

CENTRAL VALLEY COMMUNITY BANCORP
Form 10KSB
March 21, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the Fiscal Year Ended December 31, 2001

- 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: 000-31977

CENTRAL VALLEY COMMUNITY BANCORP

(Name of small business issuer in its charter)

California

(State or other jurisdiction of incorporation or organization)

77-0539125

(I.R.S. Employer Identification No.)

600 Pollasky Avenue, Clovis, California

(Address of principal executive offices)

93612

(Zip code)

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Issuer's telephone number (559) 298-1775

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: Common Stock, No Par Value
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$ 19,268,691

State the aggregate market value of the voting and non-voting common equity held by nonaffiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of March 15, 2002: \$14,834,820.

State the number of shares of Common Stock outstanding as of March 15, 2002: 1,295,489

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement which will be filed within 120 days after December 31, 2001, in connection with the solicitation of proxies for its 2002 Annual Meeting of Shareholders, are incorporated by reference in Items 9, 10, 11 and 12 of part III hereof. The portions of such documents that are not incorporated by reference shall not be deemed to be filed with the Commission as part of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check one): Yes No

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PART I

ITEM 1 -

DESCRIPTION OF BUSINESS.

General

Central Valley Community Bancorp (the Company) was incorporated on February 7, 2000 as a California corporation, for the purpose of becoming the holding company for Clovis Community Bank (the Bank), a California state chartered bank, through a corporate reorganization. In the reorganization, the Bank became the wholly-owned subsidiary of the Company, and the shareholders of the Bank became the shareholders of the Company. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Board of Governors).

At December 31, 2001, the Company had one banking subsidiary, the Bank. The Company's principal business is to provide, through its banking subsidiary, financial services in its primary market area in California. The Company serves Fresno County and its surrounding area through the Bank. The Company does not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to the Company refer to the Company and the Bank on a consolidated basis. At December 31, 2001, the Company had consolidated total assets of approximately \$219,066,000. See Items 6 and 7 - Management's Discussion and Analysis or Plan of Operation and - Financial Statements.

In February 2002, the Company approved a stock repurchase plan authorizing the purchase of shares up to a total cost of \$500,000, or approximately 3% of its outstanding common stock. The plan expires January 31, 2003. The Company adopted a similar plan in February 2001, which expired on January 31, 2002. As of December 31, 2001, the Company had repurchased 25,900 shares at a total cost of \$499,263.

As of March 15, 2002, the Company had a total of 110 employees and 90 full time equivalent employees, including the employees of the Bank.

Certain matters discussed in this Annual Report on Form 10-KSB, but not limited to, those described in Item 6 - Management's Discussion and Analysis or Plan of Operation, are forward looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward looking statements. Such risks and uncertainties include, among others, (1) significant increases in competitive pressure in the financial services industry; (2) changes in the interest rate environment resulting in reduced margins; (3) general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in the regulatory environment; (5) fluctuations in the real estate market; (6) changes in business conditions and inflation; and (7) changes in securities markets. Therefore, the information set forth in such forward looking statements should be carefully considered when evaluating the business prospects of the Company.

When the Company uses in this Annual Report on Form 10-KSB the words anticipate, estimate, expect, project, intend, commit, and similar expressions, the Company intends to identify forward looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report on Form 10-KSB. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and shareholder values of the Company may differ materially from those expressed in these forward looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. For those statements, the Company claims the

protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995.

The Bank

The Bank was organized in 1979 and commenced business as a California state chartered bank in 1980. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC) up to applicable limits. The Bank is not a member of the Federal Reserve System.

The Bank operates five full-service banking offices in Clovis, Fresno, and Prather, California. One of the offices is in a Save Mart Supermarket and offers extended banking hours, including Saturday and Sunday hours, for the convenience of the Bank's customers. The Bank established a Real Estate Division in 1995 in a freestanding facility in downtown Clovis. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. All types of permanent single family residential loans are also offered. The Bank closed its former Shaver Lake branch in 2001.

During 2000, the Bank received approval from the California Department of Financial Institutions (the DFI) and the FDIC for approval to establish full-service banking offices in the Fig Garden area and the River Park area of Fresno. The Fig Garden branch was opened to expand the Bank's market area and to better serve existing customers. The River Park Branch is currently located in temporary quarters until completion of a free-standing building, currently under construction. This facility will have a drive-up window and offer safe deposit boxes. The Bank established a branch in the Sacramento area in the first quarter of 2002. The branch is a full service branch that offers the Company an expanded servicing area to serve the Sacramento area needs of our existing customers and the banking needs of new customers.

The Bank anticipates additional branch openings to meet the growing services needs of its customers and to provide opportunities to expand its loan and deposit base but has no current plan to establish any additional branches or other offices.

The Bank conducts a commercial banking business, which includes accepting demand, savings and time deposits and making commercial, real estate and consumer loans. It also offers installment note collections, issues cashier's checks, sells traveler's checks and provides safe deposit boxes and other customary banking services. The Bank also has offered Internet Banking since the third quarter of 2000. Internet Banking consists of inquiry, account status, bill paying, account transfers, and cash management. The Bank does not offer trust services or international banking services and does not currently plan to do so in the near future.

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In connection with entering into this agreement, the Bank adopted a policy intended to comply with FDIC Regulation Section 337.4, which outlines the guidelines under which an insured nonmember bank may be affiliated with a company that directly engages in the sale, distribution, or underwriting of stock, bonds, debentures, notes, or other securities.

There have been no other significant changes in the kinds of services rendered, the principal markets for or the methods of distribution of such services during the Bank's past three fiscal years.

