

FINAL TRANSCRIPT

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STRM - Q2 2008 Streamline Health Solutions, Inc. Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Tom Carpenter

Hilliard Lyons - Analyst

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- Analyst

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Palisade Capital Management - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Streamline Health Solutions Second Quarter 2008 Earnings Conference Call. My name is Michelle, and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of today's conference.

(OPERATOR INSTRUCTIONS)

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

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

Thank you very much, Operator. Good afternoon, everyone. I'm Paul Bridge, the Chief Financial Officer of Streamline Health Solutions, Inc. And thank you for joining us today. With me today to discuss the second quarter operating results are Brian Patsy, President and Chief Executive Officer, Joe Brown, Vice President of Client Services and Chief Information Officer, Gary Winzenread, our vice President of Products and Strategy, and Scott Boyden, Senior Vice President of Sales and Marketing.

Brian, Joe, Gary, Scott 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 reported now or in the past.

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Factors that could cause the financial performance to so differ include, but are not limited to, the extended length of sales 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 procured from third party vendors, the healthcare regulatory environment and fluctuations in operating results and other risks detailed from time to time in our filings with the U.S. Securities and Exchange Commission.

Today we released our second quarter financial results. I would like to highlight the more significant aspects of those results. Total revenues for the second quarter increased 51% to \$4.8 million, compared with \$3.2 million in the prior comparable period. Total revenues for the first six months increased 21% to \$8.4 million, compared with \$7 million in the prior comparable period.

System sales increased for the quarter and year-to-date compared to the comparable prior periods. This increase was due to the fact that we were able to deliver the required software to an existing customer that was previously included in our backlog because the software they ordered required us to add additional specific integration functionality.

Service maintenance and support revenues increased for the quarter and on a year-to-date basis when compared to the comparable prior periods and continue to have strong operating margins, as did our application hosting services. We reduced our operating losses for both the quarter and year-to-date, notwithstanding the significant investment we are making in our new architecture platform, workflow programs and significant increases in our direct sales and marketing efforts.

At July 31 our backlog was approximately \$17 million, compared with \$15 million at the end of the first quarter as a result of three new application hosting services contracts signed in the second quarter. We expect these new contracts to begin contributing to revenues late this year and early next year after they have been fully implemented. We continue to be debt free and have not had to borrow at any time this year on the working capital facility. We continue to monitor our expenses, cash balances and receivables carefully to ensure they are on plan.

Now I would like to turn the call over to Brian Patsy, who will discuss in greater detail some of the significant factors that affected the quarter and the prospects for the remainder of the year.

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

Thank you, Paul, and good afternoon, everybody. This afternoon I will comment briefly on our financial results and then discuss our sales accomplishments over the last quarter, our business development activities relating to our three primary strategic partners, an update on our product development activities, including recent product releases, and finally I will comment on our progress versus our expectations year-to-date. After my remarks we will conduct our usual question and answer session.

Regarding our Q2 financial performance, as reported, our Q2 revenues of \$4.8 million were 51% ahead of comparable prior quarter and an all-time record Q2 performance for Streamline Health. Our first half revenue of \$8.4 million was 21% ahead of last year's performance. Both our Q2 and first half results were in line with management's expectations.

At the end of the quarter our backlog stood at \$17.7 million, which was an increase of \$2.4 million, or 16% greater than Q1's backlog. \$8.8 million of the \$17.7 million backlog are related to revenues that will be generated from maintenance and hosting services, which are recurring revenues. As Paul mentioned, the increase in recurring revenue backlog was primarily due to the signing of three new hosted customers during the quarter.

Our backlog increased 16%, even though approximately \$1.5 million came out of the backlog during the quarter and was recognized. This was deferred revenue from a large contract signed last year that included the delivery of future site specific integration of our solution to the Lawson administrative information system.

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Our professional services revenues continue to be strong, as was the case last quarter, as we continue implementation activities for the several new system sales closed this year and various upgrades within our existing customer base. Based on the four new clients signed this year and the pipeline of anticipated contracts, we continue to believe that fiscal year 2008 will yield improved operational and financial results.

At this point I'd like to review our sales and business development activities. Regarding our sales activities, as mentioned earlier we announced four new contracts in our second quarter. One contract involving two large healthcare facilities in Canada, namely McGill University and a University of Montreal hospital center, is our first expansion to international markets through our relationship with Emergis.

The other three contracts, including Catholic Healthcare West, Columbus Vital Statistics and Marion General Hospital, are hosting contracts that contributed to the 16% increase in our hosting backlog mentioned earlier. Catholic Healthcare West and Columbus Vital Statistics were direct deals, while Marion General Hospital was signed through our remarketing partner GE Healthcare.

