STREAMLINE HEALTH SOLUTIONS INC.
Form DEF 14A
September 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to § 240.14a-12

Streamline Health Solutions, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined.):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing party:

4. Date filed:

STREAMLINE HEALTH SOLUTIONS, INC.

10200 Alliance Road, Suite 200

Cincinnati, Ohio 45242-4716

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON OCTOBER 31, 2012

To the Stockholders of Streamline Health Solutions, Inc.:

As previously announced, on August 16, 2012, we completed a private offering of preferred stock, warrants, and unsecured, subordinated, convertible promissory notes with a group of investors for gross proceeds of $12,000,000. The transaction consisted of the issuance of the following securities: (i) 2,416,785 shares of our convertible preferred stock, (ii) warrants to purchase 1,200,000 shares of our common stock, subject to certain adjustments, and (iii) subordinated convertible notes with an aggregate original principal amount of $5,699,577 (which amount represented a 20% premium over the aggregate $4,749,648 of investment funds paid by the holders for the notes) due November 16, 2014, (collectively referred to in the accompanying proxy statement as the Issuance). Under the terms of the securities purchase agreement pursuant to which the preferred stock, warrants and notes were issued, and in accordance with applicable Nasdaq listing rules, we agreed to seek the approval of our stockholders for Proposal 1 described below and in the proxy statement accompanying this notice of special meeting of stockholders.

You are cordially invited to attend a special meeting of the stockholders of Streamline Health Solutions, Inc. to be held on October 31, 2012, at 9:30 a.m., Eastern Time, at the offices of Streamline Health Solutions, Inc., 1230 Peachtree Street NE, Suite 1000, Atlanta, Georgia 30309, for the following purposes:

1. PROPOSAL 1 To approve under applicable Nasdaq rules the issuance of more than 20% of our common stock outstanding at a discount to the greater of book or market value pursuant to the conversion of the subordinated convertible notes and anti-dilution provisions of the warrants as described below.

2. PROPOSAL 2 To amend our 2005 Incentive Compensation Plan to increase the amount of shares of our common stock issuable under the 2005 Incentive Compensation Plan by Five Hundred Thousand (500,000) shares.

Our board of directors recommends that you vote in favor of the foregoing proposals, which we describe more fully in the attached proxy statement.

Only stockholders of record at the close of business on September 25, 2012 will be entitled to notice of, and to vote at, the special meeting of stockholders and any adjournment thereof.

By Order of the Board of Directors

Stephen H. Murdock

Senior Vice President, Chief Financial Officer &

Corporate Secretary

Cincinnati, Ohio

September 27, 2012

A proxy statement and proxy are submitted herewith. As a stockholder, you are urged to complete and mail the proxy promptly whether or not you plan to attend the special meeting of stockholders in person. The enclosed envelope for the return of the proxy requires no postage if mailed in the USA. Stockholders of record attending the meeting may personally vote on all matters that are

considered, in which event the signed proxies will be revoked. It is important that your shares be voted. In order to avoid the additional expense of further solicitation, we ask your cooperation in mailing your proxy promptly.

STREAMLINE HEALTH SOLUTIONS, INC.

10200 Alliance Road, Suite 200

Cincinnati, Ohio 45242-4716

PROXY STATEMENT

The accompanying proxy is solicited on behalf of the board of directors of Streamline Health Solutions, Inc., a Delaware corporation, for use at the special meeting of stockholders. The special meeting of stockholders will be held on October 31, 2012 at 9:30 a.m., Eastern Time, or any adjournment thereof, for the purposes set forth in this proxy statement and the accompanying notice of special meeting of stockholders.

Location of Special Meeting of Stockholders

The special meeting of stockholders will be held at our Atlanta offices, which are located at 1230 Peachtree Street NE, Suite 1000, Atlanta, Georgia 30309.

Record Date, Outstanding Shares and Quorum

All holders of record of our common stock, par value $.01 per share, and our preferred stock, par value $.01 per share, at the close of business on September 25, 2012, the record date, will be entitled to notice of and to vote at the special meeting of stockholders. At the close of business on the record date, we had 12,542,063 shares of common stock outstanding and entitled to vote and 2,416,785 shares of preferred stock outstanding and entitled to vote on Proposal 2 only. A majority, or 7,177,325, of such shares of capital stock will constitute a quorum for the transaction of business at the special meeting of stockholders.

The proxy card and this proxy statement will be mailed to stockholders on or about October 1, 2012.

Voting Rights and Solicitation of Proxies

Stockholders are entitled to one vote for each share of our common stock held. Our shares of common stock and preferred stock vote together as a single class. Holders of our preferred stock are entitled to vote such shares on a modified converted basis with each holder of preferred stock entitled to such number of votes equal to the total number of shares of preferred stock held multiplied by 75%, rounded down to the nearest whole share. Holders of our preferred stock are subject to certain beneficial ownership limitations. See the discussion in Summary of Document Terms Relating to the Issuance Summary Terms of the Preferred Stock. As of September 25, 2012, the holders of preferred stock were entitled to an aggregate of 1,812,585 votes. Shares of our common stock and preferred stock may not be voted cumulatively.

The shares represented by all properly executed proxies that are timely sent to us will be voted as designated. Each proxy not designated will be voted FOR Proposal 1 and FOR Proposal 2. Any person signing a proxy in the form accompanying this proxy statement has the power to revoke it at any time before the shares subject to the proxy are voted by notifying our Corporate Secretary in writing or by attendance at the meeting and voting in person.

