

## Streamline Health® Reports Improved Income and EPS For Third Quarter 2012

### Adjustment in Tax Valuation Allowance Improves Quarterly Net Income to \$2.3 Million and EPS to \$.18

ATLANTA, Dec. 14, 2012 /PRNewswire/ -- [Streamline Health Solutions, Inc.](#) (NASDAQ: STRM), a leading provider of enterprise content management, business analytics, computer assisted coding (CAC), and clinical documentation improvement (CDI) solutions for healthcare providers, today announced that following the release of its third quarter 2012 earnings on December 13, 2012, after having received approval for that press release from its independent auditors, the company has been encouraged by its auditors to take a non-cash adjustment in its tax valuation allowance, as a result of the deferred tax liabilities recorded in conjunction with the Meta Health Technology acquisition, thereby altering its net income and earnings per share (EPS) performance for the quarter. [A](#)

The adjustment in the tax valuation allowance also increased the company's year-to-date net income and EPS, to \$2.3 million and \$.20 respectively.

#### About Streamline Health

[Streamline Health Solutions, Inc.](#) (NASDAQ: STRM) is a leading provider of SaaS-based healthcare information technology (HCIT) solutions for hospitals and physician groups with offices in Atlanta, Cincinnati, and New York. [A](#) The company's comprehensive suite of solutions includes: enterprise content management (ECM), business analytics, integrated workflow systems, clinical documentation improvement (CDI), and computer assisted coding (CAC). Across the revenue cycle, these solutions offer healthcare enterprises a flexible, customizable way to communicate between disparate departments and information systems to improve processes, boost productivity, and optimize clinical, administrative and financial performance. [A](#) For more information, please visit our website at <http://www.streamlinehealth.net>. [A](#)

#### \* Non-GAAP Financial Measures

*Streamline Health reports its financial results in accordance with generally accepted accounting principles in the United States ("GAAP"). Streamline Health's management also evaluates and makes operating decisions using various other measures. One such measure is adjusted EBITDA, which is a non-GAAP financial measure. Streamline Health's management believes that these measures provide useful supplemental information regarding the performance of Streamline Health's business operations.*

*Streamline Health defines "adjusted EBITDA" as net earnings (loss) plus interest expense, tax expense, depreciation and amortization expense of tangible and intangible assets, stock-based compensation expense, and non-recurring transaction costs. A table illustrating this measure is included in this publication.*

#### Safe Harbor statement under the Private Securities Litigation Reform Act of 1995

*Statements made by Streamline Health Solutions, Inc. that are not historical facts are forward-looking statements that are subject to risks and uncertainties and are no guarantee of future performance. The forward looking statements contained herein are subject to certain risks, uncertainties and important factors that could cause actual results to differ materially from those reflected in the forward-looking statements, included herein. These risks and uncertainties include, but are not limited to, the timing of contract negotiations and execution of contracts and the related timing of the revenue recognition related thereto, the potential cancellation of existing contracts or clients not completing projects included in the backlog, the impact of competitive products and pricing, product demand and market acceptance, new product development, key strategic alliances with vendors that resell the Company's products, the ability of the Company to control costs, availability of products obtained from third party vendors, the healthcare regulatory environment, potential changes in legislation, regulation and government funding affecting the healthcare industry, healthcare information systems budgets, availability of healthcare information systems trained personnel for implementation of new systems, as well as maintenance of legacy systems, fluctuations in operating results, effects of critical accounting policies and judgments, changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other similar entities, changes in economic, business and market conditions impacting the healthcare industry, the markets in which the Company operates and nationally, and the Company's ability to maintain compliance with the terms of its credit facilities, and other risks detailed from time to time in the Streamline Health Solutions, Inc. filings with the U. S. Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*

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#### STREAMLINE HEALTH SOLUTIONS, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three and Nine Months Ended October 31,  
(Unaudited)

