

STREAMLINE HEALTH SOLUTIONS INC.

Form 10-K

April 07, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 31, 2008**
- 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, OH 45242-4716**

*(Address of principal executive offices) (Zip Code)*

**(513) 794-7100**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12 (b) of the Act:**

**Common Stock, \$.01 par value**

*( Title of Class )*

**The NASDAQ Stock Market**

*(Name of exchange on which listed)*

**Securities registered pursuant to Section 12 (g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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 the 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   
(Do not check if a 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

The aggregate market value of the voting stock held by nonaffiliates of the registrant, computed using the closing price as reported by The NASDAQ Stock Market, Inc. for the Registrant's Common Stock on July 31, 2007, was \$20,371,017.

The number of shares outstanding of the Registrant's Common Stock, \$.01 par value, as of April 2, 2008: 9,260,320.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the Registrant's Definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 21, 2008 are incorporated by reference into Part III of this Form 10-K to the extent stated herein. Except with respect to information specifically incorporated by reference in this Form 10-K, the Definitive Proxy Statement is not deemed to be filed as a part hereof.

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**FORWARD-LOOKING STATEMENTS**

In addition to historical information contained herein, this Annual Report on Form 10-K 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 products, the ability of Streamline Health to control costs, availability of products obtained from third-party vendors, the healthcare regulatory environment, 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, including, but not limited to, discussions in the sections entitled 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 the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

**PART I**

**Item 1. Business**

**General**

Streamline Health Solutions, Inc. ( Streamline Health® or the Company ) is a healthcare information technology company, which is focused on developing and licensing proprietary software solutions that improve document-centric information flows and complement and enhance existing transaction-centric hospital healthcare information systems. The Company's workflow and document management solutions bridge the gap between current, predominantly paper-based processes and transaction-based healthcare information systems by 1) electronically capturing document-centric information from disparate sources, 2) electronically directing that information through vital business processes, and 3) providing access to the information to authenticated users (such as physicians, nurses, administrative and financial personnel and payers) across the continuum of care. Streamline Health's systems are designed for enterprise wide deployment to seamlessly connect disparate departmental systems, or silos of independent technologies which create Friction Points™, in a common interoperable document management workflow solution.

The Company's workflow-based products and services offer solutions to specific healthcare business processes within the Health Information Management (HIM) and revenue cycle, such as: remote coding, abstracting and chart completion, remote physician order processing, pre-admission registration scanning, insurance verification, secondary billing services, explanation of benefits processing, release of information processing and other departmental workflow processes.

The Company's products and services also create an integrated document-centric repository of historical health information that is complementary to, and can be seamlessly bolted on to existing transaction-centric clinical, financial and management information systems, allowing healthcare providers to aggressively move toward fully Electronic Medical Record (EMR) processes while improving service levels and convenience for all stakeholders. These integrated systems allow providers and administrators to dramatically improve the availability

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of patient information while decreasing direct costs associated with document retrieval, work-in-process, chart completion, document retention and archiving.

The Company's software solutions can be provided on a subscription basis via remote application-hosting services or licensed and installed locally. Streamline Health provides ASPeN<sup>SM</sup>, Application Service Provider-based remote hosting services to, The University Hospital, a member of the Health Alliance of Greater Cincinnati, M.D. Anderson Cancer Center, and Children's Medical Center of Columbus, OH, among others. In addition, Streamline Health has licensed its workflow and document management solutions, which are installed at leading healthcare providers including Stanford Hospital and Clinics, the Albert Einstein Healthcare Network, Beth Israel Medical Centers, the Medical University Hospital Authority of South Carolina, and Memorial Sloan-Kettering Cancer Center, among others.

The Company's applications allow authenticated users, such as physicians, nurses, administrative and financial personnel, and payers with access to patient healthcare information that exists in disparate systems across the continuum of care and improve operational efficiencies through business process re-engineering and automating labor-intensive and demanding paper environments. Streamline Health's applications and services are complementary to existing clinical and financial systems, and use document imaging and advanced workflow tools to ensure users can electronically access both structured (transaction-centric) and unstructured (document-centric) patient data and all the various forms of clinical and financial healthcare information from a single permanent and secure repository, including clinician's handwritten notes, laboratory reports, photographs, insurance cards, etc.

The Company's workflow solutions offer value to all of the constituents in the healthcare delivery process by enabling them to simultaneously access and utilize Streamline Health's advanced technological workflow applications to process information, on a real-time basis from virtually any location, including the Physician's desktop, using web-based technology. Streamline Health's solutions integrate its own proprietary imaging platform, application workflow modules and image and web-enabling tools that allow for the seamless merger of back office functionality with existing Clinical and Financial Information Systems at the desktop.

The Company offers its own document imaging/management infrastructure (Foundation Suite) that is built for high volume transaction processing and is specifically designed for the healthcare industry. In addition to providing access to information not previously available at the desktop, Streamline Health's applications fulfill the administrative and regulatory needs of the Health Information Management, Patient Financial Services and other hospital departments. Furthermore, these systems have been specifically designed to integrate with other Clinical Information Systems. For example, Streamline Health has integrated its products with selected systems from Siemens Medical Solutions USA Inc. (Siemens), Cerner Corporation, and GE Medical Systems applications, (see below) thus enabling customers to use our solutions without the expense of replacing entire software systems to gain the benefits of our software functionality. By offering electronic access to all the patient information components of the medical record, this integration completes one of the most difficult tasks necessary to provide a true Electronic Medical Record. Streamline Health's systems deliver on-line enterprise wide access to fully updated patient information, which historically was maintained on a variety of media, including paper, magnetic disk, optical disk, and microfilm.