We will bear the expense of electronically hosting, printing and mailing proxy materials. In addition to the solicitation of proxies by mail, solicitation may be made by certain of our directors, officers, and other employees by personal interview, telephone, or facsimile. No additional compensation will be paid for such solicitation. We will request brokers and nominees who hold shares of our common stock in their names to furnish proxy materials to beneficial owners of such shares and we will reimburse such brokers and nominees for the reasonable expenses incurred in forwarding the materials to such beneficial owners.

Our bylaws provide that the holders of a majority of all of the shares of our capital stock issued, outstanding, and entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the special meeting of stockholders. Shares that are voted FOR, AGAINST, WITHHELD or ABSTAIN, as applicable, with respect to a matter are treated as being present at the meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the special meeting of stockholders with respect to such matter.

An abstention represents a stockholder s affirmative choice to decline to vote on a proposal. Shares that abstain from voting on a proposal are counted for the purpose of determining the presence or absence of a quorum but are not considered votes duly cast for a proposal. A majority of the shares present in person or represented by proxy and voting means the number of FOR votes exceeds the number of AGAINST votes. Thus, abstentions will have no effect on the outcome of the vote on Proposals 1 and 2 since abstentions are not counted as votes duly cast.

If a broker, bank, custodian, nominee, or other record holder of shares indicates on a proxy that it does not have the discretionary authority to vote certain shares on a particular matter (broker non-vote), then those shares will not be considered entitled to vote with respect to that matter, but will be counted in determining the presence of a quorum. As a result, broker non-votes are not included in the tabulation of the voting results on any issues requiring the approval of a majority of the shares of common stock present and entitled to vote and, therefore, do not have the effect of votes in opposition for such proposals. With respect to Proposal 1 and Proposal 2, which require a majority vote, broker non-votes have no effect.

In accordance with Nasdaq rules and the terms of the securities purchase agreement by which such holder acquired shares of our preferred stock, the shares of our preferred stock will not be considered entitled to vote with respect to Proposal 1, but will be counted in determining the presence of a quorum and entitled to vote with respect to Proposal 2.

All shares represented by valid proxies received prior to the special meeting of stockholders will be voted and, where a stockholder specifies by means of the proxy how the shares are to be voted with respect to any matter to be acted upon, the shares will be voted in accordance with the specification so made. If the stockholder fails to so specify, except for broker non-votes and shares of preferred stock that are not entitled to vote on Proposal 1, the shares will be voted FOR Proposals 1 and 2 described herein.

In accordance with Delaware law, a list of stockholders entitled to vote at the special meeting of stockholders will be available at the special meeting of stockholders and at our principal executive offices on the date of the special meeting of stockholders, October 31, 2012, and for ten days prior to the special meeting of stockholders, between the hours of 9:00 a.m. and 4:00 p.m. Eastern Time.

PROPOSAL 1

APPROVAL UNDER APPLICABLE NASDAQ RULES OF THE ISSUANCE OF MORE THAN 20% OF OUR COMMON STOCK OUTSTANDING AT A DISCOUNT TO THE GREATER OF BOOK OR MARKET VALUE PURSUANT TO THE CONVERSION OF THE SUBORDINATED CONVERTIBLE NOTES AND ANTI-DILUTION PROVISIONS OF THE WARRANTS

Background to the Proposal

As previously announced, on August 16, 2012, we completed a private offering of preferred stock, warrants, and unsecured, subordinated, convertible promissory notes with a group of investors for gross proceeds of $12,000,000. The transaction consisted of the issuance of the following securities: (i) 2,416,785 shares of our convertible preferred stock, (ii) warrants to purchase 1,200,000 shares of our common stock, subject to certain adjustments, and (iii) subordinated convertible notes with an aggregate original principal amount of $5,699,577 (which amount represented a 20% premium over the aggregate $4,749,648 of investment funds paid by the holders for the notes) due November 16, 2014, (collectively referred to in this proxy statement as the Issuance). The notes collectively convert into a maximum aggregate of 1,583,210 shares of preferred stock. The issuance of these securities was exempt from registration under the Securities Act of 1933, as amended, pursuant to the safe harbor provisions of Rule 506, as all of the investors were Accredited Investors under Rule 501. The net proceeds from the Issuance are being used for working capital and other general corporate purposes.

The transactions described in this section are further described in our periodic filings with the Securities and Exchange Commission, including the Current Report on Form 8-K filed August 21, 2012. We refer you to those filings, and the documents filed therewith, and incorporate them by reference into this proxy statement. See Where You Can Find Additional Information below.

Pursuant to Nasdaq Marketplace Rule 5635(d) (the Private Placement Rule), we are required to obtain stockholder approval prior to the issuance of securities in connection with a transaction other than a public offering involving the sale, issuance or potential issuance by us of common stock (or securities convertible into or exercisable for common stock) equal to 20% or more of the shares of our common stock or 20% or more of the voting power outstanding before the issuance if such issuance is for less than the greater of book or market value of the stock.

In order to comply with the Private Placement Rule in connection with the Issuance, the number of shares of preferred stock convertible into shares of our common stock issued in these transactions was limited to not more than 19.9% of our total shares of common stock outstanding immediately prior to consummation of the Issuance. The remainder of the investment amount was structured as subordinated convertible notes that convert into shares of preferred stock. The number of shares of our common stock issuable upon conversion of the preferred stock was capped at the amount that could be issued without violating the Private Placement Rule (the Issuance Cap), and the anti-dilution provisions that could trigger adjustment to the exercise price and number of shares issuable pursuant to the warrants were restricted from becoming effective (the Anti-Dilution Restrictions).