Of special note is the fact that none of these four new contracts contributed to revenues in our second quarter but will significantly contribute to revenues in future quarters. For example, the international contract to Emergis announced in May involves a future deliverable of multi-language capabilities, and therefore the revenue has been deferred until delivery, which is anticipated next year.

The recurring revenue from the three hosted contracts announced in Q2 will follow our traditional hosted model for revenue recognition. That is, revenue will be recognized on a monthly basis over the life of those contracts once those systems achieve contract specific implementation milestones, which is typically six months or less from the time of contract signing.

As a result, we do anticipate recognizing recurring monthly revenue from some of those implementations later this year, while it is anticipated that all three will contribute to revenues early next year. Two of the three hosted contract warrant further comment.

Catholic Healthcare West is the eighth largest healthcare system in the nation and includes 41 hospitals across California, Arizona and Nevada, with more than 9,500 physicians and approximately 50,000 employees serving a population of over 22 million. We have already begun implementation of our enterprise document workflow solutions in three of their hospitals, with plans for more yet this year. Our workflow solutions will integrate with their Cerner and McKesson hospital information systems to provide a single point of access to health information.

Our contract with Columbus, Ohio Public Health Vital Statistics Office is another noteworthy win for Streamline Health. This was our first expansion beyond our traditional provider organization market segment as we extended our reach to the public health sector. We are eager to complete our implementation and leverage our success in order to target what we believe is a large potential market segment that includes similar organizations in state and municipal governments throughout the United States.

One final comment regarding our sales activities. Recently, we brought onboard Scott Boyden as our new Senior Vice President of Sales and Marketing. Scott will be updating our strategic plans to better leverage our sales organization and strategic partners while also directing our marketing activities. We're counting on Scott's extensive experience and proven track record of success to help us achieve our ambitious goals for top line growth.

Regarding our business development activities, we are focused on supporting and optimizing sales growth opportunities through our three primary distribution partners, GE Healthcare for enterprise document workflow opportunities domestically, Emergis for Canadian and international enterprise opportunities, and Standard Register for broad distribution of our newly released standalone workflow solutions to address opportunities at the departmental level within healthcare organizations.

Each of our three primary distribution partners has the potential to contribute significant revenue growth in the coming years as their respective sales channel opportunities are fully exploited.

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At this point I would like to comment on our product development activities. Earlier this year we completed a new workflow architecture that has significantly reduced our time to market for new workflow solutions. For example, we recently completed two new workflow solutions under the new workflow architecture, financial screening workflow and cash management workflow.

Financial screening workflow forwards insurance cards and financial documents at the time of admission to insurance specialists for special payment program analysis. The financial screening workflow allows financial specialists to review patient financial information and determine need-based financial assistance. The workflow automates the tracking, routing and letter generation associated with this traditional labor intensive manual process.

Cash management workflow focuses on improving and enhancing the cash posting, research and follow-up processes within the business office. It offers two primary components. One, management of electronically generated explanation of benefit documents, also known as EOBs. And two, scanning paper generated EOBs, extracting payment data via optical character recognition and automatically posting that payment data into the hospital billing system. Both new workflow solutions offer a strong value proposition that can provide a quick win for the healthcare organization.

We have numerous other product development initiatives underway, including the design and development of our next generation enterprise document workflow and management solution that incorporates enhanced functionality, as well as multi-language capabilities. We anticipate the delivery of additional workflows in the second half of the year and the delivery of our next generation document workflow and management solution next year.

As mentioned in previous earnings calls, we are dedicated to maintaining a strong research and development effort, as we expect to expand our product offerings to address the needs of other market segments, both domestically and internationally. Furthermore, this fiscal year we increased our research and development budget over traditional levels in order to design and develop our next generation solution.

Once completed next year, we believe this new architecture will set the stage for improved operating and financial performance going forward. We also anticipate that our research and development investments next year will scale back to more traditional levels as we complete our next generation solution.

Let me conclude my remarks by reiterating that we anticipate continued strong sales performance throughout the remainder of the year based on current sales pipeline activity and contract negotiations in process. When looking back on our strong first half sales, we are seeing a shift to the hosted model, which by its nature, results in revenue recognition over the life of the contract rather than recognizing the software revenue upfront, as we typically do with the licensed model.

However, it is very important to note that this shift to hosted solutions provides us with a significant advantage in the marketplace, as many of our competitors do not have a similar offering. While a relative increase in hosted sales may cause a shift in recognizing revenues to future periods, nonetheless it would significantly contribute to our overall market penetration and revenue performance in the coming years.

In addition, the recurring revenues generated by hosted deals would improve our future revenue visibility. On the development side, our time to market for new workflow solutions has been significantly reduced, which in turn will help create additional sales opportunities as each new workflow becomes available.