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The Bank's operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in Clovis, California and its surrounding area. At December 31, 2001, the Company had total loans of \$133,672,000. Total commercial and industrial loans outstanding were \$52,259,000; total real estate construction, land development and other land loans outstanding were \$42,844,000; total other real estate loans outstanding were \$31,591,000, and total consumer installment loans outstanding were \$5,517,000. The Company accepts real estate, listed and unlisted securities, savings and time deposits, automobiles, inventory, machinery and equipment as collateral for loans.

No individual or single group of related accounts is considered material in relation to the Bank's assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2001 approximately 55.7% of the Company's loan portfolio held for investment consisted of real estate-related loans, including construction loans, real estate mortgage loans and commercial loans secured by real estate and 39.1% consisted of commercial loans. At December 31, 2001, the Company had approximately 5.8% of its loan portfolio concentrated in the residential construction industry. See Item 6 - Management's Discussion and Analysis or Plan of Operation. The Company believes that these concentrations are mitigated by the diversification of the loan portfolio among commercial, commercial and residential construction, commercial mortgage, home equity and consumer loans. No borrower had aggregate credit commitments exceeding 4.0% of the loan portfolio at December 31, 2001. In addition, the business activities of the Company currently are concentrated in Fresno County, California. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company's operations in this area of California exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region or as a result of energy shortages in California.

The Company's deposits are attracted from individual and commercial customers. A material portion of the Company's deposits has not been obtained from a single person or a few persons, the loss of any one or more of which would have a material adverse effect on the business of the Company.

In order to attract loan and deposit business from individuals and small businesses, the Company maintains the following lobby hours at its branches:

Branch	Monday	Thursday	Friday	Saturday	Sunday
Clovis Main	9:00 a.m. to 4:00 p.m.		9:00 a.m. to 6:00 p.m.	None	None
Clovis Main Drive Up	8:00 a.m. to 6:00 p.m.		8:00 a.m. to 6:00 p.m.	None	None
Foothill	9:00 a.m. to 4:00 p.m.		9:00 a.m. to 6:00 p.m.	9:00 a.m. To 1:00 p.m.	None
Clovis/Herndon	10:00 a.m. to 7:00 p.m.		10:00 a.m. to 7:00 p.m.	10:00 a.m. to 5:00 p.m.	10:00 a.m. to 3:00 p.m.
Fig Garden Village	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	10:00 a.m. to 3:00 p.m.	None
River Park	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	9:00 a.m. to 3:00 p.m.	None
Sacramento Private Banking	10:00 a.m. to 2:00 p.m.		10:00 a.m. to 2:00 p.m.	None	None

Automated teller machines operate at 5 branch locations 24 hours per day, seven days per week. No automated teller machines are located at the Sacramento office. The Company's Real Estate and Small Business Administration (SBA) Departments maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available at customer request.

The Bank relies substantially on local promotional activity, personal contacts by its officers, directors and employees, referrals by its shareholders, extended hours, personalized service and its reputation in the communities it serves to compete effectively.

In addition to the Company's five branch locations, serving the Bank's primary service areas, as of December 31, 2001 there were twenty-five (25) operating banking offices in the Company's primary service area, which consists of the cities of Clovis, Fresno and Prather, California, of which seventeen (17) were offices of regional and major chain banking systems and three (3) were offices of other community banks. Prather does not contain any banking offices other than the Company's office. The Company's primary service area contains five (5) savings and loan association offices. Business activity in the

Company's primary service area is oriented towards light industry, small business and agriculture.

The banking business in California generally, and in the Company's primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over the Company is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Such banks offer certain services such as international banking and trust services which are not offered directly by the Bank but which usually can be offered indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than the Bank. Legal lending limits to an individual customer are limited to a percentage of a bank's total capital accounts. As of December 31, 2001, the Bank's loan limits to individual customers were \$4,812,000 for unsecured loans and \$5,661,000 for unsecured and secured loans combined. For borrowers desiring loans in excess of the Bank's lending limits, the Bank makes and may, in the future, make such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank's lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

Other entities, both governmental and in private industry, seeking to raise capital through the issuance and sale of debt or equity securities also provide competition for the Bank in the acquisition of deposits. Banks also compete with money market funds and other money market instruments, which are not subject to interest rate ceilings. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Competition for deposit and loan products remains strong, from both banking and non-banking firms, and affects the rates of those products as well as the terms on which they are offered to customers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Technological innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been traditional banking products. In addition, customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, self-service branches, and in-store branches.

Mergers between financial institutions have placed additional pressure on banks to streamline their operations, reduce expenses, and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. Such laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in the Company's market. The competitive environment also is significantly impacted by federal and state legislation, which may make it easier for non-bank financial institutions to compete with the Company.

Clovest Corporation

The Bank has engaged in real estate investment and development activities since 1987 through a wholly-owned subsidiary, Clovest Corporation (Clovest). The Bank's ability to continue to engage in real estate development activities is governed by an order issued by the FDIC pursuant to Section 24(d) of the Federal Deposit Insurance Act, which imposes significant conditions on such activities. On July 15, 1998 the Board of Directors approved the discontinuance of Clovest's operations.

During 2001, Clovest was a partner in one California limited liability company and one general partnership, and as of December 31, 2001, and for the year then ended, the Company's investment in Clovest and the results of Clovest's operations were not material.

Clovis Securities Corporation

Clovis Securities Corporation is a wholly-owned subsidiary of the Bank, which has been inactive since December 31, 1993.

Statistical Disclosure

This information should be read in conjunction with the consolidated financial statements and the notes thereto and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Annual Report, which have been incorporated herein by reference.

Distribution Of Average Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

Table A sets forth the Company's average consolidated balance sheets for the years ended December 31, 2001, 2000 and 1999 and an analysis of interest rates and the interest rate differential for the years then ended. Table B sets forth the changes in interest income and interest expense in 2001 and 2000 resulting from changes in volume and changes in rates.