We are seeking stockholder approval to issue shares of the preferred stock underlying the subordinated convertible notes, upon conversion of the notes, in excess of the Issuance Cap and to nullify the Anti-Dilution Restrictions. Pursuant to the terms of the notes and the warrants, upon receipt of stockholder approval to issue shares of preferred stock in excess of the Issuance Cap, the notes will automatically convert into shares of preferred stock and the Anti-Dilution Restrictions will terminate.

Summary of Document Terms Relating to The Issuance

Voting Agreements; Effect on the Vote

In connection with the Issuance, our directors, executive officers, key employees, and certain other of our existing stockholders executed voting agreements with us, pursuant to which each such stockholder agreed to vote shares beneficially held by the stockholder in favor of Proposal 1. Each such stockholder entered into a separate voting agreement with us. Collectively, holders of approximately 39% of the outstanding shares of our common stock as of the record date that are entitled to vote on Proposal 1 have agreed to vote FOR Proposal 1. The terms of the voting agreements do not apply to Proposal 2 and no stockholder party to a voting agreement has agreed in advance to vote in any particular manner in connection with Proposal 2.

Summary Terms of the Preferred Stock

Optional Conversion by the Holder. The preferred stock has been designated by our board of directors as Series A 0% Convertible Preferred Stock, par value of $0.01 per share, and is convertible at any time into shares of our common stock at the option of the holder at a conversion price of $3.00 per share (subject to adjustment for stock splits, stock dividends, reclassifications and certain other fundamental transactions). However, pursuant to the certificate of designation that created the terms of the preferred stock, each holder of shares of the preferred stock will not have the right to convert any portion of the preferred stock to shares of our common stock to the extent that such conversion would result in a holder beneficially owning (together with its affiliates) a number of shares of our common stock in excess of 9.985% of the number of shares of our common stock outstanding immediately after giving effect to the issuance of shares issuable upon such conversion. Each holder may increase or decrease its percentage limitation by providing us with 61 days prior notice of such change. In addition, certain holders opted out of such beneficial ownership limitation prior to issuance of their preferred shares.

Automatic Conversion by the Company. We have the right to force automatic conversion of the shares of preferred stock into shares of our common stock at a conversion price of $3.00 per share (subject to adjustment for stock splits, stock dividends, reclassifications and certain other fundamental transactions) at such time as all of the following conditions are contemporaneously satisfied:

- Our common stock is listed for trading on the Nasdaq Capital Market or certain other approved exchanges;
- The arithmetic average of the daily volume weighted average price of our common stock for the 10 day period immediately prior to such measurement date is greater than $8.00 per share (subject to adjustment for stock splits, stock dividends, reclassifications and certain other fundamental transactions);
- The average daily trading volume for the 60 day period immediately prior to such measurement date exceeds 100,000 shares (subject to adjustment for stock splits, stock dividends, reclassifications and certain other fundamental transactions); and
- We are at such time in good compliance with the Nasdaq Capital Market or such other approved exchange on which our shares of common stock are then listed for trading.

Dividends. Holders of the preferred stock are entitled to receive dividends on shares of preferred stock equal to (on an as-if-converted-to-common-stock basis) and in the same form as dividends (other than dividends in the form of common stock) actually paid on shares of our common stock when, as, and if such dividends are paid on shares of our common stock. No other dividends will be paid on shares of the preferred stock.

Voting and Approval Rights. Except as detailed below or as otherwise required by law or Nasdaq rule (including as described above with respect to Proposal 1), the holders of the preferred stock vote on a modified as-if-converted-to-common-stock basis with our common stock and do not vote separately as a class. Each holder of preferred stock is entitled to such number of votes equal to the total number of shares of preferred stock held multiplied by 75%, rounded down to the nearest whole share. Notwithstanding the foregoing, so long as any shares of preferred stock remain outstanding we may not, without the affirmative vote of the holders of at least 67% of the then outstanding shares of the preferred stock:

- Alter or change adversely the power, preferences or rights given to the preferred stock or alter or amend the certificate of designation that created the preferred stock;
- Authorize, create, offer, or sell any class of stock ranking as to any terms (including, without limitations, dividends, redemption or distribution of assets upon a liquidation) pari passu with or senior to the preferred stock;
- Offer to sell any debt securities that are senior in payment to the preferred stock;
- Effect a stock split or reverse stock split of the preferred stock or undertake any like event;
- Amend our certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders of the preferred stock; or
- Increase the number of authorized shares of preferred stock.

At such time as the notes are no longer outstanding and less than 5% of the aggregate total shares of preferred stock that were ever issued and outstanding remain issued and outstanding, then we may without the affirmative vote or consent of any holder of preferred stock do any of the following:

Authorize, create, offer, or sell any class of stock ranking as to any terms (including, without limitation, dividends, redemptions or distribution of assets upon a liquidation) pari passu with or senior to the preferred stock;

Offer to sell any debt securities that are senior in payment to the preferred stock; or

Amend our certificate of incorporation or other charter documents (other than the certificate of designation that created the preferred stock) to permit the actions described in the prior two bullet points.