As a testament to our streamlined product development process is the fact that we are able to recognize approximately \$1.5 million in additional revenue from our backlog as a result of the completion of the integration of our solution to the Lawson administrative information system. You may recall that we signed a contract last year that required us to defer revenue recognition until that integration was completed.

Not only were we able to deliver the integration ahead of schedule, but we now have another sales asset, namely integration of our solution to the Lawson administrative information system. This integration reinforces our vision of providing an enterprise

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approach to eliminating friction points in document centric business processes within healthcare organizations, and will provide yet another differentiator in competitive sales situations.

This concludes my formal remarks. I would like to turn the call over to Paul for the question and answer session. I have asked Gary Winzenread, Senior Vice President of Product Development and Strategy, Joe Brown, CIO and VP of client services, and Scott Boyden, our new Senior Vice President of Sales and Marketing, to be available for this quarter's discussion to give you an opportunity to hear from our executive team and to ask them any specific questions. Scott Boyden is traveling to a customer site, and depending on the timing of his flight, hopefully will be participating remotely.

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

Thank you, Brian.

Operator, may we have the first question, please?

QUESTIONS AND ANSWERS

Operator

Your first question comes from the line of Tom Carpenter of Hilliard Lyons. Please proceed.

Tom Carpenter - *Hilliard Lyons - Analyst*

Hey, good afternoon, Brian.

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

Hi, Tom.

Tom Carpenter - *Hilliard Lyons - Analyst*

Hey. It was nice to see the revenue increase in the quarter, even though none of the revenue from those deals is recognized yet.

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

That's a good thing, having improved revenues and better visibility on the recurring revenues going forward.

Tom Carpenter - *Hilliard Lyons - Analyst*

One of the things that you mentioned in the past two quarters was the number of deals that you have out there are customers where you're vendor of choice. Can you update us on that metric?

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

Sure. I recall last quarter we had 13 deals in the pipeline where we were vendor of choice, co-vendor of choice or in contract negotiations. And out of those 13, let's see, six have come out of the backlog of deals in contract negotiations and four of them were announced. One of them was the deal that carried over from last year that we anticipated to recognize revenue and one, frankly, we lost that was in the category of dual vendor negotiations.

During that same period we added two more where we are in the category of vendor of choice contract negotiations or co-vendor of choice. So the net total now is nine that we hope to close between now and the end of the year. Some of these might be toward the end of the year and could possibly carry over into Q1.

Tom Carpenter - Hilliard Lyons - Analyst

Okay, so, fourth quarter you guys were seven and at the end of the first quarter you were 13 and now you're nine. So net-net, we are still up two year-to-date, even though you --

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

Correct.

Tom Carpenter - Hilliard Lyons - Analyst

-- closed four, okay.

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

Correct.

Tom Carpenter - Hilliard Lyons - Analyst

That's positive. The revenue was good this quarter. I was a bit concerned about the operating expenses up 23% year-over-year, 25% quarter-over-quarter I understand the [new] architecture and some of the other product developments. Do you guys expect that to moderate in '09, the absolute dollar amount? Is that correct?

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

That's correct. We're beginning the moderation process yet this year.

Tom Carpenter - Hilliard Lyons - Analyst

Okay. And maybe you and Paul can walk me through the cash and the accounts receivable, if there have been any changes since the end of the quarter. But you guys started off the year pretty solid on the cash side, now you're down to a little bit under \$400,000. You do have a decent slug due in accounts receivable and contracts receivable. Maybe you can update us on that and talk about the revolver and just your guys' thought process and where you want to be between now and the end of the year on cash.

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

We haven't had to borrow under the revolver. The second half of the fiscal year normally includes large prepayments of annual maintenance, and we've started to receive some of those subsequent to July 31st and we will receive some in early January. But basically the third/fourth quarter we get these large prepayments, so I don't have any concern on our cash position right now. We may have to take and use the revolver on a short term basis during that period, but I don't see it in the next couple of months.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. You said you usually get large maintenance prepayments?

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

Yes.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. The revolver -- refresh my memory, is that -- is it 500K now or is it more than that?

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

It's about \$2 million.

Tom Carpenter - *Hilliard Lyons - Analyst*

\$2 million, okay.

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

Yes, we filed an 8-K with the new revolver in it.

Tom Carpenter - *Hilliard Lyons - Analyst*

Okay. Yes, the 500K might have been temporary; the \$2 million was the permanent. Okay. Excellent, that is good news. And, Brian, and I don't know if Scott's had a chance to go out there and talk to a lot of the existing customers and also some of the people in the pipeline. Can you give us an idea of the spending environment out there?