The Company operates in one segment as a provider of health information technology solutions that streamline healthcare information flows within a healthcare facility. The financial information required by Items 101(b) of Regulation S-K is contained in Item 6 Selected Financial Information of this Form 10-K.

Historically, Streamline Health has derived most of its revenues from recurring application-hosting services, recurring maintenance fees, professional services and system sales involving the licensing, either directly or through remarketing partners, of its Health Information Management Workflow and Revenue Cycle Management Workflow solutions to Integrated Healthcare Delivery Networks (IDN). In a typical transaction, Streamline Health, or its

remarketing partners, enter into a perpetual license or fee-for-service subscription agreement for Streamline Health's software applications and may license or sell other third-party software and hardware components to the IDN. Additionally, Streamline Health provides, as necessary, professional services, including implementation, training, and product support.



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Streamline Health earns its highest margins on proprietary Streamline Health software and application-hosting services and the lowest margins on third-party hardware and software. Sales to customers may include different configurations of Streamline Health software, hardware, third party software, and professional services, resulting in varying margins among contracts. The margins on professional services revenues fluctuate based upon the negotiated terms of the agreement with each customer and Streamline Health's ability to fully utilize its professional services, maintenance, and support services staff.

Beginning in 1998, Streamline Health began offering customers the ability to obtain its workflow solutions on an application-hosting basis as an Application Service Provider (ASP). Streamline Health established a hosting data center and installed Streamline Health's suite of workflow products, called **ASPeN** (Application Service Provider eHealth Network) within the hosting data center. Under this arrangement, customers electronically capture information and securely transmit the data to the hosting data center. The **ASPeN** services store and manage the data using Streamline Health's suite of applications, and customers can view, print, fax, and process the information from anywhere using the Streamline Health web-based applications. Streamline Health charges and recognizes revenue for these **ASPeN** services on a per transaction or subscription basis as information is captured, stored, retrieved and processed.

The decisions by a healthcare provider to replace, substantially modify, or upgrade its information systems are a strategic decision and often involve a large capital commitment requiring an extended approval process. Since inception, Streamline Health has experienced extended sales cycles. It is not uncommon for sales cycles to take six to eighteen months from initial contact to the execution of an agreement. As a result, the sales cycles can cause significant variations in quarter-to-quarter operating results. These agreements cover the licensing, implementation and maintenance of the system, which typically takes place in one or more phases. The licensing agreements generally provide for the licensing of Streamline Health's proprietary software and third-party software with a perpetual or term license fee on either an unlimited number of users (site license) or a specific number of users (concurrent users license) that is adjusted upward depending on the number of concurrent users using the software. Site-specific customization, interfaces with existing customer systems and other consulting services are sold on a fixed fee or a time and materials basis. Alternatively, with Streamline Health's ASP services solution, the application-hosting services agreements generally provide for utilizing Streamline Health's software and third-party software on a fee per transaction or recurring subscription basis.

The **ASPeN** services were designed to overcome obstacles in the buying decision such as large capital commitment, length of implementation, and the scarcity of time for Healthcare Information Systems personnel to implement new systems. Streamline Health believes that large IDN's and smaller healthcare providers are looking for this type of ASP application because of the ease of implementation and lower entry-level costs. Streamline Health believes its business model is especially well suited for the medium to small acute care facility marketplace as well as the ambulatory marketplace and is actively pursuing remarketing agreements, in addition to those discussed below, with other Healthcare Information Systems and staff outsourcing providers to distribute Streamline Health's workflow solutions.

Generally, revenues from systems sales are recognized when an agreement is signed and products are made available to end-users. Revenue recognition related to routine installation, integration and project management are deferred until the work is performed. Revenues from consulting, training, and application-hosting services are recognized as the services are performed. Revenues from short-term support and maintenance agreements are recognized ratably over the term of the agreements. Billings to customers recorded prior to the recognition of the revenue are classified as deferred revenues. Revenues recognized prior to progress billings to customers are recorded as contract receivables.

In 2002, Streamline Health entered into a five year Remarketing Agreement with IDX Information Systems Corporation, which was subsequently acquired by GE Medical Systems, a unit of the General Electric Company in January 2006. Under the terms of the Remarketing Agreement, IDX/GE was granted a non-exclusive worldwide

license to distribute all Streamline Health workflow software including accessANYware™, Coding Workflow, and **ASPeN** application-hosting services to its customers and prospective customers, as defined in the Remarketing Agreement. The Agreement has an automatic annual renewal provision and, after the initial five year term, which

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ended January 30, 2007, can be cancelled by IDX/GE upon 90 days written notice to the Company. The Company has no reason to believe that the agreement will not continue to be renewed annually or will be terminated.

Under the terms of the Remarketing Agreement, Streamline Health records this revenue when the products are made available to end-users. Royalties are remitted to Streamline Health based upon GE sublicensing Streamline Health's software to its customers. Thirty percent of the royalty is due 45 days following the end of the month in which GE executes an end-user license agreement with its customer. The remaining seventy percent of the royalty is due from GE, in varying amounts based on specific milestones, 45 days following the end of the month in which a milestone occurs.