Liquidation Preference. Upon a liquidation, dissolution or winding-up of our business, the holders of the preferred stock are entitled to receive, in preference to any distributions of any of the assets or surplus funds legally available for distribution to holders of our junior securities (including common stock), an amount equal to the greater of (i) $3.00 per share, plus accrued and unpaid dividends then due and owing on the preferred stock, if any, and (ii) an amount per share of preferred stock, with respect to each share of preferred stock, equal to the amount that the holder thereof would be entitled upon liquidation, dissolution or winding-up of our business as if such share of preferred stock had been converted into common stock immediately prior to such liquidation, dissolution or winding-up.

Redemption Rights. At any time following August 31, 2016, each share of preferred stock will be redeemable at the option of the holder thereof for an amount equal to $3.00 (the initial issuance price of such share), adjusted to reflect any stock splits, stock dividends or like events.

Upon the conversion, redemption, or other reacquisition by us of any shares of preferred stock, we may not reissue such shares of preferred stock. The shares shall resume the status of authorized but unissued shares of preferred stock and shall no longer be designated as Series A 0% Convertible Preferred Stock, par value of $0.01 per share.

Director Nomination Rights. So long as Great Point Partners, LLC (collectively with its affiliated funds and accounts) or Noro-Moseley Partners VI, L.P. (collectively with its affiliates) holds shares of preferred stock or common stock representing at least 7.5% of our issued and outstanding shares of common stock (on an as-issued, as-converted, and fully diluted basis), such holder has the right to cause our board of directors to nominate a director candidate specified by such holder at each annual meeting of our stockholders. Effective August 16, 2012, our board approved an increase in the size of our board of directors from seven members to nine members. Noro-Moseley Partners VI, L.P. nominated Allen S. Moseley, and Mr. Moseley was appointed by our board to serve as a director effective August 16, 2012. Great Point Partners, LLC has not yet nominated a director candidate and the final director slot remains vacant.

Summary Terms of the Warrants

Term; Exercise Price; General Anti-Dilution Rights. Each warrant entitles the holder to purchase a number of shares of our common stock at an exercise price of $3.99 per share, exercisable at any time on or after February 17, 2013 and on or prior to the close of business on February 17, 2018. The warrants are exercisable in the aggregate for up to 1,200,000 shares of our common stock. Each warrant permits the holder to exercise in whole or in part and by cash payment or pursuant to cashless exercise provisions. The number of shares issuable upon exercise of each warrant is adjustable on a pro rata basis upon the payment of dividends on our common stock, stock splits, reverse stock splits and reclassification of shares of our common stock so that the aggregate exercise price of the warrant remains unchanged.

Economic Anti-Dilution Rights. Additionally, each warrant contains certain provisions to protect the economic investment of the holder. During the period from August 16, 2012 until August 16, 2014, if we or one of our subsidiaries sell, re-price or otherwise dispose of or issue any shares of our common stock, or a security convertible into our common stock, at a consideration per share less than the exercise price then in effect, then the exercise price of the warrant will be reduced to an amount equal to such lower consideration per share. If the same such events occur on or after August 17, 2014, then the exercise price of the warrant will be adjusted on a weighted-average basis. The warrant provides that the foregoing anti-dilution protections for the holder of the warrant will not be effective until our stockholders have approved these protections in accordance with Nasdaq rules. These restrictions are referred to in this proxy statement as the Anti-Dilution Restrictions. For so long as

the Anti-Dilution Restrictions remain in effect, the terms of the securities purchase agreement under which the warrants were issued prohibit us or any of our subsidiaries from selling, re-pricing or otherwise disposing of or issuing any shares of our common stock, or a security convertible into our common stock at an issuance price below the exercise price then in effect under the warrants. Upon stockholder approval of Proposal 1, the Anti-Dilution Restrictions automatically terminate and the prohibitions in the securities purchase agreement restricting our ability to sell, re-price or otherwise dispose of or issue any shares of our common stock, or a security convertible into our common stock, also automatically terminate.

Beneficial Ownership Exercise Limitations. Unless otherwise specified by its initial holder to the Company prior to its issuance, each warrant restricts the right of the holder to exercise the warrant for the purchase of shares of our common stock to the extent that such exercise would result in the holder beneficially owning (along with its affiliates) a number of shares of our common stock in excess of 9.985% of the number of shares of our common stock outstanding immediately after giving effect to the issuance of shares issuable upon exercise of the warrant. Each holder may increase or decrease its percentage limitation by providing us with 61 days prior notice of such change.

Summary Terms of the Convertible Notes

As a result of the application of the Nasdaq Private Placement Rule, we were unable to issue the entire investment amount to the investors in shares of preferred stock without advance approval from our stockholders. Therefore, as part of the Issuance we issued as many shares of preferred stock as could be permissibly issued and the remainder of the investment was issued in the form of subordinated convertible notes.

Interest; Maturity. Each note bears interest at an aggregate rate of 12.00% per year, subject to certain adjustments, and matures on November 16, 2014. From September 1, 2012 until September 1, 2013, interest is payable in cash at a rate of 6.00% per annum. During this period, the remaining interest at 6.00% per annum will accrue (compounding monthly) and not be payable in cash until the earlier of conversion or maturity. Following September 1, 2013, all interest shall accrue (compounding monthly) and not be payable in cash until the earlier of conversion or maturity. Upon the occurrence of an event of default under the notes, the interest rate under each note increases to 18% until such event is cured or waived.