Investment Portfolio

The book value of investment securities at December 31, 2001, 2000 and 1999 and the book value, maturities and weighted average yield of investment securities at December 31, 2001 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2001, 2000, 1999, 1998 and 1997 is summarized in Table D.

Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2001 are summarized in Table E.

Table F shows the composition of non-accrual, past due and restructured loans at December 31, 2001, 2000, 1999, 1998 and 1997. Set forth in the text accompanying Table F is a discussion of the Company's policy for placing loans on non-accrual status.

Summary Of Loan Loss Experience

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997.

Set forth in the text accompanying Table G is a description of the factors which influenced management's judgment in determining the amount of the additions to the allowance charged to operating expense in each fiscal year, a table showing the allocation of the allowance for credit losses to the various types of loans in the portfolio, as well as a discussion of management's policy for establishing and maintaining the allowance for credit losses.

Deposits

Table H sets forth the average amount of and the average rate paid on major deposit categories for the years ended December 31, 2001, 2000 and 1999.

Table I sets forth the maturity of time certificates of deposit of \$100,000 or more at December 31, 2001.

Return On Equity And Assets

Table J sets forth certain financial ratios for the years ended December 31, 2001, 2000 and 1999.

Table A

DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The following table sets forth consolidated average assets, liabilities and shareholders' equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years ended December 31, 2001, 2000 and 1999. The average balances reflect daily averages except non-accrual loans, which were computed using quarterly averages.

	2001		2000	
	Average Balance	Average Interest Income/Rates Earned	Average Balance	Average Interest Income/Rates Earned
ASSETS:				
Interest-earning deposits in other banks	\$ 100 \$ 3	3.00%	\$ 343 \$ 25	
Investment securities:				
Taxable	55,059,475	6.31%	4,457,506	
Non-taxable (1)	8,665,479	5.53%	8,804,485	
Total investment securities	63,724,954	6.20%	6,261,991	
Federal funds sold	6,502,240	3.69%	9,491,602	

However, for fiscal year 2011, because of the significant changes to our management team throughout the fiscal year, the impact of the acquisition of Interpoint Partners, LLC, the Compensation Committee primarily based the compensation awards to the Named Executive Officers on the board's discretion, taking into account various factors, including individual performance evaluations with regard to our unaudited operating performance and compensation plans as presented to the board. Using this approach, the Named Executive Officers received the following amounts: \$150,000 for Mr. Watson, \$60,000 for Mr. Winzenread and \$43,905 for Mr. Leach. Additionally, each Named Executive Officer chose to receive a portion of their non-equity incentive compensation as restricted stock vesting on the grant date at a per share price of \$1.65, in lieu of cash. Accordingly, the cash portion of each Named Executive Officer's non-equity incentive compensation award was reduced by the grant date fair value of the stock awarded to such Named Executive Officer on December 30, 2011. Mr. Watson elected to have \$75,000 of his award paid in a grant of 45,454 shares of restricted stock; Mr. Winzenread elected to have \$30,000 paid in a grant of 18,181 shares of restricted stock; and Mr. Leach elected to have \$25,000 paid in a grant of 15,151 shares of restricted stock.

Long-term Equity Awards. The Compensation Committee makes recommendations to the full board of directors regarding the granting of equity awards under our 2005 Incentive Compensation Plan. The Compensation Committee has the ability and flexibility under the 2005 Incentive Compensation Plan to determine from time to time the specific amount and the terms and conditions related thereto that the Compensation Committee believes are best designed to provide a strong incentive for senior management's superior performance and continued service to us. The Incentive Compensation Plan provides for grants of stock options, stock appreciation rights and shares of restricted stock. The Compensation Committee believes that properly structured and timed long-term equity awards can encourage executive retention as such awards can be made subject to vesting, performance achievement over time, or other achievement or termination provisions. Long-term equity awards should be given to executive officers and other employees who successfully demonstrate a capacity for contributing directly to our success.

The Compensation Committee does not currently have a policy for the automatic awarding of equity awards to Executive Officers or our other employees. Grants are made periodically, based on individual past performance criteria deemed relevant by the Compensation Committee at the time awards are made. The Compensation Committee granted equity awards to the Named Executive Officers in 2011 as noted in detail in the compensation discussion.

In fiscal 2011, the Compensation Committee granted stock options to the Named Executive Officers at an exercise price of \$2.00 per share with a three year vesting period and a ten year option life. Mr. Winzenread was the only Named Executive Officer to earn a long-term equity award, and was granted a stock option for 102,000 shares of our common stock on May 26, 2011. Mr. Watson was also granted a stock option for 50,000 shares of our common stock on May 26, 2011.

Benefits. We provide group life insurance, health and dental care insurance, employee stock purchase plan, long-term disability insurance, 401(k) plan matching contributions and similar benefits to all employees, including Named Executive Officers. These benefits do not discriminate in scope, terms or operation in favor of the Named Executive Officers.

Perquisites. We provide some of the Named Executive Officers with an annual automobile allowance that the Compensation Committee believes is reasonable, competitive and consistent with our overall executive compensation program. The automobile allowance and all other benefits that could be considered perquisites amount to less than \$10,000 per year for each Named Executive Officer individually.

Employment and Indemnification Agreements. We have employment agreements with each of our Named Executive Officers. Those agreements provide each Named Executive Officer with certain benefits upon termination of employment as discussed below. We have also entered into indemnification agreements with each of our Named Executive Officers and directors. Each indemnification agreement provides that we will indemnify the covered individual to the extent permitted by Delaware law. The indemnification agreement also requires us to maintain directors and officers insurance coverage substantially equivalent to our current coverage, provided that the costs of maintaining such insurance do not become substantially disproportionate to the coverage obtained and that such insurance is reasonably available.