In December 2007, Streamline Health entered into an agreement with Emergis, Inc. under which Emergis is integrating Streamline Health's accessANYware™ document management repository and document workflow applications into its Oacis Electronic Medical Record (EMR) solution. To date, no revenues have been recorded for this new reseller.

Streamline Health's quarterly operating results have varied in the past and will continue to do so in the future because of various reasons including: demand for Streamline Health's products and services, long sales cycles, and extended installation and implementation cycles based on customer's schedules. Sales are often delayed because of customers budgets and competing capital expenditure needs as well as personnel resource constraints within an integrated delivery network.

Delays in anticipated sales or installations have a significant impact on Streamline Health's quarterly revenues and operating results, because substantial portions of the operating expenses are fixed.

The U.S. Department of Health and Human Services, in its National Health Expenditure Projections released in January 2003, believes that health spending expenditures will reach \$3.1 trillion in 2012, growing at an average annual rate of 7.3% during the forecasted period 2002-2012. As a share of the Gross Domestic Product, health spending is projected to reach 17.7% by 2012 up from its 2002 level of 14.1%. Total spending on healthcare was \$1.9 trillion in 2004, over four times the amount spent on defense (source: National Coalition on Health Care). Hospital spending accounted for 28% of the growth in personal health spending between 1997 and 2000 and increased to 38% by 2002-2004. The federal Centers for Medicare and Medicaid Services projections indicate that by 2015, health spending will account for 20% of the gross domestic product, up from 16% in 2005 and the growth in spending is projected to average 7.2% a year. In response to this growth, the healthcare industry is undergoing significant change as competition and cost-containment measures imposed by governmental and private payers have created significant pressures on healthcare providers to control healthcare costs while providing quality patient care. At the same time, the healthcare delivery system is experiencing a shift from a highly fragmented group of non-allied healthcare providers to integrated healthcare networks, which combine all of the services, products and equipment necessary to address the needs of healthcare customers. As a result, healthcare providers are seeking to cut costs, increase productivity and enhance the quality of patient care through improved access to information throughout the entire hospital or integrated healthcare network.

In 2004, President Bush called for all Americans to have electronic health records by 2014. Since then he has emphasized health-care information technology in some very high-profile speeches, including his 2007 State of the Union address, calling it critical to making the United States health-care system more efficient, affordable, and safe.

Today, the majority of the patient records are paper-based. The inefficiencies of paper-based records increase the cost of patient care. Physicians often cannot gain access to medical records at the time of patient visits, and multiple users cannot simultaneously access the record when only a single copy of the paper-based patient record is available. Based upon Streamline Health's experience in installing its systems, a typical 500 bed hospital can produce 15,000 to 20,000

pages of new patient information each day even with computerized admission, billing, laboratory and radiology systems, and individual physician document retrieval requests can be as high as 100 documents per physician per day. The volume of medical images in the patient record is expanding as well. In addition to images such as x-rays and CAT scans, MRI s, new image forms such as digitized slides, videos and photographs proliferate. Thus, the ability to store and retrieve images of voluminous paper records and medical images on a timely basis is a critical feature of a complete Computerized Patient Record.

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In order to simultaneously reduce costs and enhance the level of patient care, hospitals and other healthcare providers are requiring comprehensive, cost-effective information systems that deliver rapid access to fully updated and complete patient information. Traditional Healthcare Information Systems are inadequate because: (i) they do not capture large amounts of the patient records which are paper-based and stored in various sites throughout the enterprise; (ii) computerized patient data is generated using a variety of disparate systems which cannot share information; and (iii) multimedia medical information such as x-rays, CAT scans, MRI s, video and audio information are frequently inaccessible at the point of patient care. Accordingly, hospitals and other healthcare providers have begun to increase their information systems expenditures. In 2007, the Medical Records Institute Survey of Electronic Medical Record Trends and Usage reported that the top priority for strategic decisions in Information Technology was the need to improve clinical processes or workflow efficiencies and the major factor driving Electronic Medical Record adoption in the hospital segment was patient safety considerations. Streamline Health believes that the HIPAA regulations are an additional impetus for IDN s to embrace Streamline Health products and services as a means of ensuring compliance with Federal Regulations.

Document imaging and workflow (management) technologies are essential elements of a complete EMR because they allow for the storage of unstructured data (i.e., patient record elements other than data or text, such as hand written physician or nursing notes and physician orders, photographs, images of a document) and they enable digitized x-rays, CAT scans, MRI s, video and audio information to be accessed and delivered to the caregiver at the point of patient care. Streamline Health believes the demand for its Health Information Management Workflow solutions, which can supply document-imaging capabilities to the EMR, will increase in future years.

In addition to mandated HIPAA regulations, the healthcare industry is being strongly encouraged by many professional medical organizations to make greater use of information technology. A report by the Institute of Medicine (IOM) of the National Academies, entitled *To Err is Human: Building a Better Health System*, envisioned a revamped system that, among other things, makes greater use of information technology to enable providers and institutions to move away from paper-based medical record systems to take advantage of new information technology. The American Medical Association, American Academy of Family Physicians, American College of Physicians, American Society of Internal Medicine, and the American College of Surgeons, issued a joint statement supporting the IOM recommendations.