Automatic Conversion. Upon stockholder approval of Proposal 1, the notes will automatically convert into shares of our preferred stock, initially at a fixed conversion price of $3.00 per share (subject to adjustment in the event of stock splits of combinations affecting the preferred shares). Until the date of the stockholder approval of Proposal 1, the holders of the notes shall not have the right to convert the notes into any shares of preferred stock. At the time of conversion all accrued and unpaid interest must be paid in cash.

Principal Premium and Conversion. The notes were issued in the aggregate principal amount of $5,699,577, which amount represented a 20% premium over the aggregate $4,749,648 of investment funds paid by the holders for the notes. This issuance premium is intended to compensate each holder for investment risk and lower expected returns in the event that the note never becomes convertible into shares of preferred stock prior to maturity. At the time of conversion, the 20% premium amount is deducted from the outstanding principal balance prior to applying the conversion price. The notes collectively convert into a maximum aggregate of 1,583,210 shares of preferred stock. We are prohibited from prepaying any portion of the outstanding principal balance of the notes prior to conversion or maturity.

Principal Payment; Events of Default. At maturity, we must repay the entire outstanding principal balance of the notes, plus all accrued and unpaid interest. The notes are unsecured by any of our assets or properties. The holder of a note may accelerate the maturity and declare all outstanding principal and unpaid interest immediately due and payable upon the occurrence of any of the following events of default:

Our failure to pay interest when due, and such failure remains uncured for 5 business days;

Our failure to duly observe or perform any of our obligations under the securities purchase agreement in connection with the transfer of the shares of preferred stock;

Our failure to duly observe or perform any other of our obligations under any of the transaction documents in connection with the Issuance, and such failure, if curable, remains uncured for 20 consecutive business days after written notice of such failure is provided to us;

Any of our representations or warranties in any of the transaction documents in connection with the Issuance is incorrect in any material respect;

Any event of default occurs under any of the notes with respect to any of our other indebtedness;

Any acceleration of the maturity of any of our indebtedness (other than senior indebtedness) or our other obligations in excess of $100,000 or a default on any of our indebtedness in excess of $100,000 that continues beyond any applicable cure period (other than trade payables subject to bona fide dispute for which adequate reserve has been made);

Any uninsured damage to, loss, theft, or destruction of any of any of our assets and such damage is in excess of $150,000;

Any involuntary bankruptcy or similar proceeding is instituted against us and remains undismissed for 60 days;

Any voluntary bankruptcy or similar proceeding is commenced by us or we otherwise become unable to pay our debts as they become due; or

One or more judgments for the payment of money in excess of $150,000 in the aggregate (to the extent not covered by insurance) shall be rendered against us and remain undischarged or unstayed for a period of 30 consecutive days, or any action shall be legally taken by a judgment creditor for an amount in excess of $150,000 to levy upon our assets or properties to enforce such judgment.

Subordination. The rights of the holders of the notes to enforce their remedies against us and our subsidiaries are subordinate to the rights of our senior creditor, Fifth Third Bank, and the holders of the notes have agreed to certain contractual standstill and subordination terms with Fifth Third Bank.

Participation in Dividends; No Voting Rights. Holders of the notes are entitled to participate in dividends or other distributions paid to holders of shares of preferred stock to the extent that the holder would have participated had the holder held the number of shares of preferred stock acquirable upon complete conversion of the note immediately prior to the record date for such dividend or other distribution. The holders of notes shall have no voting rights.

Restrictive Covenants. So long as the notes are outstanding, we and our subsidiaries are prohibited from incurring additional indebtedness for borrowed money (subject to certain limited exceptions).

Impact on Stockholders of Approval or Disapproval of this Proposal 1

Not Seeking Approval of Issuance Terms. Proposal 1 is not seeking the approval of our stockholders to authorize our entry into the Issuance documents. The Issuance has already occurred and the documents related to the Issuance are binding obligations on us. The failure of our stockholders to approve Proposal 1 will not negate the existing terms of the documents relating to the Issuance. The preferred stock will continue to be an authorized class of our capital stock, the number of shares of preferred stock, the convertible notes, and the warrants will all remain outstanding obligations of ours in favor of the holders. The failure of our stockholders to approve Proposal 1 will only mean that the Issuance Cap will remain in place relating to the preferred stock such that the notes will not be convertible into preferred stock and the Anti-Dilution Restrictions will remain in effect. Upon approval of Proposal 1, the Anti-Dilution Restrictions automatically terminate and the prohibitions in the securities purchase agreement restricting our ability to enter into any transactions at a price below $3.99 per share also automatically terminate.

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Balance Sheet Improvement. The approval of Proposal 1 will eliminate the principal balance of the convertible notes as a debt liability on our balance sheet and will terminate our continuing obligation to use working capital to pay interest on the notes. A stronger balance sheet will improve our financial covenants with our senior lender, Fifth Third Bank (as the preferred stock even subject to the redemption right is not factored into our senior loan covenant calculations), and reduce our risk of defaulting in the future on any of our indebtedness.

Increased Dilution. Upon conversion of the notes there will be more shares of our preferred stock outstanding. The more shares of preferred stock we have outstanding creates a possibility of a greater number of shares of our common stock being issued upon conversion of the preferred stock and being eligible for sale in the public markets. Any such sales, or the anticipation of the possibility of such sales, represent an overhang on the market and could depress the market price of our common stock.

Reasons the Board Supports Stockholder Approval of Proposal 1

We are seeking stockholder approval for the following reasons:

Due to the Private Placement Rule, we are required to obtain stockholder approval before issuing shares of our preferred stock pursuant to the conversion of the notes in excess of the Issuance Cap and before the Anti-Dilution Restrictions will terminate.