I know there's big hospitals have done fairly well the past couple of years as far as upgrading their systems. Small and mid it seems like there's some concern. We're in an election year, obviously economy is soft right now, but maybe you can update us on what you're seeing on the overall spending environment with hospitals.

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

I'll comment first, and then I'll take a chance on the opportunity that Scott was able to join us and his flight landed on time. I don't know specifically if he was able to dial in, but soon as I'm done I'll ask to see if he's out there in telephony land.

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First of all, if you look at our level of sales activity and the number of contracts we're involved in, we're clearly seeing an uptick in activity. That's a combination of things and many of those are driven by internal factors in terms of hiring additional people and bringing a stronger focus to our sales effort by the hiring of Scott Boyden and the impact that he's having.

But we also are seeing a shift, at least through the first half of the year, in moving toward the hosted model where you don't have to come up with the large capital outlays. And I think that bodes well for us since that's a differentiator in the marketplace for us. So we haven't necessarily seen an erosion in terms of activity because of the economy. And I've been at this a long time and many times healthcare runs countercyclical to the overall economy. So we haven't seen it as yet. That doesn't mean to say that it couldn't materialize in the coming quarters, but right now business is brisk.

Tom Carpenter - Hilliard Lyons - Analyst

Did -- Scott, are you on the call?

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

Scott, are you out there? I know you were having trouble with your flight. So we'll see if we can hear from him here. Looks like we may have lost him.

Tom Carpenter - Hilliard Lyons - Analyst

Okay, thanks. I'll jump back in the queue.

Operator

(OPERATOR INSTRUCTIONS)

Your next question comes from the line of [Mark Cahill]. Please proceed.

Mark Cahill - - Analyst

Good afternoon, gentlemen. Congratulations on the wins.

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

Thank you, Mark, and it's good to hear you're safe and sound in Florida.

Mark Cahill - - Analyst

Yes. Going back to what you were just discussing, the shift to application hosting, is it a budget issue? Why are they shifting, do you think?

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

I think it's a combination of factors. One is simply education and making that choice available to the marketplace. It's unique and it's refreshing, candidly. Secondly, it is a lot easier to get approval for an operating budget than a capital budget because the sales cycles and the budget process for capital budgeting is -- can run as long as 18 months.

And thirdly, it creates a lot of flexibility with organizations where they can start small and then ramp up over a period of time as opposed to the big bang theory. There's a lot of inherent advantages in the hosted as well in terms of redundancy and disaster recovery. So, I think all those factors combined have created a rich environment for us and we're promoting it.

Joe Brown, would you like -- who runs our hosting, do you have any other -- ?

Scott Boyden - Streamline Health Solutions, Inc. - SVP, Sales and Marketing

Hello?

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

Is that you, Scott?

Scott Boyden - Streamline Health Solutions, Inc. - SVP, Sales and Marketing

Yes. I apologize. I just joined and figured out how to get off mute.

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

Okay, great. Scott, hold on one moment. I just passed the baton to Joe to comment on our hosting activities and then we'll come back to you.

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

Hey, Mark. Joe Brown. Yes, I agree with Brian. One of the things we see with the document management system is the amount of infrastructure it takes to support that type of system and [with] HIPAA Sarbanes-Oxley and other compliance issues. The hospitals are aware that essentially you need two systems. You need a production system, but you also need a DR site. So that's where our ASP comes in.

It really fills that void and provides some cost avoidance for a hospital; they don't have to purchase that. They lease it from us and we provide both a production system, as well as a DR system. So they check the box in both regards. They have a system that they can use and they also comply with compliance regulations out there, HIPAA and the others.

Mark Cahill - - Analyst

Is GE masking a big push in this area, too -- pushing the hosted product?

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

Paul Bridge just mentioned, people don't know what DR means. That's disaster recovery. I'm sure you do. But we have seen a little more interest with GE, Marion General is a GE hosted opportunity. But in terms of actually volume, I think it really is driven by the end user. The end user sees the value of a hosted opportunity versus a capital purchase, then I think -- it really at that point is a financial play.

Mark Cahill - - Analyst

Right.

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

Mark, one moment. What I'd like to do is circle back, assuming Scott Boyden is still on the line, circle back to the question that Tom Carpenter asked in terms of what do you see in the marketplace in terms of activity relative to the economy.

Scott, are you still there? Can you jump in and give your observations as a new executive on the staff?

Scott Boyden - Streamline Health Solutions, Inc. - SVP, Sales and Marketing

Yes. Can everybody hear me?

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

You're coming through loud and clear.

