, it's a fair question, Tom. And clearly, there's two things at play here.

One is remember that the business development group is not responsible for direct -- for sales by the GE sales force.

They're responsible for extending the GE relationship to the other business units. That's what they've been focused on.

That work has been very fruitful in terms of getting integration to those other business units and beta sites, which Bill talked at length about.

Really, the sales of GE business falls on the sales force. And so that is where that responsibility lies.

Have we delivered as much GE business as we would like? Absolutely not. We're not satisfied with the number of deals.

However, had we been fortunate enough to close those two deals in Q4 -- one GE, very large, and one direct--we might not be having this conversation. But I understand the frustration. I don't minimize it. We are equally disappointed.

But keep in mind our expectations for this year are in excess of our typical annual revenue growth because we're not taking a hall pass on those two deals.

We're layering them on and adding them on to our expectations for this year. Now there is a logjam, though, clearly with GE business.

Tom Carpenter - Hilliard and Lyons - Analyst

There better be a huge logjam because the only thing we've heard is about deals slipped. Where is the rest of the pipeline?

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

\$38 million.

Tom Carpenter - Hilliard and Lyons - Analyst

Where is the rest of the pipeline coming? These deals that have slipped go back a couple of quarters. Where are the other deals that should've been worked on in the interim?

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

I mentioned earlier in my comments that we anticipate four deals in Q2, two that we've talked about and two more.

Tom Carpenter - Hilliard and Lyons - Analyst

Yes, two of them don't count because they're from prior quarters.

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

True.

Tom Carpenter - Hilliard and Lyons - Analyst

I guess, where are the -- who's working on the other deals being sourced constantly?

And if you're working on new distribution partners, wouldn't you rather spend your time on distribution partners that you can actually sell in or cross-sell much more effectively than some of the other ones?

If you have distribution partners and no deals come out of it, the distribution being the biggest gating factor to you guys competing, it seems like you wouldn't want to spend your time on people that you might have to partner for a year, where no deals come out of that relationship. That seems like that would be a waste of time.

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

Well, I'm clearly disappointed with the results of our Standard Register relationship.

And we're working very hard to get that relationship jump-started.

Relative to the pipeline of business development deals, I wish I could comment more, but I can't because it's inappropriate to discuss very sensitive negotiation with some business partners.

And hopefully, I'll be able to go into more detail the next earnings call to give you some insight there.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. Let's switch over to the sales team. You said you had two account executives. Do you count that as the Head of Sales so that you have three sales people, a Head of Sales, and two account executives?

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

And then we have client managers as well, three client managers that sell into the installed base.

Tom Carpenter - Hilliard and Lyons - Analyst

So if you look at the two account executives and the Head of Sales, you said each person should be sourcing a GE deal and a direct sale or ASP deal during the quarter?

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

Our goals for each account executive is one of each per quarter.

Tom Carpenter - Hilliard and Lyons - Analyst

What about the Head of Sales? Are there -- does that person have individual goals? Or is that part of the team?

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

No, he manages the entire sales organization and all the sales floor people. There are also specialists that we have. We have a patient financial services bill specialist as well.

So there's one, two -- there's about ten in the organization overall, including the sales support people.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. This is the third consecutive quarter where deals slipped and you missed your financial goals.

In addition, there's been some new projects such as software modules, integration, consulting services, and BPM seem behind schedule.

When I say behind schedule, I mean from a revenue side. With these as the data points, that seems like a lot of things across the organization have slipped.

What can you tell us about delivering favorable results going forward and restoring your all's credibility with investors?

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

Well, first of all, let me correct what you said. Q3 was actually 20% greater than Q3 of the previous year.

So in terms of our expectations, we missed Q4. And we missed Q1, not the last three quarters. We were 20-plus percent ahead of the prior year's -

Tom Carpenter - Hilliard and Lyons - Analyst

But your system sales were down year over year. And that -- I think everybody would agree that's the driver of the business model.

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

Well, our ASP, actually we're forecasting a pretty decent increase in ASP revenues this year as well as maintenance revenues.

And we also have a significant expectation in terms of direct and GE business opportunities this year based on the pipeline.