As indicated above, we entered into the transactions related to the Issuance to raise capital for our ongoing business needs. If we fail to obtain stockholder approval to allow us to issue shares of preferred stock pursuant to the conversion of the notes in excess of the Issuance Cap, we would be required to pay principal and interest amounts under the notes in cash, which would require us to dedicate a substantial portion of our cash flows from operations and other capital resources to such payments and may prevent us from having the capital necessary to fully implement our business plan. The Board believes it is in our best interests to settle these obligations in shares of preferred stock rather than repaying or settling them in cash.

We entered into the Issuance with the belief that it would be better for the investors to hold an equity position with us rather than hold debt so that the investors interests would be aligned with the interests of our stockholders. If we fail to obtain stockholder approval to allow us to issue shares of preferred stock pursuant to the conversion of the notes, the investors will hold debt and their interests may not align with those of our stockholders.

As indicated above, the economic anti-dilution provisions of the warrants are intended to provide the investors with protections of their economic investment in our company. The Board believes these provisions are customary in transactions of this nature and provide us with flexibility to undertake transactions in the future. If we fail to obtain stockholder approval to allow these provisions to be enforceable, we would be completely prohibited from entering into any transactions in the future at a price below $3.99 per share, regardless of the business reasons for such transaction or the reasonableness of the terms at such time.

Our board of directors recommends a vote FOR Proposal 1 and the approval under applicable Nasdaq rules of the issuance of shares of our common stock in excess of the Issuance Cap in connection with the automatic conversion of the subordinated convertible notes and the termination of the Anti-Dilution Restrictions.

STOCK OWNERSHIP BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information, as of September 25, 2012, with respect to the beneficial ownership of our common stock by: (i) each stockholder known by us to be the beneficial owner of more than 5% of our common stock; (ii) each director; (iii) each of our executive officers; and (iv) all directors and current executive officers as a group. In preparing the following table, we relied upon statements filed with the Securities and Exchange Commission by the beneficial owners of more than 5% of our outstanding shares of common stock pursuant to Sections 13(d), 13(g) or 16(a) of the Securities Exchange Act of 1934, as amended.

Name and Address of Beneficial Owner[1]	Amount and Nature of Beneficial Ownership	Percent of Class[2]
IPP Holding Company, LLC [3] P.O. Box 7083, Tifton, GA 31793	1,529,729	12.2%
Great Point Partners, LLC [4] 165 Mason Street, 3rd Floor, Greenwich, CT 06830	1,409,791	11.2%
Eric S. Lombardo 7173 Royalgreen Drive Cincinnati, Ohio 45244	1,161,326	9.3%
J. Brian Patsy[5] 7761 Country Brook Court Springboro, Ohio 45066	1,012,559	8.1%
Noro-Moseley Partners IV, L.P. [6] 4200 Northside Parkway, N.W. Building 9, Atlanta, GA 30327	986,854	7.9%
Michael K. Kaplan [7]	25,052	*
Richard C. Levy, M.D.[8]	210,096	1.7%
Jay D. Miller[9]	90,022	*
Allen S. Moseley [17]		*
Jonathan R. Phillips[10]	400,774	3.2%
Andrew L. Turner[11]	153,888	1.2%
Edward J. VonderBrink[12]	150,710	1.2%
Robert E. Watson[13]	370,062	3.0%
Stephen H. Murdock[14]	96,597	*
Gary M. Winzenread[15]	206,874	1.6%
Michael A. Schiller[16]	44,448	*
All current directors and executive officers as a group (11 persons)[18]	1,748,523	13.9%

* Represents less than 1%.

(1) Unless otherwise indicated below, each person listed has sole voting and investment power with respect to all shares shown as beneficially owned, subject to community property laws where applicable. For purposes of this table, shares subject to stock options or warrants are considered to be beneficially owned if by their terms they may be exercised as of the date of this table or if they become exercisable within sixty days thereafter. Unless otherwise noted, the address for each beneficial owner listed is c/o Streamline Health Solutions, Inc., 10200 Alliance Road, Suite 200, Cincinnati, Ohio 45242-4716.

(2) These percentages assume the exercise of certain currently exercisable stock options. The percentages are based on 12,542,063 shares of common stock outstanding.

(3) Includes 1,529,729 shares issued to IPP Holding Company, LLC on June 21, 2012 upon conversion of the convertible note in the original principal amount of $3,000,000.

(4) Based on the Schedule 13G filed with the SEC on August 27, 2012. Consists of 1,409,791 shares of common stock issuable upon conversion of 1,409,791 shares of preferred stock owned by funds and accounts for which Great Point Partners, LLC (Great Point) is the investment manager. By virtue of such status, Great Point Partners, LLC may be deemed to be the beneficial owner of such shares. Each of Dr. Jeffrey R. Jay, M.D. (Dr. Jay), as senior managing member of Great Point, and Mr. David Kroin (Mr. Kroin), as special managing member of Great Point, has voting and investment power with respect to such shares and therefore may be deemed to be the beneficial owner thereof. Great Point, Dr. Jay, and Mr. Kroin disclaim beneficial ownership of such shares, except to the extent of their respective pecuniary interests therein.