Scott Boyden - Streamline Health Solutions, Inc. - SVP, Sales and Marketing

Okay, perfect. Brian, I would just echo what you had said. Tom, I don't think -- well, first I've got 60 days of data points. But after being in the market and connecting with customers, reviewing RFPs and RFIs, I would tell you there's quite a bit of activity.

And I think the reason is our bridge software, I think, offers what I would consider some first down opportunities and some value back to these customers in less than a year, and sometimes less than six months that they can see and realize and touch, opposed to what I consider kind of the big bang acquisition investment in large, large systems which basically take place over multiple, multiple years.

And so because of that, I don't see activity going down. I think it's actually reversing. And I think for the first time we're actually beginning to see in some of these RFIs and RFPs and conversations with prospects that there now is a very direct strategy of utilizing bridge software, workflows, document centric software to complement their vision of moving towards the electronic healthcare record within their entities. I don't think in the past we had ever really seen that directly communicated.

Mark Cahill - - Analyst

When you talk about the bridge, are you talking about integrating all the different vendors together?

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Scott Boyden - *Streamline Health Solutions, Inc. - SVP, Sales and Marketing*

I'm just referring to what some people view in terms of where they put our solution set. Some people refer to it as bridge software because it connects with current infrastructure, and I think that's a very positive thing for a lot of buyers.

Mark Cahill - *Analyst*

Right.

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

And this is Brian. Mark, another bridge comment here, and with do apologies to Paul Bridge in the room here, is that what we have out there in healthcare is a hybrid medical record. And it's been a hybrid medical record forever, and it will most likely continue to be a hybrid medical record for the foreseeable future and beyond. What I mean by that is a lot of healthcare organizations spent, a typical hospital, \$15 million to \$50 million to digitize their health information, clinical results, patient demographics, billing systems.

But the dirty little secret of healthcare is that there's a heck of lot of documents and healthcare's fundamentally document centric. And when we talk about bridging, we talk about bridging the electronic world of the digitized health information with the paper world as well. So we bridge multi vendor environment. We also bridge the document world with the digital world and that's a double plus.

Mark Cahill - *Analyst*

Do you guys anticipate seeing 50 -- or the percentage of your new business coming forward here, is it going to be 50% hosted, 50% licensed, or is it going to be 60/40?

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

Well --

Scott Boyden - *Streamline Health Solutions, Inc. - SVP, Sales and Marketing*

I would suspect -- go ahead, Brian.

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

Go ahead, Scott, you take the ball.

Scott Boyden - *Streamline Health Solutions, Inc. - SVP, Sales and Marketing*

I would suspect it would be more than 50% for all the reasons that everybody on the call has already mentioned. It's less resources constraint in the current organization. And a lot of our buyers, especially at the enterprise level, they've got multiple projects already going on so it's easier, it's simpler for them, and as Joe mentioned, it's less upfront cost.

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Mark Cahill - - Analyst

Right. Switching gears here, when will we start seeing results out of the Standard Register partnership?

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

I'll take that one. From a business development point of view, as I've discussed in previous earnings calls, we've had the relationship for some time but we weren't able to really optimize the opportunity. And the real breakthrough occurred earlier this year thanks to Gary Winzenread and his organization when they introduced the new workflow architecture.

And simply put, what that allowed us to do was take the value proposition for our enterprise solution and chunk it down to a departmental solution that was affordable primarily through ASP.

So now we have a real story to tell at the departmental level and we reengaged with Standard Register and went through a process. And, I'm a very strong believer that you'll be hearing some positive news very shortly relative to that new relationship and some success in the marketplace.

Mark Cahill - - Analyst

Does that mean third quarter? That's how I interpret that.

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

I'll just say that within the remainder of the year you're going to hear some positive news and some traction in that relationship.

Mark Cahill - - Analyst

Okay. Regarding the Catholic Healthcare West deal, you mentioned that you're going to go integrate -- implement into three hospitals to begin with and then more down the road. Are you thinking five, 10 down the road?

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

Well, I'd rather not comment publicly out of respect for our relationship with them and some of our confidentiality. What I can say is obviously they're very large, they have 41 hospitals, and there are a number of hospitals that are on the plan for implementation.

And we're starting with three this year and most likely there'll be more than three that will begin -- we've already started three, we're in mid implementation on three. Most likely there'll be others this year, and then hopefully others to follow in subsequent years.

Joe, help me. Is that a four or a five-year agreement?

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

It's a five-year.

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

Five-year agreement. So, there's a rollout plan that extends beyond this year. I can share that with you.

Mark Cahill - *Analyst*

Okay. With respect to the multi-language capabilities that you're implementing into the products, will that go into beta product by December do you think?

Gary Winzenread - *Streamline Health Solutions, Inc. - VP, Products and Strategy*

This is Gary Winzenread. I don't expect it to be beta until summer of 2009.

