

STREAMLINE HEALTH SOLUTIONS INC.

Form 10-Q

September 13, 2011

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

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

For the quarterly period ended July 31, 2011

or

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
(State or other jurisdiction of
incorporation or organization)

31-1455414
(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 No

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 No

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

Number of shares of Registrant's Common Stock (\$.01 par value per share) issued and outstanding, as of September 13, 2011: 10,053,979.

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PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Assets

	(Unaudited)	(Audited)
	July 31, 2011	January 31, 2011
Current assets:		
Cash and cash equivalents	\$ 577,885	\$ 1,403,949
Accounts receivable, net of allowance for doubtful accounts of \$140,000 and \$100,000, respectively	2,151,458	2,620,756
Contract receivables	535,941	680,096
Prepaid hardware and third party software for future delivery	40,963	72,259
Prepaid customer maintenance contracts	925,667	794,299
Other prepaid assets	217,187	200,056
Deferred income taxes	167,000	167,000
 Total current assets	 4,616,101	 5,938,415
 Property and equipment:		
Computer equipment	2,815,087	2,708,819
Computer software	2,037,063	1,947,135
Office furniture, fixtures and equipment	747,867	747,867
Leasehold improvements	639,864	639,864
	6,239,881	6,043,685
Accumulated depreciation and amortization	(4,895,412)	(4,517,860)
	1,344,469	1,525,825
 Other assets:		
Contract receivables, less current portion	274,647	241,742
Capitalized software development costs, net of accumulated amortization of \$13,833,284 and \$12,832,347, respectively	7,965,127	7,575,064
Other, including deferred income taxes of \$711,000, respectively	738,475	734,376
 Total other assets	 8,978,249	 8,551,182
	\$ 14,938,819	\$ 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) July 31, 2011	(Audited) January 31, 2011
Current liabilities:		
Accounts payable	\$ 752,454	\$ 565,252
Accrued compensation	575,603	1,163,843
Accrued other expenses	285,215	480,422
Capital lease obligation	132,299	183,637
Deferred revenues	5,093,616	5,766,795
Total current liabilities	6,839,187	8,159,949
Long-term liabilities:		
Line of credit	1,250,000	1,200,000
Lease incentive liability, less current portion	54,464	61,034
Total liabilities	8,143,651	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, 10,053,979 and 9,856,517 shares issued and outstanding, respectively	100,539	98,565
Additional paid in capital	37,461,711	36,975,242
Accumulated deficit	(30,767,082)	(30,479,368)
Total stockholders' equity	6,795,168	6,594,439
	\$ 14,938,819	\$ 16,015,422

See Notes to Condensed Consolidated Financial Statements

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Six Months Ended July 31,
(Unaudited)

	Three Months		Six Months	
	2011	2010	2011	2010
Revenues:				
Systems sales	\$ 163,200	\$ 960,880	\$ 294,202	\$ 1,111,318
Services, maintenance and support	3,069,869	2,830,935	6,153,830	5,374,510
Software as a service	912,864	884,662	1,837,923	1,734,665
Total revenues	4,145,933	4,676,477	8,285,955	8,220,493
Operating expenses:				
Cost of systems sales	627,550	780,506	1,168,502	1,518,395
Cost of services, maintenance and support	1,155,667	1,378,778	2,489,538	2,760,988
Cost of software as a service	417,868	472,098	854,291	929,126
Selling, general and administrative	1,582,532	1,505,863	3,247,193	3,203,440
Product research and development	342,157	567,147	759,931	1,037,318
Total operating expenses	4,125,774	4,704,392	8,519,455	9,449,267
Operating income (loss)	20,159	(27,915)	(233,500)	(1,228,774)
Other income (expense):				
Interest expense	(21,791)	(34,001)	(41,633)	(56,336)
Miscellaneous income (expenses)	(311)	(9,023)	(5,266)	42,786
Loss before income taxes	(1,943)	(70,939)	(280,399)	(1,242,324)
Income tax (expense)	(5,000)	(5,000)	(7,315)	(10,000)
Net loss	\$ (6,943)	\$ (75,939)	\$ (287,714)	\$ (1,252,324)
Basic and diluted net earnings (loss) per common share	\$ (0.00)	\$ (0.01)	\$ (0.03)	\$ (0.13)
Number of shares used in basic and diluted per common share computation	9,817,370	9,506,904	9,847,348	9,460,911

