STREAMLINE HEALTH SOLUTIONS INC.
Form 10-Q
June 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2011

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 0-28132

STREAMLINE HEALTH SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	31-1455414
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10200 Alliance Road, Suite 200
Cincinnati, Ohio 45242-4716
(Address of principal executive offices) (Zip Code)
(513) 794-7100
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares of Registrant s Common Stock ($.01 par value per share) issued and outstanding, as of June 8, 2011: 9,881,517.

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PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STREAMLINE HEALTH SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Assets

	(Unaudited) April 30, 2011	(Audited) January 31, 2011
Current assets:		
Cash and cash equivalents	$ 481,717	$ 1,403,949
Accounts receivable, net of allowance for doubtful accounts of $150,000 and $100,000, respectively	1,550,789	2,620,756
Contract receivables	663,375	680,096
Prepaid hardware and third party software for future delivery	55,363	72,259
Prepaid customer maintenance contracts	960,099	794,299
Other prepaid assets	257,464	200,056
Deferred income taxes	167,000	167,000
Total current assets	4,135,807	5,938,415
Property and equipment:		
Computer equipment	2,785,062	2,708,819
Computer software	1,988,573	1,947,135
Office furniture, fixtures and equipment	747,867	747,867
Leasehold improvements	639,864	639,864
	6,161,366	6,043,685
Accumulated depreciation and amortization	(4,702,279)	(4,517,860)
	1,459,087	1,525,825
Other assets:		
Contract receivables, less current portion	286,239	241,742
Capitalized software development costs, net of accumulated amortization of $13,325,939 and $12,832,347, respectively	7,866,472	7,575,064
Other, including deferred taxes of $711,000, respectively	737,134	734,376
Total other assets	8,889,845	8,551,182
	$ 14,484,739	$ 16,015,422

See Notes to Condensed Consolidated Financial Statements

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Liabilities and Stockholders Equity

	(Unaudited) April 30, 2011	(Audited) January 31, 2011
Current liabilities:		
Accounts payable	$ 591,640	$ 565,252
Accrued compensation	541,682	1,163,843
Accrued other expenses	247,904	480,422
Capital lease obligation	132,299	183,637
Deferred revenues	4,902,831	5,766,795
Total current liabilities	6,416,356	8,159,949
Long-term liabilities:		
Line of credit	1,500,000	1,200,000
Lease incentive liability, less current portion	57,748	61,034
Total liabilities	7,974,104	9,420,983
Stockholders equity:		
Convertible redeemable preferred stock, $.01 par value per share, 5,000,000 shares authorized, no shares issued		
Common stock, $.01 par value per share, 25,000,000 shares authorized, 9,881,517 and 9,856,517 shares issued and outstanding, respectively	98,815	98,565
Additional paid in capital	37,171,959	36,975,242
Accumulated deficit	(30,760,139)	(30,479,368)
Total stockholders equity	6,510,635	6,594,439
	$ 14,484,739	$ 16,015,422

See Notes to Condensed Consolidated Financial Statements

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended,
(Unaudited)

	April 30, 2011	April 30, 2010
Revenues:		
Systems sales	$ 131,002	$ 150,438
Services, maintenance and support	3,083,961	2,543,575
Software as a service	925,059	850,003
Total revenues	4,140,022	3,544,016
Operating expenses:		
Cost of systems sales	540,952	737,889
Cost of services, maintenance and support	1,333,871	1,382,210
Cost of software as a service	436,423	457,028
Selling, general and administrative	1,664,661	1,697,577
Product research and development	417,774	470,171
Total operating expenses	4,393,681	4,744,875
Operating loss	(253,659)	(1,200,859)
Other income (expense):		
Interest expense	(19,842)	(22,335)
Miscellaneous income (expenses)	(4,955)	51,809
Loss before income taxes	(278,456)	(1,171,385)
Income tax (expense)	(2,315)	(5,000)
Net loss	$ (280,771)	$ (1,176,385)
Basic and diluted net earnings (loss) per common share	$ (0.03)	$ (0.13)
Number of shares used in basic and diluted per common share computation	9,649,508	9,413,367