(5) Includes 1,012,459 shares owned by Mr. Patsy and 100 shares for his children.
(6) Includes 986,854 shares of common stock issuable upon conversion of 986,854 shares of preferred stock beneficially owned by Noro Moseley Partners VI, L.P.
(7) Mr. Kaplan is a member of our Board of Directors. Includes 25,052 shares owned by Mr. Kaplan and zero shares that are issuable upon the exercise of currently exercisable options.
(8) Mr. Levy is a member of our Board of Directors. Includes 170,096 shares owned by Dr. Levy and 40,000 shares that are issuable upon the exercise of currently exercisable options.
(9) Mr. Miller is a member of our Board of Directors. Includes 75,022 shares owned by Mr. Miller and 15,000 shares that are issuable upon exercise of currently exercisable options.
(10) Mr. Phillips is a member of our Board of Directors. Includes 345,774 shares owned by Mr. Phillips, 10,000 shares held by his wife, and 45,000 shares that are issuable upon exercise of currently exercisable options.
(11) Mr. Turner is a member of our Board of Directors. Includes 116,888 shares owned by Mr. Turner, 2,000 shares held by his wife, and 35,000 shares that are issuable upon exercise of currently exercisable options.
(12) Mr. VonderBrink is a member of our Board of Directors. Includes 105,710 shares owned by Mr. VonderBrink and 45,000 shares that are issuable upon exercise of currently exercisable options.
(13) Mr. Watson is our President and Chief Executive Officer. Includes 185,908 shares owned by Mr. Watson and 184,154 shares that are issuable upon exercise of currently exercisable options. See Executive Compensation Employment Agreements.
(14) Mr. Murdock is our Senior Vice President and Chief Financial Officer. Includes 27,151 shares owned by Mr. Murdock and 69,446 shares that are issuable upon the exercise of currently exercisable options.
(15) Mr. Winzenread is our Senior Vice President and Chief Operating Officer. Includes 69,564 shares owned by Mr. Winzenread and 137,310 shares that are issuable upon exercise of currently exercisable options. See Executive Compensation Employment Agreements.
(16) Mr. Schiller is our Senior Vice President, Sales. Includes 44,448 shares that are exercisable by Mr. Schiller upon the exercise of currently exercisable options.
(17) Mr. Allen S. Moseley was appointed as a director on our board effective August 16, 2012.
(18) This table excludes Mr. Richard D. Leach who resigned as our officer effective August 16, 2012.

EXECUTIVE COMPENSATION

Named Executive Officers

This proxy statement contains information about the compensation paid to our Named Executive Officers during fiscal year 2011. For fiscal year 2011, in accordance with the rules and regulations of the Securities and Exchange Commission for smaller reporting companies, we determined that the following officers were our Named Executive Officers:

Robert E. Watson, our President and Chief Executive Officer;

Gary M. Winzenread, our Senior Vice President and Chief Operating Officer; and

Richard D. Leach, our Senior Vice President, Solutions Marketing. (1)

(1) Mr. Leach resigned as our officer and employee effective August 16, 2012.

Compensation Overview

We qualify as a smaller reporting company under the rules promulgated by the Securities and Exchange Commission. We have elected to comply with the disclosure requirements applicable to smaller reporting companies. Accordingly, this executive compensation summary is not intended to meet the Compensation Discussion and Analysis disclosure required of larger reporting companies.

Role of the Compensation Committee. All compensation for our Named Executive Officers is determined by the Compensation Committee of our board of directors which is composed only of independent directors. The Compensation Committee is charged with responsibility for reviewing the performance and establishing the total compensation of our Named Executive Officers on an annual basis. The Compensation Committee often discusses compensation matters as part of regularly scheduled board meetings and among the committee members outside of regularly scheduled meetings. The Compensation Committee administers our 2005 Incentive Compensation Plan and our 1996 Stock Purchase Plan and is responsible for recommending grants of equity awards under the 2005 Incentive Compensation Plan to the board of directors for approval. Our Chief Executive Officer annually makes recommendations to the Compensation Committee regarding base salary, non-equity incentive plan compensation and equity awards for himself and the other Named Executive Officers. Such recommendations are considered by the Compensation Committee, however, the committee retains full discretion and authority over the final compensation decisions for the Named Executive Officers. The Compensation Committee does not have a formal written charter.

The Compensation Committee has full authority to engage independent compensation consultants. The Compensation Committee has in the past, and may in the future, directly commission compensation studies from such consultants to provide benchmark and other data to be used by the committee in determining the compensation and benefits for the Named Executive Officers. The Compensation Committee does not obtain such compensation studies on an annual basis and, in 2011, the committee did not use any current benchmark data in setting compensation for the Named Executive Officers.

Compensation Philosophy and Objectives. The Compensation Committee s compensation objectives are to: attract and retain highly qualified individuals with a demonstrated record of achievement; reward past performance; provide incentives for future performance; and align the interests of the Named Executive Officers with the interests of the stockholders. To do this, we must offer a competitive total compensation package consisting of: base salary; annual non-equity incentive compensation opportunities; long-term incentives in the form of equity awards; and employee benefits.

The Compensation Committee believes that compensation for the Named Executive Officers should be based on our performance. Because we are small, the performance of the Named Executive Officers directly affects all aspects of our results. Therefore, the Compensation Committee typically has developed variable compensation packages for the Named Executive Officers that are entirely or largely based on our performance rather than upon individual performance measures. The Compensation Committee also considers our industry and geographic location norms in determining the various elements and amounts of compensation for our Named Executive Officers.

The Compensation Committee believes that several factors are critical to our future success. These factors include the quality, appropriate skills and dedication of the Named Executive Officers.