See Notes to Condensed Consolidated Financial Statements

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STREAMLINE HEALTH SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended July 31,
(Unaudited)

	2011	2010
Operating activities:		
Net loss	\$ (287,714)	\$ (1,252,324)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,391,822	1,708,706
Loss on disposal of fixed asset	26,667	
Stock-based compensation expense	395,732	243,104
Provision for accounts receivable	40,000	50,000
Change in assets and liabilities:		
Accounts, contract and installment receivables	540,548	(133,787)
Other assets	(121,302)	(114,459)
Accounts payable	187,202	200,007
Accrued expenses	(790,017)	(388,100)
Deferred revenues	(673,179)	(328,530)
Net cash provided by (used in) operating activities	709,759	(15,383)
Investing activities:		
Purchases of property and equipment	(236,196)	(302,292)
Capitalization of software development costs	(1,391,000)	(1,274,000)
Other		2,974
Net cash used in investing activities	(1,627,196)	(1,573,318)
Financing activities:		
Net change under revolving credit facility	50,000	1,100,000
Proceeds from exercise of stock options and stock purchase plan	92,711	127,391
Payments on capital lease obligation	(51,338)	(83,289)
Net cash provided by financing activities	91,373	1,144,102
Decrease in cash and cash equivalents	(826,064)	(444,599)
Cash and cash equivalents at beginning of period	1,403,949	1,025,173
Cash and cash equivalents at end of period	\$ 577,885	\$ 580,574
Supplemental cash flow disclosures:		
Interest paid	\$ 29,621	\$ 30,664
Income taxes paid	\$ 16,957	\$ 16,534

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 and six months ended July 31, 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 stand-alone selling price required to separate deliverables by allowing a vendor to make its best estimate of the stand-alone 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 the Company is unable to establish selling price using VSOE (vendor specific objective evidence) or third-party evidence, the Company will establish an estimated selling price. The estimated selling price is the price at which the Company 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. The Company regularly reviews VSOE for 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 the Company does 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 six months ended July 31, 2011, the Company granted 858,000 options with a weighted average exercise price of \$1.94 per share. During the same period 115,916 options expired with an average exercise price of \$1.84 per share and 32,598 options were exercised under all plans.

The fair value of each option grant during the six months ended July 31, 2011 was estimated at the date of the grants using a Black-Scholes option pricing model with the following weighted average assumptions:

	For the three months ended, April 30, 2011	For the six months ended, July 31, 2011
Risk-free interest rate	2.50%	2.17%
Dividend yield		
Current weighted-average volatility factor of the expected market price of Common Stock	0.53	0.65
Weighted-average expected life of stock options	5 years	5 years
Forfeiture rate	0%	0%

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During the six months ended July 31, 2011, the Company granted 110,412 restricted stock shares with a weighted average fair value of \$1.68 per share. These shares are subject to the 2005 Incentive Compensation Plan as amended, and are granted to certain independent members of the Board of Directors. The shares have an approximate one-year restriction period. During the same period 223,090 restricted shares had their restriction period lapse; these shares had a weighted average fair value of \$1.92 per share.

During the six months ended July 31, 2011, the Company granted 25,000 restricted stock shares as executive inducement grants with a weighted average fair value of \$1.91 per share. The restrictions lapsed immediately upon the grant of the shares, and the Company recognized \$48,000 of compensation expense for the six months ended July 31, 2011 relating to these 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.

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,	
	July 31,	July 31, 2010
	2011	
Numerator for Basic and Diluted Loss per Share:		
Net loss	(6,943)	(75,939)
Denominator for basic loss per share weighted average shares	9,817,370	9,506,904
Effect of dilutive securities ⁽¹⁾		
Stock options		
Restricted stock		
Denominator for basic loss per share, with assumed conversions	9,817,370	9,506,904
Basic net loss per common share	(0.00)	(0.01)
Diluted net loss per common share	(0.00)	(0.01)
Anti-dilutive securities:		
Stock options, out-of-the-money	1,272,467	847,000

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	Six Months Ended,	
	July 31,	July 31, 2010
	2011	
Numerator for Basic and Diluted Loss per Share:		
Net loss	(287,714)	(1,252,324)
Denominator for basic loss per share weighted average shares	9,847,348	9,460,911
Effect of dilutive securities ⁽¹⁾		
Stock options		
Restricted stock		
Denominator for basic loss per share, with assumed conversions	9,847,348	9,460,911
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	1,282,467	847,000

(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 including accrued interest, by fiscal year, as of the end of the quarter:

	Line of Credit	Operating Leases	Capital Lease	Fiscal Year Totals
2011	\$ 1,256,000	\$ 224,000	\$ 137,000	\$ 1,617,000
2012		389,000		389,000
2013		329,000		329,000
2014		335,000		335,000
2015		164,000		164,000
Thereafter				
Total	\$ 1,256,000	\$ 1,441,000	\$ 137,000	\$ 2,834,000

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 July 31, 2011. In accordance with the revised maturity date, the outstanding balance on the note is classified as a long-term obligation at July 31, 2011.