## **Regulatory Matters**

The U.S. Department of Health and Human Services (HSS) asked the Institute of Medicine of the National Academy of Sciences to design a standardized model of an electronic health record, in a move that may help spur nationwide acceptance of EMR s. The impact of such a change, if implemented by HSS, on current Streamline Health products and services is unknown at this time. However, Streamline Health believes that its software and systems are sufficiently flexible to accommodate changing regulatory requirements. Also, in 2004, President Bush put forth the goal of establishing EMR s for most Americans within 10 years. A national health-technology coordinator has been appointed who reports to the Secretary of HSS. His responsibility is specifically to create a plan to guide the highly fragmented industry toward an interoperable electronic medical records system. As noted in a Wall Street Journal article dated July 21, 2004, Putting such a system in place can cost a major hospital \$20 million or more. HSS estimated then that in the U.S., only about 13% of hospitals had adopted electronic health records for patients. As a result, the health-care industry lags far behind most other industries in using computers. In 2005, President Bush appointed a national coordinator for Health Information Technology in the Health and Human Services Department. His task is to give every American an electronic medical record of their health care by 2014, and link all the records into one giant medical Internet, called the National Health Information Network. HHS will build the network s backbone and set the standards for swapping data. Physicians and hospitals will have to pay for the computers, software, and other infrastructure, which according to HSS is estimated at up to \$150 billion over five years.

**President s Information Technology Advisory Committee**

In 2004, the President s Information Technology Advisory Committee issued its report entitled *Revolutionizing Health Care Through Information Technology*, which focused on the most fundamental and pervasive problem of healthcare delivery: the paper-based medical record. In the report, they stated the potential of

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information technology to reduce the number of medical errors, reduce cost, and improve patient care is enormous. The essence of our recommendations is a framework for 21st century health care information infrastructure that revolutionizes medical records systems. The four core elements of this framework are:

- (1) Electronic health records for all Americans that provide every patient and his or her caregivers the necessary information required for optimal care while reducing costs and administrative overhead.
- (2) Computer-assisted clinical decision support to increase the ability of health care providers to take advantage of state-of-the-art medical knowledge as they make treatment decisions (enabling the practice of evidenced-based medicine).
- (3) Computerized provider order entry such as for tests, medicine, and procedures both for outpatient care and within the hospital environment.
- (4) Secure, private, interoperable, electronic health information exchange, including both highly specific standards for capturing new data and tools for capturing non-standard-compliant electronic information from legacy systems.

Streamline Health's current products and services can currently be used to implement some of the recommendations or provide interim solutions to some of the aspects recommended in items 1, 3 & 4 above, especially with regard to legacy, paper based, medical information, order entry systems, other than medication, and security of exchanging health information.

Based on the Federal initiatives noted above, Streamline Health believes that its product and services are able to support these and other similar initiatives, and its products are currently available and installed at leading healthcare facilities throughout the U.S.

## **Regulations Relating to Confidentiality**

Federal and state laws regulate the confidentiality of patient records and the circumstances under which such records may be released. These regulations govern both the disclosure and use of confidential patient health information. Regulations governing electronic health data privacy are continuing to evolve. The Health Insurance Portability and Accountability Act of 1996, enacted August 22, 1996, is designed to improve the efficiency of healthcare by standardizing the interchange of specified electronic data, and to protect the security and confidentiality of Protected Health Information (PHI). The legislation requires that covered entities comply with national standards for certain types of electronic health information transactions and the data elements used in such transactions, and adopt policies and practices to ensure the integrity and confidentiality of PHI.

Regulations adopted pursuant to HIPAA include rules addressing several areas. The final Privacy Rule also extended the scope of enforcement to PHI residing on non-electronic media, such as paper, as well as to email, oral and written communications. Streamline Health cannot predict the potential impact of new or revised regulations that have not yet been released or made final, or any other regulations that might be adopted. Congress may adopt legislation that may change, override, conflict with, or preempt the currently issued regulations. Additionally, legislation governing the dissemination of patient health information is also from time to time proposed and debated at the state level. These laws or regulations, when adopted, could restrict the ability of customers to obtain, use, or disseminate patient health information. Streamline Health believes that the features and architecture of Streamline Health's products are such that it currently supports or should be able to make the necessary modifications to its products, if required, to ensure support of the HIPAA regulations, and other legislation or regulations.

However, if the regulations are unduly restrictive, this could cause delays in the delivery of new versions of products and adversely effect the licensing of Streamline Health's products. Overall, Streamline Health believes the HIPAA regulations will continue to stimulate healthcare organizations to purchase computer-based EMR systems that automate the collection, use, and disclosure of patient health information, while maintaining appropriate security and audit controls over the information. However, there can be no assurance that an increase in the purchase of new systems or additional use of Streamline Health application-hosting services will occur.



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### **Rapid Technological Change and Evolving Market**

The market for Streamline Health's products and services is characterized by rapidly changing technologies, regulatory requirements, evolving industry standards and new product introductions and enhancements that may render existing products obsolete or less competitive. As a result, Streamline Health's position in the healthcare information technology market could change rapidly due to unforeseen changes in the features and functions of competing products, as well as the pricing models for such products. Streamline Health's future success will depend, in part, upon Streamline Health's ability to enhance its existing products and services and to develop and introduce new products and services to meet changing requirements.

### **Changes and Consolidation in the Healthcare Industry**

Streamline Health derives substantially all of its revenues from the licensing of software, providing professional services and maintenance services and providing application-hosting services within the healthcare industry. Accordingly, the success of Streamline Health is dependent upon the regulatory and economic conditions in the healthcare industry. Many healthcare providers are consolidating to establish integrated delivery networks to take advantage of economies of scale, greater marketing power and greater leverage in negotiating with vendors who supply the industry with the goods and services they require. The impact of such consolidations, Streamline Health believes, will benefit Streamline Health as more healthcare organizations investigate methods to streamline operations, including outsourcing non-core services to reduce costs and improve the quality of patient care through the use of information technology, especially in the paper intensive area of Patient Medical Records and Patient Financial Services.