Tom Carpenter - Hilliard and Lyons - Analyst

You mentioned two of the deals that slipped in the last two quarters that they close this quarter.

Will you recognize any revenue on the income statement on the software licensing side from those deals? Or is that going to be in the future? And it's just going to show up on your backlog.

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

Which deals are you talking about, the two that carried over?

Tom Carpenter - Hilliard and Lyons - Analyst

Yeah, the two that are carried over.

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

Yeah, it's -- each of those involved providing future product deliverables. And so one in particular involved a contract that includes Access Anywhere one of seven of our next generation that Bill described that's in beta right now.

And because it's in beta, we can't recognize the revenue until it goes into general availability.

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The second one involves a product roadmap with our integration, our future integration to GE. And therefore, depending on those negotiations between GE and the customer, we may or may not be able to recognize the revenue.

I would caution shareholders that at this point we may not be able to recognize the revenue in the current quarter and may have to put it into backlog.

Tom Carpenter - Hilliard and Lyons - Analyst

That's where I'm confused that you still talk about the 20% or recognize the 20% growth year over year.

Do you mean counting GAAP revenue and a backlog software revenue? Is that what you're talking about growing 20% year over year?

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

In my prepared remarks, I was very careful when I talked about our expectations, I was very careful to say that it includes reported revenue and growth in the backlog of revenue because of these revenue recognition rules.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. Got it. If you guys can -- all the addition insight you guys can give in your future earnings press releases on those numbers would be appreciated.

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

We absolutely intend to share those numbers. When we started this quarter, as you saw, and we commented that we will have a significant increase in the backlog of revenue as a result of these two transactions.

Tom Carpenter - Hilliard and Lyons - Analyst

It would be very helpful going forward if you guys could add in the release just so we all have it at our fingertips when the release comes out if you could put what those numbers were in the prior quarter and the prior year's quarter. That would be very helpful on this end.

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

We'd be very happy to do that. I also need to say that obviously we, going forward on future contract negotiations, are going to try very hard to avoid including product roadmap information so that we can recognize the revenue in the current period.

But there are occasions where that is just absolutely necessary in order to close the business.

Tom Carpenter - Hilliard and Lyons - Analyst

I think Paul mentioned since the end of Q1 '06 you've closed four ASP deals. Have any of those been implemented and gone live at customer sites?

Paul Bridge - Streamline Health Solutions, Inc. - CFO

All of them have.

Tom Carpenter - Hilliard and Lyons - Analyst

T.J. Samson has gone live and Thomas Hospital have gone live?

Paul Bridge - Streamline Health Solutions, Inc. - CFO

No, they're -- those two are in implementation. But we're also -- they're paying us fees right now.

Tom Carpenter - Hilliard and Lyons - Analyst

They're paying you the monthly or quarterly proceed fees?

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

Thomas Hospital is not a hosted deal.

Tom Carpenter - Hilliard and Lyons - Analyst

That's right. I'm sorry. Thomas Hospital is not. T.J. Samson is paying you hosted?

Paul Bridge - Streamline Health Solutions, Inc. - CFO

Yes.

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

We're expecting approximately, just on deals already consummated, approximately a 17% growth in hosting services. That doesn't account for any net new business this year.

So because of those deals closed last year, those are being realized this year in terms of the current revenue.

Tom Carpenter - Hilliard and Lyons - Analyst

I think you guys had one that you closed in the fourth quarter with GE. Are you already receiving hosting revenue from that one?

Paul Bridge - Streamline Health Solutions, Inc. - CFO

Yes.

Tom Carpenter - Hilliard and Lyons - Analyst

On the product development side and the integration modules, maybe you guys can clear up something. And hopefully, I'm not the only one confused by this.

When you guys talk about an Epic or Eclipsys integration or GE and you go into beta with somebody, is the beta -- is the first site, is that more of a, I guess, a revenue break, revenue neutral, or cash flow neutral for you guys? Will you get a little bit of revenue?

You definitely (inaudible) on any of the third-party and the maintenance and support. But is there real opportunity at signing the second and third customer down the road? Is that where you guys actually get to choose on the revenue side?