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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) 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 July 31, 2011. The Company pays a commitment fee on the unused portion of the facility of .06%. The Company had outstanding borrowings of \$1,250,000 and \$1,200,000 under this revolving loan as of July 31, 2011 and January 31, 2011, respectively.

NOTE G COMMITMENTS 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, and stock incentive provisions.

As a result of a reduction in force implemented by management during the quarter ended July 31, 2011, the Company expensed \$100,000 in the second quarter of fiscal 2011, in accordance with 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 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 of 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 through a secure internet connection (also known as software as a service or SaaS). 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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At July 31, 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 \$4,805,000 compared with \$4,312,000 at July 31, 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 professional services, or third-party hardware and software entered into subsequent to the prior year comparable quarter end, net of the revenues recognized from backlog since July 31, 2010. At July 31, 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 \$6,009,000 compared with \$5,788,000 at July 31, 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, net of recognized maintenance revenues since July 31, 2010. At July 31, 2011, Streamline Health has entered into SaaS agreements, which are expected to generate revenues in excess of \$7,275,000 through their respective renewal dates in fiscal years 2011 through 2014. The software as a service backlog decreased to \$7,275,000 from \$8,818,000 at July 31, 2010, due to recognized revenues from backlog on contracts signed in prior years, net of new SaaS business, conversions from license to SaaS, and contract renewals.

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

	July 31, 2011	January 31, 2011	July 31, 2010
Streamline Health Software Licenses	\$ 51,000	\$ 121,000	\$ 174,000
Custom Software	29,000	42,000	62,000
Hardware and Third Party Software	152,000	66,000	95,000
Professional Services	4,573,000	4,629,000	3,981,000
Software as a service	7,275,000	7,362,000	8,818,000
Recurring Maintenance	6,009,000	5,384,000	5,788,000
Total	\$ 18,089,000	\$ 17,604,000	\$ 18,918,000

Streamline Health believes its future revenues will come from its direct sales force, as well as remarketing agreements with third-party health information systems vendors. Streamline Health continues to actively pursue additional 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.

Table of Contents**Operating Results**

The Company recognized revenues in the three and six month periods ending July 31, 2011 of \$4,146,000 and \$8,286,000, compared to \$4,676,000 and \$8,220,000; a decrease of \$530,000 and an increase of \$66,000 respectively. The revenues recognized are derived primarily from recurring revenues recognized from SaaS subscriptions and recurring maintenance contracts. The Company earned an operating profit of \$20,000 in the second quarter of fiscal 2011 and incurred an operating loss of \$234,000 for the six month period ended July 31, 2011. In the prior year comparable periods the Company incurred operating losses of \$28,000 and \$1,229,000, respectively. Operating expenses for the three and six month periods ending July 31, 2011 were \$4,126,000 and \$8,519,000, compared to \$4,704,000 and \$9,449,000 in the comparable prior periods; a decrease of \$578,000 or 12% and \$930,000 or 10%, respectively over the prior comparable periods.

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.

Statement of Operations⁽¹⁾

	Three Months Ended July		Six Months Ended July 31,	
	2011	2010	2011	2010
Systems sales	4%	20%	4%	14%
Services, maintenance and support	74	61	74	65
Application-hosting services	22	19	22	21
Total revenues	100%	100%	100%	100%
Cost of sales	53%	56%	55%	63%
Selling, general and administrative	38	32	39	39
Product research and development	8	12	9	13
Total operating expenses	99%	100%	103%	115%
Operating profit (loss)	1%	(1)%	(3)%	(15)%
Other income (expense), net	(1)%	(1)%	(1)%	
Income tax net benefit				
Net earnings(loss)		(2)%	(4)%	(15)%
Cost of systems sales	385%	81%	397%	137%
Cost of services, maintenance and support	38%	49%	41%	51%
Cost of application-hosting services	46%	53%	47%	54%

(1) Because a significant percentage of the operating costs are incurred at levels that are not necessarily correlated with revenue levels, a variation in the timing of systems sales and installations and the resulting revenue

recognition can cause significant variations in operating results. As a result, period-to-period comparisons may not be meaningful with respect to the past operations nor are they necessarily indicative of the future operations of Streamline Health in the near or long-term. The data in the table is presented solely for the purpose of reflecting the relationship of various operating elements to revenues for the periods indicated.