### **Key Personnel**

Streamline Health's success depends, to a significant degree, on its management, sales and technical personnel. Streamline Health must recruit, motivate and retain highly skilled managers, sales force, consulting and technical personnel, including application programmers, database specialists, consultants and system architects skilled in the technical environments in which Streamline Health's products operate. Competition for such technical expertise is intense. Our failure to attract and retain qualified personnel could have a material adverse impact on the Company.

### **Limited Protection of Proprietary Technology**

The success of Streamline Health depends on the protection of its intellectual property rights relating to its proprietary technology. Streamline Health relies on a combination of confidentiality, nondisclosure, license, and employment agreements, trade secret laws, copyrights, and restrictions on the disclosure of its intellectual property. Notwithstanding these precautions, others may copy, reverse engineer or design independently, technology similar to Streamline Health's products. It may be necessary to litigate to enforce or defend Streamline Health's proprietary technology or to determine the validity of the intellectual property rights of others. Streamline Health could also be required to defend itself against claims made by third parties for intellectual property right infringement. Any litigation, could be successful or unsuccessful, may result in substantial cost and require significant attention by management and technical personnel.

### **Warranties and Indemnities**

Streamline Health's products are very complex and may not be error free, especially when first released. Failure of any Streamline Health product to operate in accordance with its specifications and documentation could constitute a breach of the license agreement and require Streamline Health to correct the deficiency. If such deficiency is not corrected within the agreed upon contractual limitations on liability and cannot be corrected in a timely manner, it

could constitute a material breach of a contract allowing the termination thereof and possibly subjecting Streamline Health to a financial liability. Also, Streamline Health indemnifies its customers against third-party infringement claims. If such claims are made, even if they are without merit, they could be expensive to defend. If Streamline Health becomes liable to a third-party for infringement of their intellectual property,

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Streamline Health could be required to pay substantial amounts as damages, obtain a license to use the infringing technologies, develop its own noninfringing technologies, or cease using the infringing intellectual property.

## **Competition**

Several companies historically have dominated the Healthcare Clinical Information System software market and several of these companies have either acquired, developed or are developing their own document imaging and workflow technologies. The industry is undergoing consolidation and realignment as companies position themselves to compete more effectively. Strategic alliances between vendors offering Health Information Management Workflow and document imaging technologies and vendors of other healthcare systems are increasing. Barriers to entry to this market include technological and application sophistication, the ability to offer a proven product, a well-established customer base and distribution channels, brand recognition, the ability to operate on a variety of operating systems and hardware platforms, the ability to integrate with pre-existing systems and capital for sustained development and marketing activities. Streamline Health believes that these barriers taken together represent a moderate to high level barrier to entry. Foreign competition has not been a significant factor in the market, to date.

Streamline Health has many competitors including Clinical Information System vendors that are larger and more established and have substantially more resources than Streamline Health. In addition, information and document management companies serving other industries may enter the market. Suppliers and companies with whom Streamline Health may establish strategic alliances may also compete with Streamline Health. Such companies and vendors may either individually, or by forming alliances excluding Streamline Health, place bids for large agreements in competition with Streamline Health. A decision on the part of any of these competitors to focus additional resources in the image-enabling, workflow, and other markets addressed by Streamline Health could have a material adverse effect on Streamline Health.

Streamline Health believes that the principal competitive factors in its market are customer recommendations and references, company reputation, system reliability, system features and functionality (including ease of use), technological advancements, customer service and support, breadth and quality of the systems, the potential for enhancements and future compatible products, the effectiveness of marketing and sales efforts, price and the size and perceived financial stability of the vendor. In addition, Streamline Health believes that the speed with which companies in its market can anticipate the evolving healthcare industry structure and identify unmet needs are important competitive factors. There can be no assurance that Streamline Health will be able to compete successfully in the future against existing or potential competitors.

Streamline Health believes that its principal competitors are: American Management Systems, Incorporated; Cerner Corporation; Eclipsys Corporation; Hyland Software, Inc.; McKesson HBOC, Inc.; MedPlus, Inc. (a subsidiary of Quest Diagnostics Incorporated); Perceptive Vision, Inc.; Siemens Medical Solutions USA, Inc. (a subsidiary of Siemens AG); and SoftMed Systems, Inc., (a unit of 3M).

## **The Streamline Health Solution**

Streamline Health's products and services streamline information flows and provide Health Information Management Workflow, Patient Financial Services and other departmental Workflow solutions for the patient and other information access needs of hospitals and integrated healthcare delivery networks. Streamline Health's systems enable medical and administrative personnel to rapidly and efficiently capture, store, manage, route, retrieve and process vast amounts of clinical, financial, patient and other information.

Streamline Health's systems: (i) capture and store electronic data from disparate hospital information systems through real-time, computerized interfaces; (ii) provide applications for efficiently scanning and automatically indexing

paper-based records; (iii) allow storage of a patient's lifetime medical record on secure media which also provides rapid access to high volumes of data enterprise wide; (iv) provide technologically advanced workflow automation software to facilitate the re-engineering of business processes; and (v) incorporate physician-oriented interfaces that allow the user to easily locate and retrieve patient information in the hospital or clinical setting, including the point of patient care.