	Three Months		Nine Months	
	2012	2011	2012	2011
<b>Revenues:</b>				
Systems sales	\$ 290,294	\$ 232,395	\$ 719,495	\$ 526,597
Professional services	1,089,814	833,582	3,153,672	2,708,824
Maintenance and support	3,148,442	2,279,886	7,797,263	6,558,484
Software as a service	2,005,813	966,218	5,358,120	2,804,141
<b>Total revenues</b>	<b>6,534,363</b>	<b>4,312,091</b>	<b>17,028,550</b>	<b>12,598,046</b>
<b>Operating expenses:</b>				
Cost of systems sales	717,901	583,388	1,936,761	1,751,890
Cost of professional services	854,997	572,056	1,910,951	1,923,576
Cost of maintenance and support	918,750	513,868	2,349,745	1,651,884
Cost of software as a service	550,875	480,368	1,849,962	1,334,659
Selling, general and administrative	2,926,830	1,494,891	6,800,794	4,742,084
Product research and development	866,659	303,973	1,833,865	1,063,903
<b>Total operating expenses</b>	<b>6,836,012</b>	<b>3,948,544</b>	<b>16,682,078</b>	<b>12,467,996</b>
Operating income (loss)	(301,649)	363,547	346,472	130,050
<b>Other income (expense):</b>				
Interest expense	(895,142)	(25,896)	(1,494,161)	(67,529)
Miscellaneous income (expenses)	43,549	(36,885)	55,805	(42,155)
Earnings (loss) before income taxes	(1,153,242)	300,766	(1,091,884)	20,366
Income tax benefit (expense)	3,552,879	(5,000)	3,519,879	(12,315)
<b>Net earnings</b>	<b>\$ 2,399,637</b>	<b>\$ 295,766</b>	<b>\$ 2,427,995</b>	<b>\$ 8,051</b>
Less: deemed dividends on Series A Preferred Shares	(139,133)		(139,133)	
Net earnings attributable to common shareholders	\$ 2,260,504		\$ 2,288,862	
Basic net earnings per common share	\$ 0.18	\$ 0.03	\$ 0.20	\$ 0.00
Number of shares used in basic per common share computation	12,393,352	9,943,567	11,346,428	9,823,937
Diluted net earnings per common share	\$ 0.15	\$ 0.03	\$ 0.18	\$ 0.00

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STREAMLINE HEALTH SOLUTIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

Assets

	(Unaudited) October 31, 2012	January 31, 2012
Current assets:		
Ä Cash and cash equivalents	\$ 10,528,695	\$ 2,243,054
Ä Accounts receivable, net of allowance for doubtful		
Ä Ä accounts of \$134,000 and \$100,000, respectively	3,389,738	4,484,605
Ä Contract receivables	648,736	430,370
Ä Prepaid hardware and third party software for future delivery	22,777	38,193
Ä Prepaid client maintenance contracts	1,038,035	788,917
Ä Prepaid and other assets	555,310	256,104
Ä Deferred income taxes	-	167,000
Ä Ä Ä Ä Ä Total current assets	<u>16,183,291</u>	<u>8,408,243</u>
Non-current assets:		
Property and equipment:		
Ä Computer equipment	3,418,500	2,892,885
Ä Computer software	2,196,236	2,131,730
Ä Office furniture, fixtures and equipment	818,231	756,375
Ä Leasehold improvements	693,890	667,000
	<u>7,126,857</u>	<u>6,447,990</u>
Ä Accumulated depreciation and amortization	<u>(5,778,675)</u>	<u>(5,232,321)</u>
Property and equipment, net	<u>1,348,182</u>	<u>1,215,669</u>
Ä Contract receivables, less current portion	142,021	221,596
Ä Capitalized software development costs, net of accumulated amortization of \$16,733,274 and \$14,805,236, respectively	13,119,354	9,830,175
Intangible assets, net	8,517,084	417,666
Deferred financing cost, net	1,211,912	145,857
Goodwill	12,038,226	4,060,504
Ä Other, including deferred income taxes of \$0 and \$711,000, respectively	<u>366,857</u>	<u>841,348</u>
Ä Ä Ä Ä Ä Total non-current assets	<u>36,743,636</u>	<u>16,732,815</u>
	<u>\$ 52,926,927</u>	<u>\$ 25,141,058</u>

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STREAMLINE HEALTH SOLUTIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