Compensation Structure. The Compensation Committee establishes a total targeted cash compensation amount for each Named Executive Officer, which includes base salary and non-equity incentive compensation (sometimes generically referred to herein as bonuses), intended to be an incentive for the Named Executive Officers to achieve above normal financial results for our business and to appropriately compensate the Named Executive Officers for successfully achieving such performance. All of the elements of our executive compensation program are designed to deliver both year-to-year and long-term stockholder value increases. A significant portion of the executives compensation is at-risk, vests over time if equity based, and is tied directly to our short-term and long-term success.

The Named Executive Officer non-equity incentive compensation is based on our operational performance which the Compensation Committee believes reflects the ability of the Named Executive Officer to increase stockholder value in both the short-term and long-term. The individual amounts and mix of compensation elements are established based on the determination of the Compensation Committee as to whether each particular element provides an appropriate incentive for expected performance that would enhance stockholder value. These elements include performance factors related to financial and operational goals established for the Named Executive Officers each year.

The Compensation Committee also considers each Named Executive Officer s current salary and prior-year incentive compensation along with the appropriate balance between long-term and short-term incentives.

Key elements of Executive Compensation for the 2011 Named Executive Officers.

Base Salaries. Salaries are established based on the individual responsibilities of the Named Executive Officers in the competitive marketplace in which we operate at levels necessary to attract and retain the executive. Base salaries are reviewed annually and adjusted periodically to take into account promotions, increases in responsibility, inflation and increased experience and competitive compensation levels as recommended by the Chief Executive Officer with respect to the other Named Executive Officers.

In fiscal year 2011, the Compensation Committee established the base salary for each of the Named Executive Officers as follows: Mr. Watson, $250,000; Mr. Winzenread, $200,000; and Mr. Leach, $180,000. These base salaries reflected no increase from the prior year. For fiscal year 2012, the Compensation Committee established the base salary for each of the Named Executive Officers as follows: Mr. Watson, $275,000; Mr. Winzenread, $205,400; and Mr. Leach, $180,000. These base salaries reflected a 4.8% increase from the prior year.

Inducement Equity Awards. In March 2011, we entered into an employment agreement with Mr. Leach, in which Mr. Leach agreed to serve as our Senior Vice President and Chief Marketing Officer. To induce Mr. Leach to join us, his agreement provided, among other compensation, the opportunity to purchase 10,000 newly issued shares of our common stock for $100 (i.e. their par value), and a stock option grant for 200,000 shares of our common stock. Such share and option awards as made to Mr. Leach are inducement grants pursuant to Nasdaq Marketplace Rule 5635(c)(4). Mr. Leach resigned as our officer and employee effective as of August 16, 2012. In connection with his separation, he forfeited all but 88,889 of the option shares granted to him. Mr. Leach s employment agreement and terms of separation are described in more detail below under Employment and Indemnification Agreements.

Commissions. Mr. Leach, as part of his employment agreement, is entitled to additional incentive compensation in the form of commissions on the expected revenues from executed contracts with clients. This plan was developed by the Chief Executive Officer and reviewed by the Chief Financial Officer, prior to its ratification. For fiscal 2011, Mr. Leach s plan included: (1) compensation for 1.27% of the expected revenue from executed client contracts, up to $5,500,000 (net of discounts, and sales closed prior to his hire date) from his start date to the end of fiscal 2011, and (2) compensation for 1.91% of the expected revenue from executed client contracts in excess of the first $5,500,000 from his start date to the end of fiscal 2011. During fiscal year 2011, Mr. Leach earned $42,621.04 in commissions under this plan.

Non-equity Incentive Compensation. Annually, the Compensation Committee establishes a non-equity incentive compensation plan, a pay for performance plan, to incentivize and reward superior performance of our business for the forthcoming fiscal year. The cash payments under this plan are paid annually based on a predetermined formula if the financial performance objectives required by the plan are met. The plan has a minimum threshold below which no incentive compensation is earned and has no upper limit on the amount that can be earned. The Compensation Committee sets the financial objectives in the plan at levels which the Committee believes are achievable, but not assured, and they are in line with both the short-term and long-term interests of the stockholders.

The 2011 non-equity incentive compensation plan targets were set to achieve: a planned target margin or the percentage calculated by quotient of adjusted EBITDA, net of fiscal 2011 capitalized software development costs, divided by annual revenues, for the fiscal year as a whole. The plan provides for the payment to the Named Executive Officers of target payouts based in dollars, which payouts can be earned upon achieving the planned target margin goals established by the Compensation Committee. Participating executives are entitled to a payment of 100% of the specified amount of the targeted payouts if we achieve the planned target margin. If our achieved margin is less than 100% of the planned target margin, then the Named Executive Officers

receive a reduced payout, provided our achieved margin must be greater than 33% of the planned target margin for any payouts to be made. If our achieved margin is less than 100% of the plan target, then the Named Executive Officers receive reduced payouts based on an acceleration factor. For example, achieving 55% of the plan target margin would result in the payment of only 33% of the target payout. If we achieved 33% or less of the plan target margin, no payout could be earned under the plan. If we exceeded 100% of the planned target margin, then the payout to the Named Executive Officers would be increased by an accelerated bonus percentage. For example, if we exceeded the planned target margin by 20%, then the payout earned would be 130% of the respective target payout. The upper limitation of the potential payout amounts for exceeding the planned target margin is 133% of planned target pay