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Streamline Health's Health Information Management Workflow and Patient Financial Services Workflow solutions provide financial, administrative, and clinical benefits to the healthcare provider and facilitate more effective patient care. These benefits include: (i) improved access to patient information to assist in making informed clinical and financial decisions; (ii) reduced costs for administrative personnel due to increased workflow efficiency, as data can be routed within an organization to all users who need to process that information simultaneously or in sequence as required; (iii) increased productivity through the elimination of file contention by providing multiple users simultaneous access to patient medical records; (iv) reduced costs and improved care through the reduction of unnecessary testing and admissions; (v) improved cash flow through accelerated account receivable collections and reductions in technical denials (which occur when a third-party payer refuses payment because of the provider's inability to substantiate billing claims due to loss of portions or all of the patient record); (vi) expedited treatment decisions, and fewer redundant tests as a result of timely access to complete information; (vii) fewer medical record errors by minimizing misfiled, lost and improperly completed records; and (viii) increased security of patient information through improved controls on access to confidential data and the creation of audit trails that identify the persons who accessed or even tried to access such information.

## **The Streamline Health Strategy**

Streamline Health's objective is to continue to be a leading provider of Health Information Management and Patient Financial Services Workflow solutions to the healthcare industry. Important elements of Streamline Health's business strategy include:

### **Expand Distribution Channels**

Streamline Health estimates the total market for Streamline Health's document management products and services could be in excess of \$16 billion, and the market is less than 15% penetrated. A 2001 healthcare industry report stated that in order to comply with the HIPAA healthcare information electronic transmission regulations, healthcare systems will need to adjust existing systems or purchase new Information Technology systems, hire and retrain staff, and make significant changes to the current processes associated with maintaining patient privacy, the cost of which is estimated to be an amount in excess of \$25 billion. Streamline Health strongly believes its highly evolved, secure and technologically advanced web browser-based ASP solutions will position Streamline Health to take advantage of, what it continues to believe will be, significantly increasing market opportunities for Streamline Health and its distribution partners in the future.

In 2002, Streamline Health entered into a five-year Remarketing Agreement with IDX (now GE Medical Systems), which offers a wide variety of patient care products to integrated delivery networks, group practices, academic medical centers, radiological centers, and hospitals nationwide. At that time, IDX had installed its products at more than 2,600 customer sites with systems deployed to serve over 120,000 physicians. Under the terms of the Agreement, IDX/GE was granted a non-exclusive worldwide license to distribute all Streamline Health applications and ASPeN services to its customers and prospective customers, as defined in the Agreement. GE sells Streamline Health's Health Information Management and enterprise document management and document Workflow solutions as an integrated component of the GE Centricity® Enterprise clinical and financial information systems. The Agreement has an automatic annual renewal provision after the initial five year period, and can be cancelled by GE upon 90 days written notice to the Company.

It is Streamline Health's intention to develop additional remarketing alliances with other Healthcare Information Systems, Medical Records management, and Medical Records outsourcing vendors and to explore other means of expanding Streamline Health's distribution channels.

### **Application Service Provider Application-hosting Services**

In 1998, Streamline Health began offering customers the ability to obtain its workflow solutions on an application-hosting basis as an ASP. Streamline Health established a hosting data center and installed Streamline Health's suite of workflow products, called **ASPeN** within the hosting data center, which utilizes Streamline Health's web browser-based applications across an Internet/Intranet, to deliver high quality, transaction-based services to healthcare providers from a centrally located data center. **ASPeN** enables its healthcare customers to

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achieve enhanced patient care, improved security, and accessibility to patient records at significant cost savings with minimal up-front capital investment, maintenance, and support costs. Customers realize benefits more quickly with less economic risk. Customers are charged on a per transaction or subscription basis, which is an attractive alternative to purchasing an in-house system. This service is made possible through the advancement of web browser-based technology, state-of-the-art communication technology and advanced software design.

Streamline Health's largest application hosting client has informed us that it is in the process of internally developing its own software application using a third party tool kit, which software the client intends to use in place of our ASP services. We believe that the client's ability to develop substitute software that would have the same robust functionality as Streamline Health's current ASP offering will be a major software development undertaking. Therefore, we are unable to determine if or when this client will discontinue the use of our ASP services. The current agreement with this client expired on March 31, 2008, and the Company has agreed to extend that agreement on a month to month basis for up to one additional year ending March 31, 2009. The client continues to use the services and has not provided the Company with a projected termination date for the month to month extension. If the revenues, in excess of \$1,750,000 per year, from this client can not be replaced, the termination of this agreement will have a material adverse impact on the results of operations.

## **Maintain Technological Leadership Through the Development of New Software Applications and Increased Functionality of Existing Applications**

Streamline Health intends to continue its product development efforts and increase the functionality of existing applications along with the development of new applications using workflow technologies. In particular, Streamline Health intends to increase the functionality of its web-based applications. Streamline Health has continued to add new features, functionality and workflow applications to its suite of products, including revenue cycle management solutions such as remote coding, remote physician order processing, pre-admission registration scanning, insurance verification, explanation of benefits processing, etc. (See A brief description of Streamline Health's products below.)

Streamline Health has released its latest generation product, accessANYware, a web-based application with a user interface that includes the best features of Streamline Health's entire product portfolio. The accessANYware application utilizes a common database for medical records and patient financial services, thereby improving system administration and eliminating redundant data entry.