See Notes to Condensed Consolidated Financial Statements

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended,
(Unaudited)

	April 30, 2011	April 30, 2010
Operating activities:		
Net loss	$ (280,771)	$ (1,176,385)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	691,345	837,019
Loss on disposal of fixed asset	26,666	
Stock-based compensation expense	196,967	87,446
Change in assets and liabilities:		
Accounts, contract and installment receivables	1,042,191	1,222,930
Other assets	(209,070)	(127,979)
Accounts payable	26,388	(283,538)
Accrued expenses	(857,965)	(53,208)
Deferred revenues	(863,964)	(504,687)
Net cash (used in) provided by operating activities	(228,213)	1,598
Investing activities:		
Purchases of property and equipment	(157,681)	(153,407)
Capitalization of software development costs	(785,000)	(696,000)
Other		(34,344)
Net cash used in investing activities	(942,681)	(883,751)
Financing activities:		
Net change under revolving credit facility	300,000	800,000
Proceeds from exercise of stock options and stock purchase plan		83,041
Payments on capital lease obligation	(51,338)	
Net cash provided by financing activities	248,662	883,041
(Decrease) Increase in cash and cash equivalents	(922,232)	888
Cash and cash equivalents at beginning of period	1,403,949	1,025,173
Cash and cash equivalents at end of period	$ 481,717	$ 1,026,061
Supplemental cash flow disclosures:		
Interest paid	$ 16,841	$ 13,276
Income taxes paid	$ 11,897	$ 8,994

See Notes to Condensed Consolidated Financial Statements

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STREAMLINE HEALTH SOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Streamline Health Solutions, Inc. (Streamline Health® or the Company), pursuant to the rules and regulations applicable to quarterly reports on Form 10-Q of the U. S. Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the most recent Streamline Health Solutions, Inc. Annual Report on Form 10-K, Commission File Number 0-28132. Operating results for the three months ended April 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2012.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company s significant accounting policies is presented in Note B Significant Accounting Policies in the fiscal year 2010 Annual Report on Form 10-K. Users of financial information for interim periods are encouraged to refer to the footnotes contained in the Annual Report when reviewing interim financial results.

Recently Adopted Accounting Pronouncements

ASU 2009-13. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2009-13 Multiple-Deliverable Revenue Arrangements (ASU 2009-13). ASU 2009-13 requires a vendor to allocate revenue to each unit of accounting in many arrangements involving multiple deliverables based on the relative selling price of each deliverable. It also changes the level of evidence of standalone selling price required to separate deliverables by allowing a vendor to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available.

The Company adopted ASU 2009-13 for all new and materially modified arrangements on a prospective basis beginning February 1, 2011. Upon review of the primary accounting literature, if we are unable to establish selling price using VSOE (vendor specific objective evidence) or third-party evidence, we will establish an estimated selling price. The estimated selling price is the price at which we would transact a sale if the product or service were sold on a stand-alone basis. The Company establishes a best estimate of selling price by considering internal factors relevant to pricing practices such as costs and margin objectives, stand alone sales prices of similar services and percentage of the fee charged for a primary service relative to a particular piece of licensed software. Additional consideration is also given to market conditions such as competitor pricing strategies and market trends. We regularly review VSOE for our professional services in addition to estimated selling price.

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The Company has not experienced a change in units of accounting nor was there a change in allocation of fair value to the various units of accounting. Historically, the Company has been able to obtain VSOE or third-party evidence for significant service deliverables. No material changes in assumptions, inputs or methodology used in determining VSOE or third-party evidence have been made. The pattern of revenue recognition is expected to remain consistent with prior periods and we do not expect a material change in the timing of revenue recognition from previous generally accepted accounting principles as applied in the prior period.

