

US ENERGY CORP
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October 31, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant
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))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

(Name of Registrant as Specified In Its Charter)

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

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No fee required.

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- 1) Title of each class of securities to which transaction applies:
- 2) Aggregate number of securities to which transaction applies:
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2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

U.S. ENERGY CORP.

950 S. Cherry Street, Suite 1515

Denver, Colorado 80246

Notice of Special Meeting of Shareholders

October 31, 2017

Dear Shareholders:

We are pleased to provide you with notice of Special Meeting of Shareholders, and we invite you to attend the meeting in person, if possible. The timing, location and summary of each of the proposals to be voted upon are as follows:

Date: Wednesday, December 27, 2017

Time: 8:30 AM MST

Place: 950 S. Cherry Street, Suite 1515, Denver, Colorado 80246

Purposes: 1. To approve the issuance of shares of Common Stock in connection with the Exchange Agreement (as defined below) under NASDAQ Stock Market Rules 5635(b) (the “Exchange Proposal”);

To approve an amendment, at the discretion of the Board of Directors, to the Company's articles of incorporation to
2. implement a reverse stock split of the Company's outstanding Common Stock at a reverse split ratio of 1-for-5, without reducing the authorized number of shares of our Common Stock (the "Reverse Stock Split"); and

To approve an adjournment of the Special Meeting, if necessary or appropriate, to establish a quorum or to permit
3. further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting cast in favor of the Exchange Proposal or the Reverse Stock Split.

We are submitting the Exchange Proposal to our shareholders to facilitate a proposed recapitalization of the Company to reduce our debt, leverage and cash interest expense, increase our financial flexibility and better position ourselves to return to growth in the event of a potential recovery in commodity prices. We intend to accomplish this through:

an Exchange Agreement (the "Exchange Agreement") with APEG Energy II, L.P., ("APEG"), an entity controlled by Angelus Private Equity Group, LLC. APEG currently holds \$6,000,000 in principal amount of loans under the Credit Agreement by and between the Company's wholly owned subsidiary, Energy One LLC ("Energy One"), and APEG dated as of July 30, 2010, as amended (the "Credit Facility"), comprising the entire principal balance outstanding under the Credit Facility (the "Balance"). Pursuant to the Exchange Agreement APEG will exchange \$4,463,380 of the Balance for 5,819,270 shares of the Company's Common Stock, par value \$0.01 per share, representing approximately 49.3% of the Company's Common Stock (the "Exchange"); and

on the closing of the Exchange Agreement, the use of cash otherwise dedicated to interest expense to (i) increase our capital budget and resume growing our production base, and (ii) further pay down our existing debt.

The Exchange is conditioned upon, among other things, shareholder approval of the Exchange Proposal.

The Company's board of directors (the "Board") considered the effects that the Exchange is expected to have on the Company, and unanimously determined that the substantial debt reduction, cash interest expense savings and decreased leverage contemplated by the Exchange is critical to unlocking shareholder value in the Company and position the Company to take advantage of a potential recovery in commodity prices. Although the Company is currently operating substantially within its cash flow, its business is one of natural production declines. We believe that to enhance shareholder value over the long term, we will need to deploy capital to maintain and grow our asset base. To do that, the Company must reduce its debt and leverage and put itself in a position to access additional capital if commodity prices rise.

If the Company is unable to complete the proposed Exchange, and substantially reduce its debt, it would need to pursue alternative strategies, which may include discounted equity issuances, asset sales, alternative debt for equity exchanges or other debt reduction or restructuring transactions. In the Board's view, none of these alternatives are as actionable, or are as likely to result in a significant reduction of leverage and preserve value for existing shareholders, as the Exchange.

Our Board unanimously believes that the Exchange Proposal, is in the best interests of the Company and its shareholders and, therefore, recommends that you vote “FOR” the Exchange Proposal.