Streamline Health believes only the most robust, flexible, dependable products will survive in the healthcare market, and Streamline Health has attempted to establish itself as a leader in document imaging/management and workflow applications through strong product development.

## **Image-Enable Clinical Data Repositories and Other Applications Software**

Today, healthcare information is often stored on numerous dissimilar host-based and departmental systems that are spread throughout an enterprise and are not integrated. Additionally, these current systems do not address the data stored on paper or the increasing volume of medical images such as CAT scans, MRI's, digitized slides, exploratory scopes, photographs, audio, etc. Streamline Health believes the efficiencies and productivity of hospitals and integrated healthcare delivery networks can be greatly enhanced by seamlessly integrating their historical information systems with document imaging and workflow applications. Physicians, clinicians, and other healthcare users then have access to the complete patient medical record, including the structured data, such as laboratory results, and related unstructured data, or a doctor's hand written notes. Streamline Health has image-enabled many popular Clinical Data Repositories, such as those offered by Oacis Healthcare Holdings Corp., GE Medical Systems, and Cerner Corporation. Streamline Health is marketing image-enabling technology through its accessANYware and the Streamline Health Integration Tools. Streamline Health intends to continue to aggressively market its unique

image-enabling solutions to end-users and other third-party software application providers. Streamline Health has several large scale, enterprise wide image enabled sites, including Memorial Sloan-Kettering Cancer Center, which utilizes Streamline Health's solution on over 7,000 workstations and over 1,150 simultaneous users at any point in time.



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### **Systems and Services**

Streamline Health's systems employ an open architecture that supports a variety of operating systems, including Microsoft Windows XP, Windows 2003, and UNIX. Streamline Health's systems can be configured with various hardware platforms, including INTEL-compatible personal computers. Streamline Health's systems include a user interface designed specifically by Streamline Health for physicians and other medical and administrative personnel in hospitals and integrated healthcare networks. Streamline Health's systems operate on multiple imaging platforms, including Siemens and FileNet in addition to its own proprietary document imaging platform. Streamline Health's Health Information Management Workflow solutions incorporate advanced features, including workflow and security features, which allow customers to restrict direct access to confidential patient information, secure patient data from unauthorized indirect access and have audit trail features.

A brief description of Streamline Health's products follows:

Streamline Health products and services are built using advanced document imaging/management and workflow automation technologies to create robust Health Information Management (Medical Records) and Revenue Cycle Workflow solutions. Document imaging technology makes paper-based information, as well as medical images, sound and video information as readily available and easy to process as traditional electronic data. In addition to intelligent electronic routing of documents, workflow automation offers sophisticated management tools and reporting to increase efficiency and support of business process re-engineering efforts.

Streamline Health's products and services were designed to be complementary with existing third-party HIS and ASP-based services, providing value-added functionality to these third-party applications, including the following:

- The ability to gain seamless electronic access to medical records, business office documents and medical images (unstructured data);

- Workflow-based automated chart deficiency analysis and completion;

- Workflow-based automated release of information and billing;

- Workflow-based remote coding and seamless integration to third-party encoder and abstractor software;

- Workflow-based physician order routing for scheduling;

- Workflow-based financial screening and routing of patient financial ability to pay information;

- Computer-aided data extraction solutions using OCR technology to scan, extract, verify, and input into existing information systems data;

Streamline Health has developed innovative application tool sets to image and web-enable existing HIS clinical and patient financial services applications, thereby allowing users to have a common graphical user interface on a universal workstation. Streamline Health has also developed its own document imaging middleware to efficiently provide the object-oriented business processes common to all of its applications, such as scanning/indexing, faxing/printing, data archiving migration, security and auditing. Through its application software, document imaging middleware, and its workflow, image and web-enabling tools, Streamline Health allows the seamless merging of its Medical Record and Patient Financial Services department back office functionality with existing clinical information systems at the desktop.

For maximum flexibility, accessANYware, the current Streamline Health product portfolio, is packaged into four distinct offerings: (i) the Health Information Management (HIM) Suite, (ii) the Patient Financial Services (PFS) Suite, (iii) the Enterprise Suite; and (iv) a set of Productivity Tools.

The accessANYware family of products is Streamline Health's fifth-generation document-centric repository of historical health information that is complementary to and can be seamlessly bolted on to existing transaction-centric clinical, financial and management information systems, allowing healthcare providers to aggressively move toward a true EMR. It allows authorized users to perform document searching, retrieval, viewing, processing, printing and faxing, as well as report generation all from a single login.

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**HEALTH INFORMATION MANAGEMENT Suite**

The HIM Suite includes accessANYware Patient Folders, Completion Workflow, Release Workflow, Coding Workflow and Chart Tracking Workflow.

**accessANYware Patient Folders**

accessANYware Patient Folders is a web-based application that provides hospital organizations the ability to electronically store, search and retrieve medical records from any location within the facility, physician offices, off-site clinics and even from home. In addition, accessANYware Patient Folders provides a complete web-based chart deficiency management system that includes analysis, electronic signature and management reports all from a single login. accessANYware Patient Folders allows the user to securely view the entire medical record from a visit view or a category-based longitudinal view of historical patient information.