Mr. Watson's Employment Agreement. We have entered into an employment agreement with Mr. Watson, our President and Chief Executive Officer. The agreement covers the period January 31, 2011 through January 31, 2013, with provisions for automatic annual renewals and contains the provisions described below and other usual and customary provisions found in executive employment agreements. The agreement provides that he serves as our President and Chief Executive Officer throughout the term of the agreement; his base salary was \$250,000 in 2011 and \$275,000 in 2012, subject to annual adjustment thereafter at the discretion of the Compensation Committee. If his employment is terminated for reasons other than good cause, death or disability, he will receive severance equal to twelve months total compensation, including base compensation and the higher of the non-equity incentive compensation plan award for the prior year or earned in the current fiscal year to date, all of which shall be paid within 90 days following termination. The total cost upon termination in such events would be \$425,000 based upon his base salary and non-equity incentive compensation in 2011. Mr. Watson is subject to a non-compete provision for a period of two years following termination of employment. In addition, Mr. Watson's employment agreement provides that if his employment is terminated within twelve months of a change of control, or if Mr. Watson terminates his employment agreement due to a material breach of his duties or compensation, he will be entitled to 200% of all of the severance benefits noted above.

Mr. Winzenread's Employment Agreement. We have entered into an employment agreement with Mr. Winzenread, our Chief Operating Officer and Senior Vice President of Product Development and Strategy. The agreement covers the period of June 1, 2010 through May 31, 2011, with provisions for automatic annual renewals and contains the provisions described below and other usual and customary provisions found in executive employment agreements. The agreement provides that he serves in these executive positions throughout the term of the agreement; his base salary was \$205,400 in 2011 and \$205,400 in 2012, subject to annual adjustment thereafter at the discretion of the Compensation Committee. If his employment is terminated for reasons other than good cause, death or disability, he will receive severance equal to sixty percent of his then current annual salary plus sixty percent of the higher of his non-equity incentive compensation plan awards paid in the prior fiscal year or earned in the then current fiscal year to date, all of which shall be paid within 90 days following termination. He is also subject to a non-compete provision for a period of one year following termination of employment. In the event that his employment is terminated within twelve months of a change of control, he will receive a lump sum payment equal to sixty percent of his then current salary and all stock options granted to him will immediately vest in full. Our total cost upon termination in such events would be \$141,240 based upon his base salary and non-equity incentive compensation in 2011.

Mr. Leach's Employment Agreement. We have entered into an employment agreement with Mr. Leach, our President and Chief Marketing Officer. The agreement covers the period March 8, 2011 through March 8, 2012 and contains provisions for automatic annual renewals and contains the provisions described below and other usual and customary provisions found in executive employment agreements. The agreement provides that he serves as our Senior Vice President and Chief Marketing Officer throughout the term of the agreement; his base salary is \$180,000, subject to an annual adjustment thereafter at the discretion of the Compensation Committee. If his employment is terminated for reasons other than good cause, death or disability, he will receive severance equal to fifty percent of his base salary in effect on the date of such termination, plus fifty percent of the higher of his non-equity incentive compensation awards paid in the prior year or earned in the current fiscal year to date, all of which shall be paid within 90 days following termination. Our total cost upon termination in such events would be \$99,452 based upon his base salary and non-equity incentive target compensation in 2011. He is subject to a non-compete provision for a period of twelve months following termination of employment. In addition, Mr. Leach's employment agreement provides that if his employment is terminated within twelve months of a change of control, or if Mr. Leach terminates his employment agreement without a material reduction in his duties or compensation, he will be entitled to all of the severance benefits noted above. Mr. Leach resigned as our officer and employee effective August 16, 2012. Pursuant to the terms of his separate employment agreement, he is entitled to receive a total of \$157,000 in severance payments in accordance with normal payroll procedures and will have the right to exercise 88,889 vested stock options in the 90 day period following termination. All other unvested stock options and restricted stock were forfeited.

Section 162(m). Based on the Compensation Committee's past compensation practices, the Compensation Committee does not currently believe that Section 162(m) of the Internal Revenue Code, which limits the deductibility of executive compensation in certain events, will adversely affect our ability to obtain a tax deduction for compensation paid to our Named Executive Officers.

Nonqualified Deferred Compensation. We have no deferred compensation plans for our Named Executive Officers or any other employees. However, the American Jobs Creation Act of 2004 which was signed into law on October 3, 2004, changed the tax rules applicable to nonqualified deferred compensation arrangements and, in certain circumstances, may apply to equity awards, severance payments and other forms of compensation that may constitute deferred compensation for purposes of Section 409A of the Internal Revenue Code. The final regulations under Section 409A are not yet issued and we believe we are operating in compliance.

Summary of Cash and Certain Other Compensation

The following table is a summary of certain information concerning the compensation earned during the last two years by our Named Executive Officers for fiscal year 2011.