Table of Contents*Revenues*

Revenues consisted of the following (in thousands):

	Three Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Proprietary software ⁽¹⁾	\$ 14	\$ 674	\$ (660)	(98%)
Hardware & third party software ⁽¹⁾	149	287	(138)	(48%)
Professional services ⁽²⁾	868	929	(61)	(7%)
Maintenance & support ⁽²⁾	2,202	1,902	300	16%
Software as a service	913	884	29	3%
Total Revenues	\$ 4,146	\$ 4,676	\$ (530)	(11%)

	Six Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Proprietary software ⁽¹⁾	\$ 51	\$ 702	\$ (651)	(93%)
Hardware & third party software ⁽¹⁾	242	409	(167)	(41%)
Professional services ⁽²⁾	1,875	1,587	288	18%
Maintenance & support ⁽²⁾	4,279	3,787	492	13%
Software as a service	1,839	1,735	104	6%
Total Revenues	\$ 8,286	\$ 8,220	\$ 66	1%

(1) Proprietary software and hardware are the components of the system sales line item

(2) Professional services and maintenance & support are the components of the service, maintenance and support line item. BPM consulting services are included in professional services.

Revenues for the three and six month periods ended July 31, 2011, were \$4,146,000 and \$8,286,000 respectively; as compared to \$4,676,000 and \$8,220,000 respectively in the comparable periods of fiscal 2010. The quarterly decrease was primarily attributable to two large proprietary license sales recognized in the second quarter of fiscal 2010, that had no comparable sales in fiscal 2011; which resulted in a significant decrease in proprietary licensed software sales. The decrease in proprietary software revenues were partially offset by increases in recurring revenues from software maintenance and software as a service subscription revenue. The increase in software as a service subscription revenue on a quarterly and year-to-date basis is due to one SaaS customer contract sold in fiscal 2010 that reached go-live status in the first quarter of fiscal 2011 and was able to begin ratable revenue recognition, as well as the continued recognition of subscription revenues from backlog. Additionally, the increase in recurring maintenance and support is due to revenues recognized for maintenance periods commencing on software sold since the close of the second quarter 2010. The year-to-date increase in professional services is primarily the result of increased revenue earned from implementations of systems and other professional services sold in prior quarters.

Table of Contents*Cost of Sales*

Cost of sales consisted of the following (in thousands):

	Three Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Cost of system sales	\$ 628	\$ 781	\$ (153)	(20%)
Cost of services, maintenance and support	1,156	1,379	(223)	(16%)
Cost of software as a service	418	472	(54)	(11%)
Total cost of sales	\$ 2,202	\$ 2,632	\$ (430)	(16%)

	Six Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Cost of system sales	\$ 1,169	\$ 1,518	\$ (349)	(23%)
Cost of services, maintenance and support	2,490	2,761	(271)	(10%)
Cost of software as a service	854	929	(75)	(8%)
Total cost of sales	\$ 4,513	\$ 5,208	\$ (695)	(13%)

Cost of systems sales includes amortization of capitalized software expenditures, royalties, and the cost of third-party hardware and software. The quarterly and year-to-date decrease in the cost of systems sales is primarily the result of quarterly and year-to-date decreases in capitalized software amortization of \$132,000 and \$253,000, respectively; primarily due to products released in prior years becoming fully amortized in fiscal 2011. Cost of systems sales was also reduced on a quarterly and year-to-date basis due to a decrease in third-party hardware and software sales over the prior year comparable periods.

Cost of services, maintenance and support includes compensation and benefits for support and professional services personnel and the cost of third party maintenance contracts. The quarterly and year-to-date decrease is primarily due to reduced salary and benefits expenses during fiscal 2011, primarily through the reduction in force in the second quarter; and reductions in the cost of third-party provider maintenance contracts over the prior year comparable quarter. These reductions were partially offset by increased expense due to the increased use of third-party outside contractors.