**Completion Workflow**

The Completion Workflow application is a chart deficiency management workflow that provides management reporting along with providing analysts and clinicians the ability to remotely analyze, electronically sign and complete deficient records. In addition to a single login, accessANYware delivers a single user interface and integrated database. Therefore, from a single system login, users with appropriate security have the ability to search and retrieve information regarding patients and cases (for chart analysis), view, print and fax patient documents, as well as analyze or complete deficient documents. The functions presented to the user vary with the user's security. For example, if the user is a clinician, he/she is presented with an inbox function that displays a list of incomplete charts (awaiting completion) and a list of linked patients assigned to them. The clinician then has the option to complete deficient charts or retrieve patient information via searching or by clicking on the linked patients within their inbox. This access may occur from any workstation within the facility, the physician's office, or some other remote site. With proper security, the user is able to view, print and fax patient information.

**Release Workflow**

The release workflow module fulfills internal and external requests for patient information and allows for automatic invoicing capability. It also provides the ability to electronically search for, print, mail or fax information to third parties that request copies of patient records.

**Coding Workflow**

Due to an acute shortage of available coding personnel, there currently exists a great demand for solutions to attract and retain qualified coders and to make the coding process more efficient. The Coding Workflow module provides workflow automation of the coding and abstracting process by allowing hospital personnel to electronically access documents to be coded and abstracted from remote locations, including the employee's home. It may also be integrated with third-party encoding or abstracting software, avoiding redundant data entry.

**Chart Tracking Workflow**

Chart Tracking Workflow provides the ability to manage requests for and track the physical location of paper records. This workflow also allows the user to define the retention and destruction of these paper records.



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**PATIENT FINANCIAL SERVICES Suite**

The PFS Suite includes accessANYware Non Patient Folders, Referral Order Workflow, Peri-Operative Workflow, Financial Screening Workflow and Cash Management Workflow.

**accessANYware Non Patient Folders**

accessANYware Non Patient Folders is a web-based application that allows any department of a healthcare organization the ability to store, retrieve and process document-centric information using a site-defined electronic folder hierarchy with a user-friendly interface. accessANYware Non Patient Folders provides document imaging and workflow capabilities for a hospital organization's enterprise-wide departmental needs, such as Patient Financial Services, Business Office, Human Resources, Materials Management, Medical Staff Office, Purchasing and virtually any other department that has document intensive storage, retrieval and processing needs.

**Cash Management Workflow**

Cash Management Workflow focuses on improving and enhancing the cash posting, including the researching and follow up functions within the business office for received non-standard paper remittances. By scanning the documents into the workflow, the manual posting is done from the image, allowing the page to be captured and stored to the account level in the client's accounting system.

**Referral Order Workflow**

Referral Order Workflow ensures automated capture routing and tracking of faxed orders from physician's offices into client scheduling and pre-registration areas that allow increasing volumes without adding additional staff. The saves time spent processing paper faxes.

**Financial Screening Workflow**

Financial Screening Workflow manages the rising number of self-pay accounts that healthcare providers are experiencing by forwarding the financial documents at the time of receipt to insurance specialists to expedite charity care program analysis.

**Peri-Operative Workflow**

Peri-Operative Workflow manages the patient documents and reduces cancelled/rescheduled surgeries by proactively providing required document sets for the scheduled surgery facilitating those that are missing.

**Enterprise Suite**

The Enterprise Suite is a full offering of Streamline Health products including the HIM Suite, the PFS Suite, and the Streamline Health Integration Tools.

**The Streamline Health Integration Tools (STRM-IT™)**

STRM-IT supports powerful image-enabling and workflow technology that allows healthcare users to immediately and simultaneously access any patient information, including multimedia and paper-based information, through their existing third-party clinical or billing applications. STRM-IT also supports direct, secure access to the entire patient chart and physician inbox via integration. As a result, any application across the entire enterprise can be

image-enabled, including the host Healthcare Information Systems, Patient Billing Systems, Clinical Data Repositories and others. When the Clinical Data Repository is image-enabled, users can access any piece of information on the same workstation and from the same screen display, including the point of patient care. This means users can view traditional electronic data and images simultaneously on the same screen without signing in and out of multiple applications.

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**ASPeN...Application Service Provider eHealth Network**

Streamline Health's Hosting Services (ASPeN) offers healthcare organizations an ever increasing, cost-effective solution to manage its information. Through the use of the Internet and private line telecommunications, Streamline Health provides its healthcare customers with fast and secure access to its data stored at Streamline Health's data center, for a monthly subscription fee. The hosted pricing model helps its healthcare customers to overcome the barriers of high capital and start-up costs as well as the technological burdens of implementing and managing a document workflow system.

**Professional Services**

Streamline Health provides a full complement of professional services to implement its software applications. Streamline Health believes that high quality consulting and professional implementation services are important to attracting new customers and maintaining existing customer satisfaction. These services include implementation and training, project management, business process re-engineering, and custom software development. The implementation and training services include equipment and software installation, system integration and comprehensive training. The project management services include needs and cost/benefit analysis, hardware and software configuration and business process re-engineering. The custom software development services include interface, workflow and report development.

**Research and Development**

Streamline Health continues to focus its research and development efforts to develop new application software and increase the functionality of existing applications. Customer requirements and desires significantly influence Streamline Health's research and development efforts.

Product research and development expense was \$3,132,809, \$2,716,163, and \$2,733,293 in 2007, 2006 and 2005, respectively. In addition, Streamline Health also capitalized approximately \$2,652,000, \$2,130,000, and \$1,450,000 of software development expenditures in 2007, 2006, and 2005, respectively.

**Existing Customers**