Mark Cahill - *Analyst*

Summer, okay. Last question, what's -- where does the total pipeline stand at now? Is it still around 75?

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

It's actually a little higher right now, and we hope to have that climb even more the rest of the year once we get all the traction through our direct -- our new direct salespeople, as well as reengaging our business partners.

Mark Cahill - *Analyst*

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

Operator

Your next question comes from the line of Dan Veru of Palisade Capital Management. Please proceed.

Dan Veru - *Palisade Capital Management - Analyst*

Hi, Brian. How are you?

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

Good, Dan. How are you?

Dan Veru - *Palisade Capital Management - Analyst*

Good. Hey, I was just wondering if you could -- if you're getting a gauge or perhaps anybody on your team the overall health of the hospital market from a spending standpoint. Depending on what size enterprises we've observed, there's been some push-outs and deferrals of making large capital investments.

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Is some of the strength that you're seeing in the web hosting side of your business an indication that there isn't money for new enterprise wide implementations? Any -- is there any sort of data points you can share with us about what's happening in the macro environment, and can we conclude that there's just a pickup in spending that's just started?

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

Well, I'll answer briefly and then I'll ask Scott Boyden to add some color commentary from his perspective, again because he has joined us within the last 60 days and has a fresh perspective on this. Certainly budget is one of the considerations. But frankly, I see other stronger drivers that are pushing some of these decisions toward ASP. I think it's a quick win.

Scott Boyden talks about first downs. And, I think that we have this phrase internally of when we interact with the decision makers, namely the chief information officer, they're looking for wins on their watch, quick wins. And I think we can offer them a viable solution here that doesn't take three years to see a payback.

So it isn't just [the dollar]. It's frankly the fact that they can get this installed quickly without having to dedicate a lot of resources on the hospital side, because we do a lot of the heavy lifting, and get this installed and get it actually giving a payback within months as opposed to years.

Scott, are you still out there and can you add some color commentary from your perspective?

Scott Boyden - Streamline Health Solutions, Inc. - SVP, Sales and Marketing

I am. Can everybody hear me?

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

Yes.

Scott Boyden - Streamline Health Solutions, Inc. - SVP, Sales and Marketing

Okay. I apologize. I just want to make sure. Brian, I would just echo exactly what you just said. I think what we're beginning to see, especially in the larger hospitals, is that they're realizing that despite what they're currently implementing or what their plans are in terms of trying to reach that nirvana of completely paperless, one legal electronic health record, I think, despite that, they're now forced to pay attention to certain departments in their hospital that are just absolutely struggling and choking in paper.

I can't tell you directly who we're speaking with because I don't want to tip off our competitors, but I will tell you that there are very, very large, very prestigious institutions who would surprise you at the level of unsophistication just in terms of paper tying them up and tying up their resources and tying up their efficiencies. And, I think those are the institutions that we're beginning to see who are looking for kind of those first downs, those incremental wins.

And I think where we fit is that not only can we help them in those specific departments, but while doing that, we don't create a silo, meaning that we can also fit into the bigger strategic picture because we can do the whole enterprise. And so, right now it's just a question of who has the burning platform and which department does it reside in, and I think we have a pretty good handle on that.

But that's at least the message that I hear that's being resonated really across the country, and particularly at the higher levels. It's almost as if the bigger the institution the more the chaos and the more paper, particularly in the HIM department.

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Dan Veru - *Palisade Capital Management - Analyst*

But that's not a new phenomenon. That certainly has been going on for quite some time. What -- why all of a sudden? Has it just reached a tipping point, in your view?

Scott Boyden - *Streamline Health Solutions, Inc. - SVP, Sales and Marketing*

Well, I can't give you any historical perspective. I'm 60 days into this. I think from the buyers that I've met and being in healthcare as long as I have, I think everybody has a tipping point and I think once you reach it, then you decide that you need to act. And for whatever the reason, I think people have decided that they need to act.

My supposition is that in the past maybe they felt like, well, maybe they didn't quite know how to define what we do and we need to do a better job at telling customers what we do in prospects, which is an initiative that we have underway. Maybe they thought that document solutions were going to go away when they implemented their big CIS systems.

And now that most of them are beyond that point and they're through implementations or they're trying to get through them, I think they're going to need some sort of other solution to help them out and kind of take the hands off their throats because they're not getting any oxygen in some of these departments. We've even seen projects where CIOs don't know about the plans there, some of these departments are choking so much.

So, I just think it's now at a point where it's reached in certain institutions some pretty significant levels and they don't have a choice, they've got to figure out a solution. They cannot wait any longer for kind of the big bang to take effect and they can't wait any longer to try something else with another vendor, they've got to fix it.