Summary Compensation Table

Name and Principal Position(5)	Year	Salary(1) (\$)	Option Awards(6) (\$)	Stock Awards(6,7) (\$)	Non-Equity Incentive	All Other Compensation (2, 3, 4) (\$)
					Plan Compensation(8) (\$)	
Robert E. Watson Chief Executive Officer and President	2011	250,000		75,000	75,000	10,453
	2010		316,500	92,500	65,000	
Gary M. Winzenread Sr. Vice President Product Development and Strategy	2011	200,000	88,710	30,000	30,000	8,354
	2010	182,000	25,412		13,086	7,778
Richard D. Leach ⁽¹⁰⁾ Sr. Vice President, Solutions Marketing	2011	180,000	188,000	44,700 ⁽⁸⁾	18,905	50,726 ⁽⁹⁾
	2010					

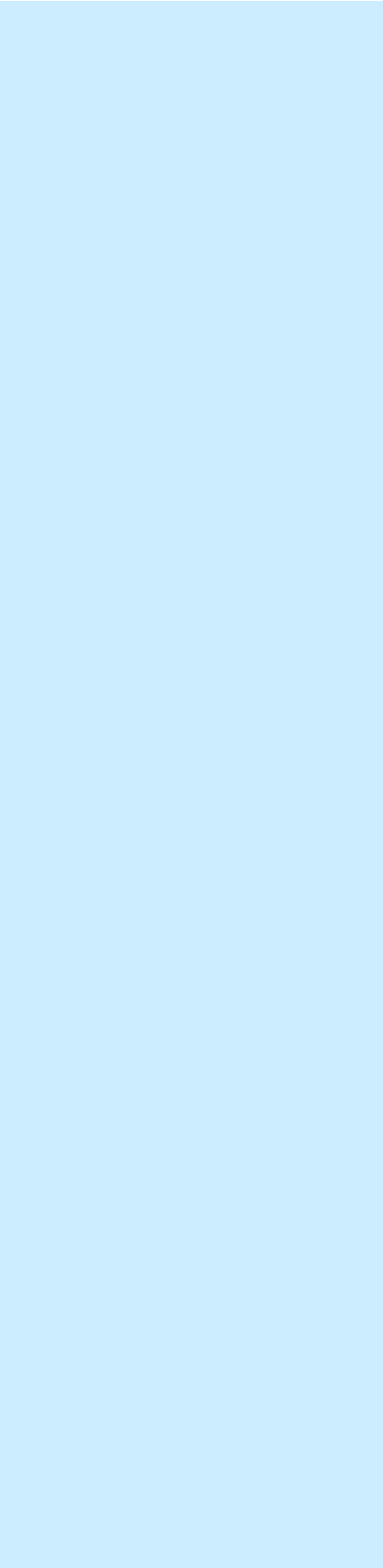
- (1) Includes amounts contributed by the officers to our 401(k) plan.
- (2) Does not include perquisites and other personal benefits, the aggregate amount of which with respect to Named Executive Officers does not exceed \$10,000 reported for that year.
- (3) Includes our matching contribution to the 401(k) plan equal to a 100% match on the first 4% of the employee compensation which is available to all employees who participate in the plan.
- (4) Excludes group life insurance, health care insurance, employee stock purchase plan discounts, long-term disability insurance and similar benefits provided to all employees that do not discriminate in scope, terms or operation in favor of the Named Executive Officers.
- (5) All officers serve at the pleasure of the board of directors and are appointed annually to their current positions.
- (6) The amounts included in the table above reflect the total grant date fair value at the time of the grant and are determined in accordance with Financial Accounting Standards Board ASC Topic 718. The assumptions used in determining the grant date fair values of these awards are set forth in footnote I to our consolidated financial statements, which are included in our annual report on Form 10-K for the year ended January 31, 2012 filed with the Securities and Exchange Commission.
- (7) Each Named Executive Officer opted to have a portion of his non-equity incentive compensation paid in restricted stock, which vested on the grant date, in lieu of cash. Accordingly, Mr. Watson received 45,454 shares of restricted stock; Mr. Winzenread received 18,181 shares of restricted stock; and Mr. Leach received 15,151 shares of restricted stock. The shares of restricted stock were granted to each Named Executive Officer at a per share price of \$3.00.
- (8) In addition to the restricted stock that Mr. Leach was awarded in lieu of cash for his non-equity incentive compensation award, Mr. Leach received 10,000 shares of our common stock as an inducement grant upon his hire in March 2011.
- (9) In addition to the matching contribution, Mr. Leach also earned \$42,621.04 in commissions.
- (10) Mr. Leach resigned as our officer and employee effective August 16, 2012. Pursuant to the terms of his severance agreement, he is entitled to receive a total of \$157,000 in severance payments in accordance with normal industry practices and procedures and will have the right to exercise 88,889 vested stock options in the 90 day period following his resignation. All other unvested stock options and restricted stock were forfeited.

Outstanding Equity Awards at 2011 Fiscal Year End

The following table sets forth information with respect to the Named Executive Officers equity awards outstanding as of January 31, 2012.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards:
					Number of Unearned Shares that Have Not Vested (#)
Robert E. Watson	83,328	166,672 ⁽¹⁾	2.00	1/31/21	
	30,000	120,000 ⁽²⁾	3.00	1/31/21	
Gary M. Winzenread	51,862		1.80	1/26/19	
	20,000		2.19	5/21/18	
	8,643	17,288 ⁽³⁾	1.995	4/6/20	
	22,664	79,336 ⁽⁴⁾	2.00	5/24/21	
Richard D. Leach	55,560 ⁽⁵⁾	144,440 ⁽⁵⁾	2.00	3/7/21	

The closing market price for one share of our common stock on January 31, 2012, the end of fiscal year 2011

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- (1) These options vest ratably each year until they are fully vested on January 31, 2014.
 - (2) These options vest ratably each year until they are fully vested on January 31, 2016.
 - (3) These options vest ratably each year until they are fully vested on April 6, 2013.
 - (4) These options vest ratably each year until they are fully vested on May 24, 2014.
 - (5) Mr. Leach resigned as our officer and employee effective August 16, 2012. In connection with his separation, he forfeited all but 88,889 of the option shares granted to him.

Option Exercises and Stock Vested in 2011 Fiscal Year

The only shares of our common stock that were acquired by any Named Executive Officer on exercise of outstanding option awards in fiscal year 2011 were by Mr. Leach. Mr. Leach exercised his immediately vested right to purchase 10,000 shares for \$.01 per share. Named Executive Officers did not have any other restricted stock vest in fiscal year 2011.