Revenue Recognition Multiple-Deliverable Revenue Arrangements

The Company may bundle certain proprietary software technology licenses with post-contract customer support (PCS), and implementation services. The Company may also bundle software as a service (SaaS) offerings with implementation services. In addition, the Company may also bundle additional consulting services such as Business Process Management (BPM) and Revenue Cycle Management (RCM) services with proprietary software license agreements and SaaS subscriptions.

Provided that the undelivered elements in arrangements that include multiple elements are fixed and determinable, the Company allocates the total revenue to be earned under the arrangement to the elements based on their relative fair value of vendor specific objective evidence (VSOE), third-party evidence or estimated selling price, relative to the hierarchy. The amounts representing the fair value of the undelivered items are deferred until delivered, or recognized pro rata over the service contract.

NOTE C EQUITY AWARDS

During the three months ended April 30, 2011, the Company granted 535,000 options with a weighted average exercise price of $1.99 per share. During the same period 45,266 options expired with an average exercise price of $1.81 per share and no options were exercised under all plans.

The fair value of each option grant during the quarter ended April 30, 2011 was estimated at the date of the grants using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.50%, a dividend yield of zero percent; and a current weighted average volatility factor of the expected market price of Streamline Health s Common Stock of 0.528 in 2010. The weighted average expected life of stock options are five years and have a forfeiture rate of zero.

During the three months ended April 30, 2011, the Company granted 25,000 restricted stock shares as executive inducement grants. These executive inducement grants were approved by the board pursuant to Nasdaq Marketplace Rule 5635(c)(4). The terms of the grants are nearly as practicable identical to the terms and conditions of the Company s 2005 Incentive Compensation Plan.

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NOTE D EARNINGS PER SHARE

The two-class method is used to calculate basic and diluted earnings (loss) per share (EPS) as unvested restricted stock awards are considered participating securities because they entitle holders to non-forfeitable rights to dividends or dividend equivalents during the vesting term. Under the two-class method, basic earnings (loss) per common share is computed by dividing the net earnings (loss) allocated to common stock holders by the weighted average number of common shares outstanding. In determining the amount of net earnings (loss) to allocate to common holders, earnings are allocated to both common shares and participating securities based on their respective weighted-average shares outstanding for the period. Diluted net earnings (loss) per common share reflects the potential dilution that could occur if stock options, stock purchase plan commitments, and restricted stock were exercised into common stock, under certain circumstances, that then would share in the earnings of Streamline Health. The dilutive effect is calculated using the treasury stock method. A reconciliation of basic and diluted weighted average shares for basic and diluted EPS, as well as anti-dilutive securities is as follows:

	Three Months Ended,	
	April 30, 2011	**April 30, 2010**
Numerator for Basic and Diluted Loss per Share:		
Net loss	(280,771)	(1,176,385)
Denominator for basic loss per share weighted average shares	9,649,508	9,413,367
Effect of dilutive securities [(1)]		
Stock options		
Restricted stock		
Denominator for basic loss per share, with assumed conversions	9,649,508	9,413,367
Basic net loss per common share	(0.03)	(0.13)
Diluted net loss per common share	(0.03)	(0.13)
Anti-dilutive securities:		
Stock options, out-of-the-money	1,211,116	699,000

(1) Excluded common stock equivalents (stock options and restricted stock), as the inclusion thereof would be antidilutive.

NOTE E CONTRACTUAL OBLIGATIONS

The following table details the remaining obligations, by fiscal year, as of the end of the quarter:

	Line of Credit	Operating Leases	Capital Lease	Fiscal Year Totals
2011	$ 1,502,000	$ 280,000	$ 132,000	$ 1,914,000
2012		334,000		334,000
2013		320,000		320,000
2014		329,000		329,000
2015		164,000		164,000
Thereafter				
Total	$ 1,502,000	$ 1,427,000	$ 132,000	$ 3,061,000