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

Dan, this is Brian. I think Scott absolutely nailed what is going on here. And I've been at this a long time. As you know, we go way back and even when document management was a relatively new technology, 18, 19 years ago when we started, you go through an educational process and there's this expectation in terms of results.

I think the same thing happened with the clinical information systems going back with all the promise of 10 years ago and five years ago that we're we're going to make your hospital paperless, we're going to create this return on your investment. And as Gartner would describe it, we went from the stage of enlightenment to the trough of disappointment. And that takes time.

All these hospitals drank the Kool-Aid of this master vision of a paperless hospital, spent \$50 million and then found out they weren't getting the return on their investment. And that took five, six, seven years because that's how long these implementations last.

So now, I think we're, as Scott appropriately described it, at a tipping point where the market is educated. They get it now. They understand that this is not a zero sum game. There are digital data and there's documents and you need to pay the piper in both arenas, and you need to look at it on an enterprise basis instead of creating individual silos by department.

So it's kind of happening for us, and we just need to take advantage of this shift in kind of mind share from the purist view of the world that everything's going to be digital, to the realist view of the world that we truly live in a hybrid society and will continue to do so, so let's get on the program. And that's what's happening, in my opinion.

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Dan Veru - *Palisade Capital Management - Analyst*

And any competitors, old or new, that you're seeing as you present? I mean, who do you bump into the most as you go through new prospects?

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

This is Brian again. There's three buckets of competitors. I clearly don't want to give any individual competitor airtime on our watch here, but there's three buckets. The first bucket are what I would call the clinical information system/billing information system companies, better known as hospital information systems.

Those are the ones that are selling these \$20 million to \$50 million solutions that supposedly take you to the paperless hospital. GE Healthcare is one in that bunch and they get it, and they understand that you need to address the hybrid medical record. The others have either acquired or built their own solution, except for [Epic], who has stayed out of that arena. So, that's one bucket of competitors.

Our response to those vendors is that we take an enterprise view. And, if you look at the statistics of hospitals in the U.S., there's dozens of vendors. So if you pick one vendor to solve your enterprise document management workflow solution, they're going to be by design having to connect with their competitors. So our independence and our enterprise view is our answer to that challenge.

The other bucket is those companies that sell software tools where you can go build your own solution. My only response to that is good luck. Hospitals know how to treat patients, but they're not exactly the best product design specialists in the world. So if a hospital decides to build it, then we move on.

And the third bucket are those specialty companies that look and smell like us, but our differentiator there is clearly our workflows and clearly our enterprise view because those specialty competitors, for the most part, focus on medical records and to some extent patient financial services, whereas we have moved in a big way into the administrative areas.

Dan Veru - *Palisade Capital Management - Analyst*

And one final comment. As the Company grows -- and again I'm not looking for a laser precision sort of answer here. As you continue to grow out the hosting services business versus software sales, new implementations, what do you believe will be the right balance of revenues between the two as the Company grows?

Do you think that 50% will be hosting type of revenue base as the Company matures? I'm trying to get at sort what should be over a -- fast forwarding a couple of years what the Company should look like from a recurring revenue standpoint.

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

That's a fair question and I'll give you my view of the world. Again, this is Brian speaking. I think the trend is clearly toward ASP. I can't give you a percentage, but in a perfect world what I'd like to see as the CEO of the Company is a 50/50 mix on the high end or better with ASP. And I think that trend -- we're clearly starting to see that this year.

But what the wild card that excites me as well is the low end of the market. And, I think there'll be a predominance of ASP solutions at the low end of the market. And those are the smaller hospitals who can't afford the large capital budgets or don't have the IT staff to manage these complex systems, and departmental approaches where you get those quick wins on a problem-by-problem basis within a department.

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And that's why I'm so energized by the potential of the Standard Register relationship because they have a very large installed base in healthcare, and have the skill sets and the workforce and the sales force to promote our standalone workflow solutions at the departmental level. So at that end of the market I see a 75/25 or greater mix with 75% being hosted.

Dan Veru - *Palisade Capital Management - Analyst*

Okay. I lied. I have one small question for Paul. The share count -- did the share count drop as a result of the expiration of the warrants to [Hill Street] Capital?

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

The share count didn't change because they were never included.

Dan Veru - *Palisade Capital Management - Analyst*

Okay. That was never in the fully diluted count?

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

No -- well, it would have been in those periods in which we had earnings but in the last two quarters, because they've been a loss, it would have been anti-dilutive.

Dan Veru - *Palisade Capital Management - Analyst*

Okay. Thank you.

Operator

Your next question is a follow-up from the line of Tom Carpenter. Please proceed.