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

Well, Tom, this is Brian. For the most part, when we include integration in our enterprise sale, the revenue generated for the integration is nominal compared to the size of the transaction. The reason we do that is seamlessly integrating with this third-party solution allows us to win.

Tom Carpenter - Hilliard and Lyons - Analyst

Right.

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

And so we don't try to throw up additional financial roadblocks in doing so. We want the market to recognize that it's easy to do business with us. And it's easy to incorporate our solutions into their existing investment and infrastructure.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. That's right. Okay. Now I'm -- makes perfect sense.

So I guess my question is you have in the past year, year and a half, I think someone on the -- the last caller actually referenced this.

You guys have invested heavily in product development. And we've heard Bill mention every quarter all these new integration products. And you're going beta and live with those.

When do we see the fruits of that work as far as when we sell into Eclipsys and Epic hospital and some of these new GE hospitals or the McKesson, Lawson, and PeopleSoft? When do we see the fruits of that on the revenue side?

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

Well, this is a reference-based business, as you may know. And by having beta sites that are seamlessly integrated into these third-party solutions, that creates more sales opportunities for us. And it's very frustrating.

We have to get the integration finished. And we have to get it installed through the beta process and into production in order to be able to leverage it into the market.

That's why it's so important and why Bill spends so much time providing further insight into the timing of those integration efforts.

What that will do is generate additional opportunities in the marketplace. And because of the timing of these integration efforts, we are planning for that additional opportunity this year.

And again, it's going to be in the second half of the year because we want to get those beta sites into production so that we can point to our reference sites.

Examples of that would be Oregon Health Science University, who has our Epic integration installed and in production. It was a huge success.

As a result of that, we are going to target Epic accounts the second half of the year and be able to point to a production site that's very happy with our solution.

Carrying that further, we are very active in doing the integration to GE, other business units, such as Centricity Business and Centricity EMR, for the very same reason, so that we can go out into our installed base, where both Centricity Business and Centricity EMR installed and extend our software out into those other organizations.

And finally, our integration to Eclipsys is key so that we can target Eclipsys accounts in the same manner.

Tom Carpenter - Hilliard and Lyons - Analyst

I'm 100% in favor of the integration because that's what you guys need to increase your direct sale market and to sell into the hospitals that have these solutions.

My point is we would like to see some wins within a year of these integration projects being completed and some beta sites, a beta site going live.

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

And, Tom, I agree with you. We're on the same page. We not only want to see wins that are directly attributable to this integration.

But you will see wins directly attributable to the integration based on what I'm looking at in our pipeline. That is a key element of our success.

Tom Carpenter - Hilliard and Lyons - Analyst

And I guess I'd just like the 100% honest answer here. In my mind, with you guys going live or going into beta and going live on some of these integration projects, and it seems like the backlog could or should go up significantly in the second half of this year, in the first half of '07, with increasing the number of hospitals that you can realistically sell into. Is that a fair statement?

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

That's a fair statement.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. Should we look for separate BPM consulting services and portal revenue broken out by the end of this year?

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

We intend to do that, yes.

Tom Carpenter - Hilliard and Lyons - Analyst

You, I think last time, might have touched on that you maybe had a small engagement or two on the BPM or consultant services side.

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

We do. But I'd rather not comment on the details of that because they're in process.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. But are those closed deals?

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

Those are deals where we were retained for consulting services to potentially build new document workflows for that organization.

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Tom Carpenter - Hilliard and Lyons - Analyst

Okay. You said you had several RFPs out.

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

We have responded to RFPs both in the BPM and in the portal base.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. Can you give us an idea of the -- or I guess a realistic revenue magnitude for those areas for the second half of this year and 2008?

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

Well, I'd rather not comment on our internal plans for revenue.

I will comment to say that our business plan did not include the incremental revenue from BPM and portal, primarily because it was too hard to predict at the time we finished our business plan late last year.

So any opportunities that we close will be incremental to what our business plan originally called for.

Tom Carpenter - Hilliard and Lyons - Analyst

if you go back and check your conference call notes from last year, you've been talking about BPM for at least a year and seeing some of that late last year and this year.