The cost of software as a service operations is relatively fixed, but is generally subject to annual increases for the goods and services required. The quarterly and year-to-date decrease is primarily attributable to reductions in salary and related benefits through reduced staffing; as well as several annual third party provider license and maintenance agreements that were re-negotiated, resulting in quarterly and year-to-date cost savings.

Table of Contents*Selling, General and Administrative Expense*

Selling, general and administrative expenses consisted of the following (in thousands):

	Three Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Selling, general, and administrative	\$ 1,583	\$ 1,506	\$ 77	5%

	Six Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Selling, general, and administrative	\$ 3,247	\$ 3,203	\$ 44	1%

Selling, General and Administrative expenses consist primarily of compensation and related benefits and reimbursable travel and living expenses related to the Company's sales, marketing and administrative personnel; advertising and marketing expenses, including trade shows and similar type sales and marketing expenses; and general corporate expenses, including occupancy costs. The quarterly and year-to-date increase over the respective comparable prior period is due to increases in equity awards expense, performance bonus accruals, increased travel and living expenses, and increased investor relations costs. These quarterly and year-to-date increases were offset by reduced commissions expense, reduced use of third-party outside consultants, and reduced bad debt expense.

Product Research and Development Expense

Product research and development expenses consisted of the following (in thousands):

	Three Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Research and development expense	\$ 342	\$ 567	\$ (225)	(40%)
Capitalized research and development cost	606	578	28	5%
Total R&D Cost	\$ 948	\$ 1,145	\$ (197)	(17%)

	Six Months Ended,			
	July 31,		Change	% Change
	2011	July 31, 2010		
Research and development expense	\$ 760	\$ 1,037	\$ (277)	(27%)
Capitalized research and development cost	1,391	1,274	117	9%
Total R&D Cost	\$ 2,151	\$ 2,311	\$ (160)	(7%)

Product research and development expenses consist primarily of compensation and related benefits; the use of independent contractors for specific near-term development projects; and an allocated portion of general overhead costs, including occupancy. Quarterly and year-to-date research and development expenses decreased \$225,000 and \$277,000, respectively, from the prior comparable periods. These decreases in research and development expense and the offsetting increases in capitalized software development costs, are primarily due to an increase in costs eligible for capitalization, decreased product support costs, and reductions in development staffing that were partially offset by increased use of third-party outside contractors. The total research and development expenditures on a quarterly and year-to-date basis have decreased by \$197,000 and \$160,000, respectively when considering both capitalized software

development costs and non-capitalizable research and development expense; this is primarily due to the aforementioned reductions in force, and less cost for product support as compared to the prior comparable periods.

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Operating Profit (Loss)

The Company incurred an operating profit of \$20,000 in the second quarter of fiscal 2011, compared to an operating loss of \$28,000 in the second quarter of fiscal 2010. The Company had a changeover in management during the first quarter of fiscal 2011 and the subsequent across-the-board analysis of staffing levels, processes, and costs, resulted in significant reductions of operating expenses. These reductions were coupled with decreases in capitalized software amortization expense; which resulted in quarterly and year-to-date decreases in operating expenses of \$579,000 or 12%, and \$930,000 or 10%, respectively.

Other Income (Expense)

Quarterly and year-to-date interest expense in the second quarter of fiscal 2011 was \$22,000 and \$42,000 respectively, compared to \$34,000 and \$56,000 in the comparable prior periods. Interest expense from the working capital facility was \$17,000 in the second quarter of fiscal 2011 compared with \$22,000 in the comparable prior quarter, primarily due to a larger average balance outstanding in the prior comparable quarter. Interest expense from the capital lease decreased by \$7,000 and \$12,000, respectively over the prior comparable three and six month periods; primarily due to a lower principal balance.

Provision for Income Taxes

The quarterly and year-to-date tax provision in fiscal 2011 and 2010 is comprised of primarily state and local provisions.

Net Loss

The Company incurred quarterly and year-to-date net losses of \$7,000 and \$288,000 respectively in fiscal 2011; as compared to quarterly and year-to-date net losses of \$76,000 and \$1,252,000 respectively in fiscal 2010.