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NOTE F DEBT

On April 13, 2011, the Company s wholly owned subsidiary, Streamline Health, Inc., entered into a second amended and restated revolving note with Fifth Third Bank, Cincinnati, OH. The terms of the loan remain the same as set forth in the revolving note entered into on July 31, 2008, as amended on January 6, 2009, and October 21, 2009, except as follows: (i) the maximum principal amount that can be borrowed was increased to $3,000,000 from the prior maximum amount of $2,750,000, subject to the borrowing base limitation; and (ii) the maturity date of the loan has been extended to October 1, 2013 from October 1, 2011. The interest rate on the outstanding principal balance of the loan accrues at an annual floating rate of interest equal to the Adjusted Libor Rate (as defined in the revolving note) plus 3.25%, payable monthly. The interest rate on the note was 3.5% at April 30, 2011. In accordance with the revised maturity date, the outstanding balance on the note is classified as a long-term obligation at April 30, 2011.

In connection with entering into the second amended and restated revolving note in April 2011, the Company also entered into an amendment to the amended and restated continuing guaranty agreement. The terms of the continuing guarantee agreement remain the same as set forth in the guaranty agreement entered into on July 31, 2008, as amended on January 6, 2009 and on October 21, 2009, except that: (i) the minimum fixed charge coverage ratio covenant has been revised, whereas the Company shall maintain a minimum trailing twelve months fixed charge coverage ratio of 1.25, measured each fiscal quarter; (ii) the funded indebtedness to EBITDA covenant has been revised, whereas the Company shall report a funded indebtedness to EBITDA ratio no greater than 2.0, measured each fiscal quarter and; (iii) and a covenant has been added whereas the Company s EBITDA shall cover its capitalized software development costs each fiscal quarter. The covenant becomes effective on October 31, 2011 and is calculated based on the trailing nine months. As of January 31, 2012 and thereafter, the calculation will be based on the trailing twelve months.

The note also continues to be secured by a first lien on all of the assets of the Company pursuant to security agreements entered into by the Company.

The Company was in compliance with all of the covenants at April 30, 2011. The Company pays a commitment fee on the unused portion of the facility of .06%. The Company had outstanding borrowings of $1,500,000 and $1,200,000 under this revolving loan as of April 30, 2011 and 2010, respectively.

NOTE G COMMITTMENTS AND CONTINGENCIES

Streamline Health has entered into employment agreements with its officers and certain employees that generally provide annual salary, a minimum bonus, discretionary bonus, stock incentive provisions, and severance arrangements. In accordance with severance agreements in effect at April 30, 2011, the Company accrued $115,000, which will be paid in the second quarter of fiscal 2011.

As a result of a reduction in force implemented by management subsequent to the close of the quarter ended April 30, 2011, the Company accrued an additional $100,000 in the second quarter of fiscal 2011, in accordance with existing severance agreements.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information contained herein, this Report on Form 10-Q contains forward-looking statements relating to the Company s plans, strategies, expectations, intentions, etc. and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements contained herein are no guarantee of future performance and are subject to certain risks and uncertainties that are difficult to predict and actual results could differ materially from those reflected in the forward-looking statements. These risks and uncertainties include, but are not limited to, the timing of contract negotiations and executions 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 Streamline Health solutions, the ability of Streamline Health to control costs, availability of products obtained from third-party vendors, the healthcare regulatory environment, potential changes in legislation, regulatory and government funding affecting the healthcare industry, healthcare information system budgets, availability of healthcare information systems trained personnel for implementation of new systems, as well as maintenance of legacy systems, fluctuations in operating results and other risk factors that might cause such differences including those discussed herein, and including, 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, but not limited to, discussions in the most recent Form 10-K, Part I, Item 1 Business , Item 1A Risk Factors , Part II, Item 7 Management s Discussion and Analysis o Financial Condition and Results of Operations and Item 8 Financial Statements and Supplemental Data. In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date thereof. The Registrant undertakes no obligation to publicly revise these forward-looking statements, to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in this and other documents Streamline Health Solutions, Inc. files from time to time with the Securities and Exchange Commission, including future Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Streamline Health s discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Streamline Health to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent liabilities. On an ongoing basis, Streamline Health evaluates its estimates, including those related to product revenues, bad debts, capitalized software development costs, income taxes, support contracts, contingencies, and litigation. Streamline Health bases its estimates on historical experience and on various other assumptions that Streamline Health believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and revenue and expense recognition. Actual results may differ from these estimates under different assumptions or conditions.