Tom Carpenter - *Hilliard Lyons - Analyst*

Hey, just two or three quick follow-ups. Can you update us on Emergis plans for expansion, if any, in the U.S. or other geographies? I know they have a modest size installed base from the old days for their [Oasis] product.

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

Emergis does have a presence in the U.S. and they have sales personnel physically located in the U.S. and obviously they have some accounts in the U.S. So they are actively marketing in the United States.

Tom Carpenter - *Hilliard Lyons - Analyst*

Are they ramping that or is that steady state?

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

I can't speak for Emergis, but I know that they strategically think that this is an important market.

Tom Carpenter - Hilliard Lyons - Analyst

Got it. And can you give us an update -- and I don't know if you want to count Scott or not, but the number of salespeople that you have and delineate on -- to use your terms, farmers and hunters?

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

Well, the headcount is somewhere in the range of 15 to 20. Scott, are you still onboard and want to respond? 21?

Paul Bridge - Streamline Health Solutions, Inc. - CFO

21 in sales and marketing.

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

Counting marketing, yes. I don't know if we lost Scott or not, but our plan is to get the most productivity out of the team we have, and we are in the process of evaluating how to best accomplish that in terms of utilizing our direct sales force and supporting our channels. So stay tuned on that front. Scott is working at evaluating our organization and how we would get the best productivity off the staff we have.

Tom Carpenter - Hilliard Lyons - Analyst

Okay, because I know before you had kind of some farmers and hunters, some dual, that called on new and also --

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

Yes, that was --

Tom Carpenter - Hilliard Lyons - Analyst

-- accounts.

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

That was pre-Scott Boyden. And what I've asked him to do because of his track record of success and his experience is to really analyze that mix and make a recommendation to me in terms of how we might adjust it to be even more efficient. Frankly, that recommendation is imminent, so I'd rather not comment until --

Tom Carpenter - Hilliard Lyons - Analyst

Sure. You can give us an update on the next call.

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

Yes.

Tom Carpenter - Hilliard Lyons - Analyst

So far this year you guys have done a good job in ASP and also had a couple of software deals. I know one of those is going to be recognized next year. When you look at the second half of this year, I think somebody asked about next year, but in the second half of this year, are we going to see more of the wins, the traditional system sale model where the money is in that -- the revenue will be recognized in that quarter?

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

Well, obviously I can't speculate and comment on futures other than to say that in looking at the mix, there's a mix of ASP and traditional deals. There's also GE transactions in the mix and --

Tom Carpenter - Hilliard Lyons - Analyst

Right.

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

I don't know if it'll be as heavily loaded toward ASP in the second half of the year, but I will tell you that you'll be seeing kind of a robust number of transactions between now and the end of the year.

Tom Carpenter - Hilliard Lyons - Analyst

Well, that is good news. On that note, thank you, gentlemen.

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

You're welcome.

Operator

And you have another follow-up from the line of Mark Cahill. Please proceed.

Mark Cahill - - Analyst

Hi. I just wanted to pursue that discussion of the market for high end, middle and low end. Do you see GE as your [arm] to go after the high end and Standard Register the middle and low end?

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

This is Brian. Again, I see GE and Emergis as primarily high end where we leverage their existing relationships, where they have a partnership with an institution and a substantial investment in a clinical billing or clinical data repository, and we basically piggyback onto that relationship. And then for -- also at the high end I also see our account executives marketing direct to those other customers that aren't existing GE or Emergis customers or prospects.

And then, I see us expanding our relationship with Standard Register for the middle and low end and primarily departmental solutions, so that we can plant those seeds and then sell up to the enterprise and take advantage of the relationships in place that they have at the departmental level.

And our account executives that would kind of fill in the blanks there in terms of a middle market up, but not the low end of the market. That would be too costly in incremental sales expense. We look to a distribution partner such as Standard Register to give us reach at the low end of the market and at departmental basis.

Mark Cahill - - Analyst

Is Scott going to push his direct sales force more towards the middle market, do you think?

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

No, actually I think more toward the high end of the market.

Mark Cahill - - Analyst

Has he requested more new hires yet?

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

I'd rather not comment on our strategic plans. Right now we're just assessing what we have. Stay tuned.

Mark Cahill - - Analyst

The more the better. That's it for me. Thank you.

Operator

And that does conclude the question and answer session. I'll now turn it back to management for closing remarks.

Paul Bridge - Streamline Health Solutions, Inc. - CFO

I thank everyone for joining us, and wish to advise you that the third quarter 2008 earnings release and conference call are currently scheduled for the afternoon of Tuesday, November the 25th, 2008. Thank you very much, and this concludes our conference call.

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Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the presentation. You may now disconnect. Have a great day.

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