DIRECTOR COMPENSATION

We currently pay each of our independent directors the following fees for service on our board and committees: (i) an annual retainer of \$10,000, (ii) \$1,500 for each regularly scheduled board meeting attended in person or \$500 for a telephonic meeting, and (iii) \$1,500 per day for each special meeting or committee meeting attended in person when there are no board meetings or \$500 if these meetings are telephonic. In addition, committee chairmen receive an annual retainer of \$2,500, and the Chairman of the Board is paid an annual retainer of \$35,000. The Chairman of the Board is not compensated for committee meeting fees. All annual retainers are paid immediately following the next stockholders meeting to directors elected at such meeting. Mr. Watson, as one of our officers, was not separately compensated as a member of the board of directors. See the Summary Compensation Table for information regarding compensation as our President and Chief Executive Officer.

In order to attract and retain high quality non-employee independent directors, we currently have a policy of offering independent directors to accept a grant of restricted stock with a one year vesting period, in equal value to all or part of their annual board fees, in lieu of cash. Incumbent directors, excluding the Chairman of the Board, are awarded \$25,000 in restricted stock with a one year vesting period, which grant is made on the date of the annual meeting to stockholders to directors elected at such meeting. The Chairman of the Board is annually granted \$40,000 in restricted stock with a one year vesting period. These awards are pursuant to our 2005 Incentive Compensation Plan at an exercise price equal to the closing price on the date the awards are approved by the board of directors. We believe the awarding of restricted stock to directors is a necessary component of their total compensation, including their board fees, to further incentivize them to work to increase our operating results and stock price.

The 2005 Incentive Compensation Plan provides for the granting of non-qualified stock options to directors and our employees as noted above. During the 2011 fiscal year, there were no stock options awarded to any directors.

The 2005 Incentive Compensation Plan also provides for the granting of restricted stock to directors who are not our employees as noted above. During the 2011 fiscal year, the directors were awarded the following number of shares of restricted stock: Michael K. Kaplan, 5,723 shares; Richard C. Levy, 22,784 shares; Jay D. Miller, 14,880 shares; R. Phillips, 47,763 shares; Andrew L. Turner, 17,427 shares; and Edward J. VonderBrink, 14,880 shares.

Director Compensation in 2011⁽¹⁾

Name (3)	Fees Earned or Paid		Option Awards (\$)
	in Cash (\$)	Stock Awards(2) (\$)	
Michael K. Kaplan		10,416	
Richard C. Levy, M.D.	5,500	38,000	
Jay D. Miller	18,500	25,000	
Jonathan R. Phillips	3,500	80,000	
Andrew L. Turner	13,500	29,000	
Edward J. VonderBrink	18,500	25,000	
Allen S. Moseley ⁽⁴⁾			

- (1) The amounts included in the table above for Option Awards and Restricted Stock Awards reflect the total grant date fair value for options and restricted stock grants computed in accordance with Financial Accounting Standards Board ASC Topic 718.
- (2) The amounts shown include the value of shares of restricted stock granted to each of Messrs. Kaplan, Le and Turner in 2011 in lieu of paying their meeting fees in cash.
- (3) As of January 31, 2012, the following options are outstanding and fully vested: 40,000 options to Dr. Le, 15,000 options to Mr. Phillips, 35,000 options to Mr. Turner, 45,000 options to Mr. VonderBrink and 15,000 options to Mr. Miller. As of January 31, 2012, the following restricted shares are outstanding: 48,825 restricted shares to Dr. Levy, 106,162 restricted shares to Mr. Phillips, 45,074 restricted shares to Mr. Turner, 40,291 restricted shares to Mr. VonderBrink and 44,408 restricted shares to Mr. Miller.
- (4) Noro-Moseley Partners VI, L.P. nominated Allen S. Moseley, and Mr. Moseley was appointed to our board of directors on August 16, 2012. As of September 14, 2012, Noro-Moseley Partners has been paid \$6,083 in director fees.

We also have entered into indemnification agreements with each of our directors. Each indemnification agreement provides that we will indemnify the covered individual to the full extent permitted by Delaware law. The indemnification agreement also requires that we maintain directors and officers insurance coverage substantially equivalent to the coverage, provided that the costs of maintaining such insurance does not become substantially disproportionate to the coverage obtained and that such insurance is reasonably available to us.

We have provided liability insurance for our directors and officers since 1996. The current policies expire on December 31, 2013. The annual cost of this coverage is approximately \$96,000. Upon expiration, the current policies will be replaced with at least equivalent coverage.

Compensation Committee Interlocks and Insider Participation

The following non-employee independent directors serve on the Compensation Committee: Andrew L. Turner, Edward J. Miller, and Edward J. VonderBrink. No member of the Compensation Committee is or was an officer or employee of the company or any subsidiary of ours. None of our directors or Named Executive Officers serve on any board of directors or compensation committee that compensates any member of the Compensation Committee.

PROPOSAL 2

AMENDMENT TO THE 2005 INCENTIVE COMPENSATION PLAN, PROVIDING FOR THE ISSUANCE OF UP TO AN ADDITIONAL FIVE HUNDRED THOUSAND SHARES THEREUNDER

Subject to stockholder approval, our board of directors has approved an amendment to the 2005 Incentive Compensation Plan (the "2005 Plan"). The 2005 Plan allows for the issuance of stock appreciation rights, restricted stock awards to employees, non-employee directors and non-employee consultants. At September 11, 2012, there were 233,500 shares of our common stock remaining available for issuance upon the grant of additional awards under the 2005 Plan. The purpose of the amendment is to increase the aggregate number of shares eligible for issuance under the 2005 Plan from 2,000,000 shares to 2,500,000 shares of our common stock. No other changes to the 2005 Plan are proposed by the board of directors.