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General

Streamline Health Solutions, Inc. (Streamline Health® or the Company) is a leading developer of workflow and document management technology solutions that drive process efficiencies and cost reductions for leading healthcare facilities throughout North America. Since our inception in 1989, Streamline Health s technology solutions have seamlessly interfaced with our customers existing enterprise or departmental electronic medical record systems. The Company s solutions efficiently integrate paper-based and unstructured data with electronic data in the areas of Health Information Management, Patient Financial Services, Human Resources, and Supply Chain Management to provide real-time comprehensive patient profiles and generate substantial operational savings. Streamline Health s workflow and document management solutions assist hospitals in meeting the requirements of meaningful use to become eligible for significant incentive payments as outlined in the HITECH act (a provision of American Recovery and Reinvestment Act of 2009), and they are an integral part of an enterprise-wide Electronic Health Record (EHR). The Company sells its products and services in North America to remarketers, hospitals, clinical and ambulatory services through its direct sales force, and its reseller partnerships.

Streamline Health s core technology is a secure document management repository called accessANYware™ that collects, indexes, and intelligently routes unstructured, document-based medical and financial data throughout the enterprise. The accessANYware family of solutions work complementary to, and can be seamlessly integrated with existing transaction-centric clinical, financial and management information systems. The Company s fifth-generation accessANYware architecture includes the consolidation of technology platforms onto the Microsoft.NET platform, and also the internationalization of the software to reach international markets.

The Company s core technology is supplemented by departmental workflow-based solutions and services which offer solutions to specific healthcare business processes within Health Information Management (HIM) and the revenue cycle. Additionally, the Company offers a full complement of high quality consulting and implementation services to complement and enhance its software applications.

The Company s software solutions are delivered either by purchased perpetual license which is installed locally in the customer s data center; or by subscription and accessed by software as a service through a secure internet connection (also known as SaaS , and previously referred to as application hosting services in the Annual Report on Form 10-K; The Company believes SaaS is a more accurate label for this type of subscription services). A SaaS subscription provides Streamline Health s complete suite of document management and workflow products, which also enables improved security, and accessibility to patient records at significant cost savings; with minimal up-front capital investment, maintenance, and support costs. In addition, the healthcare provider need not have knowledge of, expertise in, or control over the technology infrastructure in the data center that supports them. SaaS systems allow customers to realize the benefits of our systems with an accelerated return on investment, and less economic risk.

The Company operates primarily in one segment as a provider of health information technology solutions. The financial information required by Item 101(b) of Regulation S-K is contained in Item 6 Selected Financial Information of the Company s January 31, 2011 Form 10-K.

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Signed Agreements Backlog

At April 30, 2011 Streamline Health has master agreements and purchase orders from customers and remarketing partners for systems and related services (excluding support and maintenance, and transaction-based SaaS subscription revenues), which have not been delivered or installed which, if fully performed, would generate future revenues of approximately $4,947,000 compared with $4,240,000 at April 30, 2010. The related systems and services are expected to be delivered over the next two to three years. The increase in the backlog is the result of several contracts for new or add-on proprietary software licenses, professional services, or third-party hardware and software entered into during fiscal 2010, net of the revenues recognized from backlog since April 30, 2010. At April 30, 2011, Streamline Health had maintenance agreements purchase orders, from customers and remarketing partners for maintenance, which if fully performed, will generate future revenues of approximately $6,199,000 compared with $5,078,000 at April 30, 2010, through their respective renewal dates in fiscal year 2012 and 2011. This increase is primarily the result of new or renewed maintenance contracts that have entered their service period, and therefore, added to backlog, and net of recognized maintenance revenues since April 30, 2010. At April 30, 2011, Streamline Health has entered into SaaS agreements, which are expected to generate revenues in excess of $6,550,000 through their respective renewal dates in fiscal years 2011 through 2014. The software as a service backlog decreased from $9,310,000 at April 30, 2010, due to the decreased volume of new SaaS business and renewals, and recognized revenues from contracts signed in prior years.