Operational Metrics and Use of Non-GAAP Financial Measures

Streamline Health's primary metrics used to assess the performance of the business include gross margin, cash flow from operations, non-GAAP Adjusted EBITDA (A non-GAAP measure meaning, Earnings before Interest, Tax, Depreciation, Amortization, and Stock-based compensation expense; for explanation and reconciliation of all non-GAAP financial measures, see Use of Non-GAAP Financial Measures), non-GAAP Adjusted EBITDA less capitalized software development costs, and non-GAAP Adjusted EBITDA margin. Management uses these measures as i) one of the primary methods for planning and forecasting overall expectations and for evaluating, on at least a quarterly and annual basis, actual results against such expectations; and, ii) as a performance evaluation metric in determining achievement of certain executive and employee incentive compensation programs.

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Additionally, the Company's lenders use Adjusted EBITDA, to assess operating performance. The Company's working capital credit agreement requires compliance with financial covenants certain of which are based on an Adjusted EBITDA measurement that is the same as the Adjusted EBITDA measurement reviewed by Company management. The current metrics are outlined in the table below:

	Six Months Ended,			
	July 31,	July 31,		
	2011	2010	Change	% Change
Gross margin	\$ 3,774,000	\$ 3,012,000	762,000	25%
Gross margin %	46%	37%	9%	
Cash flow provided by (used in) operations	\$ 710,000	\$ (15,000)	725,000	4833%
Adjusted EBITDA	\$ 1,549,000	\$ 766,000	783,000	102%
Adjusted EBITDA, less capitalized software development costs	\$ 158,000	\$ (508,000)	666,000	131%
Adjusted EBITDA margin	19%	9%	10%	

Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of Company results as reported under GAAP. The Company compensates for such limitations by relying primarily on our GAAP results and using non-GAAP financial measures only as supplemental data. A reconciliation of non-GAAP to GAAP measures used is provided below, and investors are encouraged to carefully review this reconciliation. In addition, because these non-GAAP measures are not measures of financial performance under GAAP and are susceptible to varying calculations, these measures, as defined by the Company, may differ from and may not be comparable to similarly titled measures used by other companies. The following is a summary of non-GAAP measurements used by the Company:

EBITDA, Adjusted EBITDA, Adjusted EBITDA Less Capitalized Software Development Costs, Adjusted EBITDA Margin, and Adjusted EBITDA per diluted share

The Company defines: (i) EBITDA, as net income (loss) before net interest expense, income tax expense (benefit), depreciation and amortization; (ii) Adjusted EBITDA, as net income (loss) before net interest expense, income tax expense (benefit), depreciation, amortization, and stock-based compensation expense; (iii) Adjusted EBITDA Less Capitalized Software Development Costs, includes the effect of cash spent on research and development that was capitalized; (iv) Adjusted EBITDA Margin, as Adjusted EBITDA as a percentage of net revenue; and (v) Adjusted EBITDA per diluted share as adjusted EBITDA divided by adjusted diluted shares outstanding. EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA per diluted share are used to facilitate a comparison of our operating performance on a consistent basis from period to period and provide for a more complete understanding of factors and trends affecting our business than GAAP measures alone. These measures assist management and the Board and may be useful to investors in comparing the Company's operating performance consistently over time as they remove the impact of our capital structure (primarily interest charges), asset base (primarily depreciation and amortization) and items outside the control of the management team (taxes). Adjusted EBITDA removes the impact of share-based compensation expense, which is another non-cash item. Adjusted EBITDA per diluted share will include incremental shares in the share count that would be considered anti-dilutive in a GAAP net loss position.

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EBITDA and its variants used by management are not measures of liquidity under GAAP, or otherwise, and are not alternatives to cash flow from continuing operating activities; therefore the Company suggests that readers of the quarterly reports refer to the Company's Annual Report on Form 10-K for the year ended January 31, 2011 in the section "Use of Non-GAAP Financial Measures" for complete detail of the limitations of non-GAAP financial measures presented in this quarterly report.

The following table sets forth a reconciliation of EBITDA and its variants used by management, as described to assess the Company's on-going operating performance (amounts in thousands, except per share data):