Summary of Terms of the 2005 Plan

The following is a summary of the material terms and conditions of the 2005 Plan. The full text of the 2005 Plan and amendments are filed with the Securities and Exchange Commission. We refer you to those filings and incorporate them by reference into this proxy statement. See "Where You Can Find Additional Information" below.

Administration. The Compensation Committee administers the 2005 Plan, which includes approving: the individuals who will receive awards; the type of awards to be granted; the terms and conditions of the awards, including the number of shares and exercise price of the awards; and the time when the awards become exercisable, will vest, or the restrictions on an award is subject will lapse. The Compensation Committee is composed of three or more directors who are independent under applicable Nasdaq listing rules and will have at least two members who, to the extent required by Rule 101(b)(1) of the Securities Exchange Act of 1934 or Section 162(m) of the Internal Revenue Code, qualify as non-employee and outside directors, respectively. The Compensation Committee has full authority to interpret the terms and conditions of awards granted under the 2005 Plan, to adopt, amend and rescind rules and guidelines for the administration of the 2005 Plan and for its own acts and proceedings and to decide all questions and settle all controversies and disputes that may arise in connection with the 2005 Plan.

Number of Shares. The shares reserved under the 2005 Plan will be subject to adjustment in the event of a stock split, or other change in corporate structure or capitalization affecting our common stock. The common stock delivered to participants under the 2005 Plan may be either authorized but unissued shares of common stock or shares of common stock held by us in treasury.

Reissuance of Shares. To the extent that shares of common stock subject to an outstanding award under the 2005 Plan are not issued (including by reason of forfeiture, termination, surrender, cancellation, or expiration while unexercised), or an award, by reason of the tendering or withholding of shares to pay all or a portion of the exercise price or to satisfy a portion of the tax withholding obligations relating to the award, by reason of being settled in cash in lieu of shares, or being settled in a manner that some or all of the shares covered by the award are not issued to the participant, or being exchanged for a grant under the 2005 Plan that does not involve common stock), then such shares shall immediately be available for issuance under the 2005 Plan. The Compensation Committee may from time to time adopt and amend such procedures concerning the counting of shares against the 2005 Plan maximum as it may deem appropriate.

Incentive Awards. Of the shares authorized for issuance under the 2005 Plan, up to 100% may be issued with respect to incentive stock option awards.

Extraordinary Corporate Transactions. Shares of common stock issued in connection with awards that are subsequently converted or substituted pursuant to a merger, acquisition or similar transaction entered into by us or any of our subsidiaries shall not reduce the number of shares available to be issued under the 2005 Plan.

Reasons the Board Supports Stockholder Approval of Proposal 2

We believe that equity is a key element in our compensation package because equity awards encourage employees to work hard and align employee interests directly with those of stockholders. We also believe that equity awards to non-employee directors and third-party consultants help recruit consultants and directors, retain directors and align the directors' and consultants' interests directly with those of stockholders. In order to continue to have sufficient equity available for issuance under the 2005 Plan, our board of directors determined that authorizing additional shares for possible awards would best align our interests with our stockholders.

On August 15, 2012, the Compensation Committee approved the conditional grant of options to purchase an aggregate of 221,000 shares of our common stock to new employees who became part of our organization in connection with the acquisition of Meta Health Technology, Inc. These grants are conditioned upon stockholder approval of the amendment to increase the number of shares under the 2005 Plan. If stockholder approval is not received, the conditional grants will be null and void. The conditional grants were awarded at an exercise price of \$4.32 per share, representing the closing price of our stock on the date the new employees started employment with our company. Upon approval of the amendment and effectiveness of these conditional grants, there will be 512,569 shares of our common stock then remaining available for issuance under the 2005 Incentive Compensation Plan.

The amendment to the 2005 Plan will not result in any new plan benefits to our directors, executive officers, employees or consultants other than providing them with an opportunity to be granted additional stock-based awards. Except with respect to the conditional grants described above, no specific determinations have yet been made as to recipients, amounts or terms of any future awards under the 2005 Plan, as so amended.

Our board of directors recommends a vote FOR Proposal 2, the approval of the amendment to the 2005 Plan, providing for the issuance of up to an additional 500,000 shares thereunder.

The following table presents additional information regarding securities authorized for issuance under our equity compensation plans as of January 31, 2012:

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)
Equity compensation plans approved by security holders	1,205,550 ^(1 & 2)	\$ 1.88
Equity compensation plans not approved by security holders	715,000 ⁽³⁾	\$ 2.21
Total	1,920,550^(1, 2 & 3)	\$ 2.22

- (1) Includes 7,500 options that can be exercised under the 1996 Employee Stock Option Plan.
- (2) Includes 1,198,050 options that can be exercised under the 2005 Incentive Compensation Plan.
- (3) Options granted under an inducement grant with terms as nearly as practicable identical to the terms and conditions of the Company's 2005 Incentive Compensation Plan. The share and option awards are inducement grants subject to NASDAQ Marketplace Rule 5635(c)(4).
- (4) Our board of directors has not established any specific number of shares that could be issued without stockholder approval. Inducement grants to new key employees will be determined on a case-by-case basis. Other than inducement grants, we expect that all equity awards will be made under shareholder approved plans.
- (5) Includes 366,914 shares to be issued from the 2005 Incentive Compensation Plan, and 188,001 shares to be issued from the Employee Stock Purchase Plan.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP served as our independent registered public accounting firm for the fiscal year ended January 31, 2012, and is serving as our independent registered public accounting firm for the current fiscal year. A representative of BDO USA, LLP will be present at the special meeting of stockholders. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate stockholder questions.