Below is a summary of the backlog at April 30, 2011, January 31, 2011 and April 30, 2010:

	April 30, 2011	January 31, 2011	April 30, 2010
Streamline Health Software Licenses	$ 82,000	$ 121,000	$ 188,000
Custom Software	29,000	42,000	107,000
Hardware and Third Party Software	107,000	66,000	145,000
Professional Services	4,729,000	4,629,000	3,800,000
Software as a service	6,550,000	7,362,000	9,310,000
Recurring Maintenance	6,199,000	5,384,000	5,078,000
Total	$ 17,696,000	$ 17,604,000	$ 18,628,000

Streamline Health believes its future revenues will come from direct sales and remarketing agreements with other health information systems vendors similar to the Telus Health agreement that was entered into in December 2007. Streamline Health continues to actively pursue remarketing agreements with other companies.

The commencement of revenue recognition varies depending on the size and complexity of the system; the implementation schedule requested by the customer and usage by customers of the Company s SaaS services. Therefore, it is difficult for the Company to accurately predict the revenue it expects to achieve in any particular period. Streamline Health s master agreements generally provide that the customer may terminate its agreement upon a material breach by Streamline Health, or may delay certain aspects of the installation. There can be no assurance that a customer will not cancel all or any portion of a master agreement or delay installations. A termination or installation delay of one or more phases of an agreement, or the failure of Streamline Health to procure additional agreements, could have a material adverse effect on Streamline Health s business, financial condition, and results of operations.

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Quarterly Operating Results

The Company recognized revenues in the first quarter of fiscal 2011 of $4.1 million, compared to $3.5 million of revenue recognized in the comparable prior quarter; an increase of $596,000, or 17%. The revenues recognized are derived primarily from recurring revenues recognized from SaaS subscriptions and recurring maintenance contracts. The Company incurred an operating loss of $254,000 in the first quarter of fiscal 2011, compared to an operating loss of $1.2 million in the first quarter of fiscal 2010. Operating expenses were $4.4 million, compared to $4.7 million in the comparable prior quarter; a decrease of $351,000 or 7% over the prior comparable quarter.

The Company s revenues from proprietary systems sales have varied, and may continue to vary, significantly from quarter-to-quarter because of the volume and timing of systems sales and delivery. Professional services revenues also fluctuate from quarter-to-quarter because of the timing of the implementation services, project management, and timing of the recognition of revenues under generally accepted accounting principles. Conversely, revenues from SaaS subscription sales, and maintenance services do not fluctuate significantly from quarter-to-quarter, but have been increasing, on an annual basis, as the number of customers increase. Substantial portions of the operating expenses are fixed; therefore operating profits are expected to vary depending on the factors that drive fluctuations in revenues and the mix of proprietary system sales versus SaaS subscriptions sold.

Quarterly Statement of Operations[1]

	Three Months Ended, April 30, 2011	Three Months Ended, April 30, 2010
Systems sales	3.2%	4.2%
Services, maintenance and support	74.5	71.8
Software as a service	22.3	24.0
Total revenues	100.0	100.0
Cost of sales	55.8	72.7
Selling, general and administrative	40.2	47.9
Product research and development	10.1	13.3
Total operating expenses	106.1	133.9
Operating profit (loss)	(6.1)	(33.9)
Other income (expense), net	(0.6)	0.8
Income tax net benefit		
Net earnings(loss)	(6.7)%	(33.1)%
Cost of systems sales	412.9%	490.5%
Cost of services, maintenance and support	43.3%	54.3%
Cost of software as a service	47.2% &n	