	Three Months Ended,		Six Months Ended,	
	July 31,	July 31,	July 31,	July 31,
	2011	2010	2011	2010
Adjusted EBITDA Reconciliation				
Net loss	\$ (7)	\$ (76)	\$ (288)	\$ (1,252)
Interest expense	22	34	42	56
Income tax expense	5	5	7	10
Depreciation and other amortization	193	233	391	455
Amortization of capitalized software development costs	507	639	1,001	1,254
EBITDA	720	835	1,153	523
Stock-based compensation expense	199	155	396	243
Adjusted EBITDA	\$ 919	\$ 990	\$ 1,549	\$ 766
Capitalized software development costs	606	578	1,391	1,274
Adjusted EBITDA, less capitalized software development costs	313	412	158	(508)
Adjusted EBITDA Margin ⁽¹⁾	22%	21%	19%	9%
Adjusted EBITDA per diluted share				
Earnings (loss) per share - diluted	\$ (0.00)	\$ (0.01)	\$ (0.03)	\$ (0.13)
Interest expense ⁽²⁾	0.00	0.00	0.00	0.00
Tax expenses ⁽²⁾	0.00	0.00	0.00	0.00
Depreciation and other amortization ⁽²⁾	0.02	0.02	0.04	0.05
Amortization of capitalized software development costs ⁽²⁾	0.05	0.07	0.10	0.13
Stock-based compensation expense ⁽²⁾	0.02	0.02	0.04	0.03
Adjusted EBITDA per adjusted diluted share	\$ 0.09	\$ 0.10	\$ 0.15	\$ 0.08
Diluted weighted average shares	9,817,370	9,506,904	9,847,348	9,460,911
Includable incremental shares - adjusted EBITDA ⁽³⁾	12,715	19,336	17,951	19,336
Adjusted diluted shares	\$ 9,830,085	\$ 9,526,240	9,865,299	9,480,247

(1) Adjusted EBITDA as a percentage of GAAP revenues

- (2) Per adjusted diluted shares
- (3) The number of incremental shares that would be dilutive under profit assumption, only applicable under a GAAP net loss. If GAAP profit is earned in the current period, no additional incremental shares are assumed. If negative adjusted EBITDA is incurred, no additional incremental shares are assumed for adjusted diluted shares.

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Liquidity and Capital Resources

Traditionally, Streamline Health has funded its operations, working capital needs, and capital expenditures primarily from a combination of cash generated by operations, bank loans, and revolving lines of credit. Streamline Health's liquidity is dependent upon numerous factors including: (i) the timing and amount of revenues and collection of contractual amounts from customers, (ii) amounts invested in research and development, capital expenditures, and (iii) the level of operating expenses, all of which can vary significantly from quarter-to-quarter.

Streamline Health has no significant obligations for capital resources, other than the \$1,250,000 borrowed under its bank line of credit at July 31, 2011, the non-cancelable operating leases of approximately \$1,441,000 payable over the next four years, and \$132,000 for capital leases. Capital expenditures for property and equipment for fiscal 2011 are not expected to exceed \$1,500,000.

Net cash provided by operations for the six month period ended July 31, 2011 was \$710,000, an increase of approximately \$725,000 from the prior year comparable quarter. The increase was primarily due to a \$541,000 decrease in net accounts receivable, the \$673,000 decrease in deferred revenues which reflects the revenue recognition of prepaid maintenance contracts during fiscal 2011, net of any additional payments received in 2011; as well as a \$790,000 decrease in accrued expenses, primarily payment on executive severance agreements, executive inducement incentives, fiscal 2010 annual bonus and commission payments; and was offset primarily by fiscal 2011 annual bonuses accrued, and severance agreements accrued during the first six months of fiscal 2011.

Net cash used in investing activities for the six month period ended July 31, 2011 was \$1,627,000, an increase of \$54,000 from the prior comparable quarter. This increase was primarily due to the increase in capitalized software development costs, which is the result of certain projects reaching technological feasibility for which development cost began being capitalized relating to the development of the Company's core solutions and the expanded work flow module development. Increases in capitalized software development costs were partially offset by reduced purchases of capital assets.

The net cash provided by financing activities for the six month period ended July 31, 2011 was \$91,000, a decrease of \$1,053,000 which is primarily the net change on the line of credit of \$50,000 for the six months ended July 31, 2011 as compared to a net change of \$1,100,000 for the six months ended July 31, 2010. This was coupled with decrease in proceeds received for exercise of stock options, and payments on the capital lease obligation.

At July 31, 2011, Streamline Health had cash on hand of \$578,000, and total eligible borrowings on the line of credit of approximately \$1,790,000, or \$540,000 in excess availability under the line of credit. Streamline Health believes that its present cash position, combined with cash generation currently anticipated from operations, the availability of the revolving credit facility, and possible access to new funding sources will be sufficient to meet anticipated cash requirements for the next twelve months. However, expansion of the Company will require additional resources. The Company may need to incur debt, obtain an additional infusion of capital, or a combination of both, depending on the extent of the expansion of the Company and future revenues and expenses. However, there can be no assurance Streamline Health will be able to do so. The Company is evaluating financing options available to the Company.