So I'm kind of surprised you talk about that not being in the official plans. I know it's hard to handicap. But if you don't put that in your plans, then there's no account in the plans you release. There's no accountability.

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

We have a business plan for BPM revenues. We are working on a business plan for portal revenues simply because we've accelerated our plan. That business plan I'm not at liberty to share with you.

All I'm telling you is we do have an expectation for revenue this year. All I'm saying is it was not included in our expectations in the business plan that we developed last year.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. Good. I'll let somebody else go. I'll jump back in the queue.

Operator

Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of [Olray Hershman] of AIG Investments.

Please proceed. Mr. Hershman, your line's open.

We'll move on to a follow up from Mark Cahill. Please proceed, sir.

Mark Cahill Analyst

Yes, hi. I just have a couple of follow-up questions. Healthcare Resolution, are you making any kind of changes in the partnership there compensation-wise to the sales force?

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

No, because that's an organization that outsources labor. And so they use our product internally to allow them to be more efficient in how they deliver outsourced services for coding.

Mark Cahill Analyst

Okay. I may have missed Bill's comments around -- about Access Anywhere, the release date. I think that's anticipated for the second quarter. Am I correct?

Bill Geers - Streamline Health Solutions, Inc. - COO

That is correct. We actually have -- our first beta site will actually be going live Mark in our second quarter.

Mark Cahill Analyst

Okay. And the timing of the Midwest Healthcare Network, that deal that you came out with last week, was that a 2006 deal, or --?

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

The deal that was --

Mark Cahill Analyst

Announced last week.

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

-- generically.

Mark Cahill Analyst

Yes.

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

No, that's a 2007 deal. It was a Q1 deal.

Mark Cahill Analyst

All right. That's --

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

One of the three deals we anticipated in Q4 that spilled over into this year.

Mark Cahill *Analyst*

Okay. That's it for me. Thank you.

Operator

Thank you very much, sir. We do have a follow up from Tom Carpenter of Hilliard Lyons. Please proceed.

Tom Carpenter - *Hilliard and Lyons - Analyst*

A former co-founder, who still has about 1.6 million shares outstanding, sold another slug late last week and yesterday.

I think someone asked on the last call, and you had said the Board was hoping to address the matter of that person's shares or that person selling.

Can you give us an update on that since it's been -- I don't know -- six weeks or two months since the last call?

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

The Board and that individual are still in dialogue. I am not personally involved in that communication. All I know is that there has been dialogue between the two parties. There has been no resolution to date.

Tom Carpenter - *Hilliard and Lyons - Analyst*

From what you've heard from the Board, is that person interested in selling his or her shares to a strategic buyer, whether it be a healthcare organization or some institutional investors?

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

First of all, it's inappropriate for me to comment. And second of all, I can't speculate on what the intentions or the thoughts are of that individual.

Tom Carpenter - *Hilliard and Lyons - Analyst*

I guess I'm at a loss why it'd be inappropriate to comment when the person sells a large slug of shares every quarter and puts a lid on the stock price.

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

Again, that person owns that stock free and clear. And I have no say or influence or capability to control what the individual wants to do with that stock unfortunately.

Tom Carpenter - *Hilliard and Lyons - Analyst*

It seems like it'd be in the firm's or the Board of Directors' best interest to -- they're supposed to represent the shareholders -- to get that person's shares in a strategic investor's hands.

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

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Again, I communicated that they are in dialogue. And the Board is communicating with that individual. But there has been no outcome of that dialogue to date.

Tom Carpenter - Hilliard and Lyons - Analyst

Okay. Fair enough.

Operator

Thank you very much, sir. (OPERATOR INSTRUCTIONS) And there are no further questions in queue.

Paul Bridge - Streamline Health Solutions, Inc. - CFO

I thank everyone for joining us and wish to advise you that the second quarter 2007 earnings release is currently scheduled for release on Monday, August the 27th, 2007.

And the corresponding conference call is currently scheduled for Tuesday, August the 28th, 2007, at 10 a.m. Eastern time. Thank you very much for joining us today.

Operator

Thank you very much, sir and thank you ladies and gentlemen for your participation in today's conference call. This concludes the presentation. And you may now disconnect. Have a good day.

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