Liabilities and Stockholders' Equity

	(Unaudited) October 31, 2012	January 31, 2012
Current liabilities:		
Ä Accounts payable	\$ 832,657	\$ 879,027
Ä Accrued compensation	1,603,355	887,130
Ä Accrued other expenses	1,373,307	479,526
Ä Deferred revenues	6,262,960	6,496,938
Ä Contingent consideration for earn-out	1,319,559	-
Ä Current portion of long-term debt	1,250,000	-
Ä Ä Ä Ä Ä Total current liabilities	<u>12,641,838</u>	<u>8,742,621</u>
Non-current liabilities:		
Ä Term loans	12,750,000	4,120,000
Ä Convertible note payable, net of unamortized discount of \$1,822,255 and \$0, respectively	3,877,322	3,000,000
Ä Warrants liability	4,138,783	-
Ä Lease incentive liability	101,453	47,193
Ä Contingent consideration for earn-out, less current portion	-	1,232,720
Ä Ä Ä Ä Ä Total non-current liabilities	<u>20,867,558</u>	<u>8,399,913</u>
Ä Ä Ä Ä Ä Total liabilities	<u>33,509,396</u>	<u>17,142,534</u>
Series A 0% Convertible Redeemable Preferred Stock, \$0.01 par value per share, \$7,250,355 redemption value, 5,000,000 shares authorized, 2,416,785 shares issued	2,979,170	-
Stockholders' equity:		
Ä Common stock, \$0.01 par value per share, 25,000,000 shares authorized, 12,582,598 Ä and 10,433,716 shares issued and outstanding, respectively	125,826	104,338
Ä Ä Convertible Redeemable Preferred Stock, \$0.01 par value per share, 1,000,000 authorized, no shares issued	-	-
Ä Additional paid in capital	44,351,334	38,360,980
Ä Accumulated deficit	(28,038,799)	(30,466,794)
Ä Ä Ä Ä Ä Total stockholders' equity	<u>16,438,361</u>	<u>7,998,524</u>
	<u>\$ 52,926,927</u>	<u>\$ 25,141,058</u>

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STREAMLINE HEALTH SOLUTIONS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended October 31,  
(Unaudited)

	2012	2011
Operating activities:		
Ä Net earnings	\$ 2,427,995	\$ 8,051
Ä Adjustments to reconcile net earnings to net cash provided by operating activities, net of effect of acquisition:		
Ä Ä Depreciation and amortization	2,847,665	2,008,432
Ä Ä Loss on disposal of equipment	-	26,667
Ä Ä Share-based compensation expense	645,407	529,104
Ä Ä Deferred tax benefit	(3,564,612)	-
Ä Ä Provision for accounts receivable	-	40,000
Ä Ä Amortization of debt discount	111,584	-
Ä Ä Fair value adjustment for contingent earnout	86,839	-
Ä Ä Net loss from conversion of convertible note	56,682	-
Ä Change in assets and liabilities:		
Ä Ä Accounts and contract receivables	(1,351,935)	419,517
Ä Ä Other assets	(482,785)	(89,066)
Ä Ä Accounts payable	(137,107)	161,609
Ä Ä Accrued expenses	947,630	(574,012)
Ä Ä Deferred revenues	881,677	(1,904,641)
Ä Net cash provided by operating activities	<u>2,469,040</u>	<u>625,661</u>

Investing activities:		
À Purchases of property and equipment	(546,061)	(245,262)
À Capitalization of software development costs	(1,571,420)	(1,970,000)
À Payment for acquisition, net of cash acquired	(12,161,634)	-
À Net cash used in investing activities	(14,279,115)	(2,215,262)
Financing activities:		
À Net change in borrowings	9,880,000	550,000
À Payment of deferred financing costs	(1,246,107)	-
À Proceeds from exercise of stock options and stock purchase plan	161,823	92,711
À Proceeds from private placement	12,000,000	-
À Payment of success fee	(700,000)	-
À Payments on capital lease obligation	-	(156,621)
À Net cash provided by financing activities	20,095,716	486,090
Increase (decrease) in cash and cash equivalents	8,285,641	(1,103,511)
Cash and cash equivalents at beginning of period	2,243,054	1,403,949
Cash and cash equivalents at end of period	\$ 10,528,695	\$ 300,438
Supplemental cash flow disclosures:		
À Interest paid	\$ 1,181,929	\$ 61,532
À Income taxes paid	\$ 78,041	\$ 19,136

Supplemental Disclosure of Non-Cash Financing and Investing Activities:

- In June 2012, the \$3,000,000 convertible note and accrued interest was converted to 1,529,729 common shares at \$2.00 per share.À
- In August 2012, we issued 393,086 shares of our common stock at a price of \$4.07, as part of the Meta acquisition purchase price.
- In October 2012, we issued approximately 200,000 common stock warrants, convertible into common stock shares at \$4.06 per share.
- During the third quarter of 2012, we recorded approximately \$139,000 of deemed dividends from preferred shares discount accretion.