STOCKHOLDER PROPOSALS FOR 2013 ANNUAL MEETING OF STOCKHOLDERS

Stockholder proposals intended for inclusion in our proxy statement and form of proxy relating to our 2013 annual meeting of stockholders must be received by us not later than December 25, 2012. Such proposals should be submitted to our Corporate Secretary, Streamline Health Solutions, Inc., 10200 Alliance Road, Suite 200, Cincinnati, Ohio 45240. The inclusion of any proposal will be subject to applicable rules of the Securities and Exchange Commission, including Rule 14a-8 of the Securities and Exchange Act of 1934, as amended from time to time, and timely submission of a proposal does not guarantee its inclusion in our proxy statement.

Any stockholder who intends to propose any other matter to be acted upon at the 2013 annual meeting of stockholders must do so in accordance with our bylaws. Under our bylaws, director nominations and other business may be brought to an annual meeting of stockholders only by or at the direction of our board of directors or by a stockholder entitled to vote who has submitted a proposal in accordance with the requirements of our bylaws as in effect from time to time. To be timely under our bylaws as now in effect, a stockholder notice must be delivered or mailed to our Corporate Secretary at our principal executive offices not less than 90 days prior to the first anniversary of the preceding year's annual meeting of stockholders. Stockholder proposals for the 2013 annual meeting of stockholders, other than proposals intended for inclusion in our proxy statement as set forth in the preceding paragraph, must be received by February 23, 2013, or, in the event that the date of the annual meeting of stockholders is advanced more than 30 days prior to such anniversary date or delayed more than sixty (60) days after such anniversary date, then to be timely such notice must be received no later than the later of 90 days prior to the date of the meeting or the tenth day following the day on which public announcement of the date of the meeting was made. Please refer to the full text of our advance notice bylaw for additional information and requirements.

FORWARD-LOOKING INFORMATION

This proxy statement contains forward-looking statements relating to our plans, strategies, expectations, intentions 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 impact of competition, changes in products and pricing, product demand and market acceptance, new product development, key strategic alliances, relationships with vendors that resell our products, our ability to control costs, availability of products produced from third party manufacturers, the healthcare regulatory environment, potential changes in legislation, regulation and government funding affecting the healthcare industry, healthcare information systems budgets, availability of healthcare information systems training, and personnel for implementation of new systems, as well as maintenance of legacy systems, fluctuations in operating results, effects of critical accounting policies and judgments, changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other similar entities, changes in economic, business and market conditions impacting the national healthcare industry, including the markets in which we operate, and our ability to maintain compliance with the terms of our credit facilities, and other risk factors that might cause such differences in results to be discussed herein. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on our behalf. Readers are cautioned not to place undue reliance on these forward-looking statements, which are management's analysis only as of the date thereof. We undertake 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 we file from time to time with the Securities and Exchange Commission, including the annual report on Form 10-K, the quarterly reports on Form 10-Q and any current reports on Form

WHERE YOU CAN FIND ADDITIONAL INFORMATION

The Securities and Exchange Commission allows us to incorporate by reference information into this proxy statement, which means that we can disclose important information to you by referring you to another document that we file separately with the Securities and Exchange Commission. The information incorporated by reference is considered part of this proxy statement, and all information appearing in this proxy statement is qualified in its entirety by the information incorporated herein by reference. Information in this proxy statement updates and, in some cases, supersedes information incorporated by reference from documents that we have filed with the Securities and Exchange Commission prior to the date of this proxy statement, while information that we file later with the Securities and Exchange Commission will automatically supplement, update and, in some cases, supersede the information in this proxy statement.

The following documents and information we previously filed with the Securities and Exchange Commission are incorporated by reference into this proxy statement:

Our annual report on Form 10-K for the year ended January 31, 2012, filed with the Securities and Exchange Commission on April 25, 2012;

Our quarterly report on Form 10-Q for the quarter ended April 30, 2012, filed with the Securities and Exchange Commission on June 8, 2012, and for the quarter ended July 31, 2012, filed with the Securities and Exchange Commission on September 14, 2012;

Our current reports on Form 8-K, filed with the Securities and Exchange Commission on February 2, 2012, May 25, 2012, June 21, 2012, and August 21, 2012;

The description of our common stock set forth in Amendment No. 1 to our Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 16, 1996; and

The 2005 Incentive Compensation Plan attached as Appendix A to our proxy statement, filed with the Securities and Exchange Commission on April 7, 2005, and Amendment No. 1 to the 2005 Incentive Compensation Plan attached as Annex 1 to our proxy statement, filed with the Securities and Exchange Commission on October 10, 2011.

In addition, all documents filed by us pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (other than current reports on Form 8-K furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K including any exhibits included with such information, unless otherwise indicated therein), after the date of this proxy statement and before the date of the special meeting are incorporated by reference. These additional documents are deemed to be incorporated by reference, and to be a part of, this proxy statement from the date of their filing.

We will provide without charge to each person to whom this proxy statement is delivered, including any beneficial owner, upon his or her written or oral request, by first class mail or other equally prompt means within one business day after receipt of such request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this proxy statement excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You can request those documents from:

Streamline Health Solutions, Inc.

10200 Alliance Road

Suite 200

Cincinnati, Ohio 45242-4716

Attention: Chief Financial Officer

(513) 794-7100

You should rely only on the information contained or incorporated by reference in this proxy statement. We have not authorized anyone to provide you with information that is different from what is contained in this proxy

statement. This proxy statement is dated _____, 2012. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date.

ALL STOCKHOLDERS ARE URGED TO COMPLETE, SIGN, DATE, AND RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

THANK YOU FOR YOUR PROMPT ATTENTION TO THIS MATTER.

By Order of the Board of Directors

**Jonathan R. Phillips
Chairman of the Board**

Cincinnati, Ohio

, 2012