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Notwithstanding the current levels of revenues and expenses, for the foreseeable future, Streamline Health will need to continually assess its revenue prospects compared to its then current expenditure levels. If it does not appear likely that revenues will increase, it may be necessary to reduce operating expenses or raise cash through additional borrowings, the sale of assets, or other equity financing. Certain of these actions will require current lender approval. However, there can be no assurance Streamline Health will be successful in any of these efforts. If it is necessary to significantly reduce operating expenses, this could have an adverse effect on future operating performance.

To date, inflation has not had a material impact on Streamline Health's revenues or expenses.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of the Annual Report on Form 10-K for the fiscal year ended January 31, 2011. The Company's exposures to market risk have not changed materially since January 31, 2011.

Item 4. CONTROLS AND PROCEDURES

Streamline Health maintains disclosure controls and procedures that are designed to ensure that there is reasonable assurance that the information required to be disclosed in Streamline Health's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Streamline Health's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Exchange Act Rules 13a-15(e) and 15d-15(e). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of Streamline Health's senior management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Streamline Health's disclosure controls and procedures to provide reasonable assurance of achieving the desired objectives of the disclosure controls and procedures. Based on that evaluation, Streamline Health's management, including the Chief Executive Officer and Chief Financial Officer, concluded that there is reasonable assurance that Streamline Health's disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no material changes in the Company's internal controls over financial reporting during the three months ended July 31, 2011 that have affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Streamline Health is, from time to time, a party to various legal proceedings and claims, which arise, in the ordinary course of business. Streamline Health is not aware of any legal matters that will have a material adverse effect on Streamline Health's consolidated results of operations or consolidated financial position.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A, Risk Factors in the Annual Report on Form 10-K for the fiscal year ended January 31, 2011. The risk factors in the Annual Report have not materially changed since January 31, 2011, but are not the only risks facing the Company. In addition, risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company, its financial condition and/or operating results.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

The Company was not in default of its existing credit facility at July 31, 2011.

Item 6. EXHIBITS

(a) Exhibits

3.1(a) Certificate of Incorporation of Streamline Health Solutions, Inc. (*)

3.1(b) Certificate of Incorporation of Streamline Health Solutions, Inc., amendment No. 1 (*)

3.2 Bylaws of Streamline Health Solutions, Inc. (*)

11.1 Computation of earnings (loss) per common share**

31.1 Certification of Chief Executive Officer pursuant to Rule 13a -14(a) and Rule 15d 14(a) of the Securities Exchange Act, as Amended**

31.2 Certification of Chief Financial Officer pursuant to Rule 13a -14(a) and Rule 15d 14(a) of the Securities Exchange Act, as Amended**

32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002**

32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002**

(*) Incorporated herein by reference from, the Registrant's SEC filings. (See INDEX TO EXHIBITS)

(**) Included herein.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STREAMLINE HEALTH SOLUTIONS,
INC.

DATE: September 13, 2011

By: /s/ Robert E. Watson
Robert E. Watson
Chief Executive Officer

DATE: September 13, 2011

By: /s/ Stephen H. Murdock
Stephen H. Murdock
Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit	
3.1(a)	Certificate of Incorporation of Streamline Health Solutions, Inc. f/k/a/ LanVision Systems, Inc. (Previously filed with the Commission and incorporated herein by reference from, the Registrant s (LanVision System, Inc.) Registration Statement on Form S-1, File Number 333-01494, as filed with the Commission on April 15, 1996.)	*
3.1(b)	Certificate of Incorporation of Streamline Health Solutions, Inc. f/k/a LanVision Systems, Inc., amendment No. 1. (Previously filed with the Commission and incorporated herein by reference from the Registrant s Form 10-Q, as filed with the Commission on September 8, 2006.)	*
3.2	Bylaws of Streamline Health Solutions, Inc. as amended and restated on July 22, 2010, and previously filed with the Commission and incorporated herein by reference from the Registrant s Form 10-Q, as filed with the Commission on September 9, 2010.	*
11.1	Statement Regarding Computation of Per Share Earnings	**
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	**
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	**
32.1	Certification by Chief Executive Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
32.2	Certification by Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
*	Incorporated by reference herein as indicated	
**	Included herein	