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STREAMLINE HEALTH SOLUTIONS, INC.  
Backlog  
(Unaudited)  
Table A

Backlog

	October 31, 2012	January 31, 2012	October 31, 2011
Streamline Health Software Licenses	\$ 3,650,000	\$ 181,000	\$ 67,000
Hardware and Third Party Software	84,000	194,000	190,000
Professional Services	4,348,000	5,945,000	4,946,000
Software as a service	19,117,000	10,542,000	6,237,000
Maintenance and support	21,535,000	10,504,000	5,374,000
À À À Total	\$ 48,734,000	\$ 27,366,000	\$ 16,814,000

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STREAMLINE HEALTH SOLUTIONS, INC.  
Bookings  
(Unaudited)  
Table B

New bookings (1)

	Three Months Ended	
	October 31, 2012	% of Total Bookings
Streamline Health Software licenses	\$ -	-%
Software as a service	2,200,000	76%
Maintenance and support	-	-%
Professional services	684,000	23%
Hardware & third party software	20,000	1%
À À À Total bookings	\$ 2,904,000	100%
	Nine Months Ended	
	October 31, 2012	% of Total Bookings
Streamline Health Software licenses	\$ 50,000	-%
Software as a service	9,757,000	86%
Maintenance and support	64,000	1%
Professional services	1,160,000	10%
Hardware & third party software	368,000	3%
À À À Total bookings	\$ 11,399,000	100%

(1)À À À À À Bookings are the aggregate of signed contracts and/or completed customer purchase orders approved and accepted by the Company as binding commitments to purchase its products and/or services. New bookings do not include maintenance services as these tend to be recurring in nature on an annual or more frequent basis.

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Reconciliation of Non-GAAP Financial Measures  
(Unaudited)  
Table C

This press release contains a non-GAAP financial measure under the rules of the U.S. Securities and Exchange Commission for adjusted EBITDA. This non-GAAP information supplements and is not intended to represent a measure of performance in accordance with disclosures required by generally accepted accounting principles. Non-GAAP financial measures are used internally to manage the business, such as in establishing an annual operating budget. Non-GAAP financial measures are used by Streamline Health's management in its operating and financial decision-making because management believes these measures reflect ongoing business in a manner that allows meaningful period-to-period comparisons. Accordingly, the Company believes it is useful for investors and others to review both GAAP and non-GAAP measures in order to (a) understand and evaluate current operating performance and future prospects in the same manner as management does and (b) compare in a consistent manner the company's current financial results with past financial results. The primary limitations associated with the use of non-GAAP financial measures are that these measures may not be directly comparable to the amounts reported by other companies and they do not include all items of income and expense that affect operations. The Company's management compensates for these limitations by considering the company's financial results and outlook as determined in accordance with GAAP and by providing a detailed reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures in the tables attached to this press release.

Reconciliation of net earnings (loss) to non-GAAP adjusted EBITDA (in thousands)

Adjusted EBITDA Reconciliation	Three Months Ended,		Nine Months Ended,	
	October 31, 2012	October 31, 2011	October 31, 2012	October 31, 2011
Net earnings	\$ 2,400	\$ 296	\$ 2,428	\$ 8
À À À Interest expense	895	26	1,494	68
À À À Income tax benefit (expense)À	(3,553)	5	(3,520)	12
À À À Depreciation and other amortization	184	163	548	553
À À À Amortization of capitalized softwareÀ developmentÀ costs	708	454	1,930	1,455
À À À Amortization of intangible assets	229	-	254	-
EBITDA	863	944	3,134	2,096
À À À Stock-based compensation expense	245	133	645	529
À À À TransactionÀ expenses	494	-	1,043	-
Adjusted EBITDA	\$ 1,602	\$ 1,077	\$ 4,822	\$ 2,625
Adjusted EBITDA per diluted share				
Earnings per share - diluted	\$ 0.15	\$ 0.03	\$ 0.18	\$ 0.00
Adjusted EBITDA per adjusted diluted share	\$ 0.10	\$ 0.11	\$ 0.39	\$ 0.27
Diluted weighted average shares				
	15,365,238	9,958,947	12,417,256	9,837,750

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