We are submitting the Reverse Stock Split to our shareholders to maintain the listing of the Company’s Common Stock on The NASDAQ Capital Market. In order to maintain our NASDAQ Capital Market listing, our Common Stock must achieve a closing bid price of \$1.00 per share or more for 10 consecutive trading days. The Reverse Stock Split is one method for achieving this result. The Company values its listing on The NASDAQ Capital Market and, conditioned on shareholder approval, will, in the discretion of the Board of Directors, implement the Reverse Stock Split by the filing of articles of amendment to our Restated Articles of Incorporation with the Secretary of the State of Wyoming.

If the Company is unable to complete the Reverse Stock Split, the Company’s Common Stock may be delisted from The NASDAQ Capital Market and, as a result, shareholders would likely find it more difficult to obtain accurate quotations as to the price of our Common Stock, and the liquidity of our Common Stock would likely be reduced, making it difficult for shareholders to buy or sell our Common Stock at competitive market prices, or at all. In addition, support from institutional investors and/or market makers that currently buy and sell the Company’s stock may decline, possibly resulting in a decrease in the trading price of our Common Stock.

Our Board unanimously believe that the Reverse Stock Split is in the best interests of the Company and its shareholders and, therefore, recommends that you vote “FOR” the Reverse Stock Split.

Details of the business to be conducted as the Special Meeting are provided in the attached Notice of Special Meeting and Proxy Statement.

Only shareholders of record at the close of business on November 1, 2017 are entitled to receive notice of and to vote at the Special Meeting.

The Securities and Exchange Commission (“SEC”) allows companies to furnish proxy materials over the Internet, which reduces environmental impact as well as printing and mailing costs. Unless otherwise requested by the shareholder, we are mailing to each shareholder a Notice of Internet Availability of Proxy Materials (the “Notice of Availability”) instead of mailing paper copies of the proxy materials. The Notice of Availability contains instructions on how to access the proxy materials on the Internet, and also on how to request a paper copy of the proxy materials. All shareholders who do not receive a Notice of Availability will receive a paper copy of the proxy materials by mail.

Whether or not you plan to attend the meeting, please take the time to vote:

Via the internet – Go to the website shown on your proxy card or the Notice of Availability;

Via telephone – Call the toll free number shown on the Notice of Availability; or

Via mail – Complete, sign and date your proxy card and mail it in the postage paid envelope.

If you are a shareholder of record of the Company at the close of business on November 1, 2017, you may attend and vote at the meeting. The names of shareholders of record entitled to vote at the Special Meeting will be available for review at the Special Meeting and during regular business hours at our headquarters in Denver, Colorado.

If you wish to attend the Special Meeting and vote in person, but you hold your shares through a broker or other nominee (i.e., your shares are held in “street name”), contact your broker or nominee promptly to obtain a “legal proxy” which you must bring to the Special Meeting in order to vote in person at the Special Meeting. Thank you for your support for the recommendation of our Board of Directors.

By Order of the Board of Directors

/s/ David A. Veltri
Chief Executive Officer

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY

**OF PROXY MATERIALS FOR THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON
DECEMBER 27, 2017**

This Notice of Special Meeting of Shareholders, and the accompanying Proxy Statement are available on our website www.usnrg.com and www.proxyvote.com.

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U.S. ENERGY CORP.

950 S. Cherry Street, Suite 1515

Denver, Colorado 80246

PROXY STATEMENT

FOR SPECIAL MEETING OF SHAREHOLDERS ON

WEDNESDAY, DECEMBER 27, 2017

This proxy statement (“Proxy Statement”) is provided in connection with a solicitation of proxies by the Board of Directors (the “Board”) of U.S. Energy Corp. (“U.S. Energy”, the “Company”, “we”, “our”, or “us”) for the Special Meeting of shareholders to be held on Wednesday, December 27, 2017, at 8:30 am MST at the corporate offices of U.S. Energy, 950 S. Cherry Street, Suite 1515, Denver, Colorado 80246 (the “Special Meeting”), and at any adjournments of the meeting. On or about November 17, 2017, we began mailing the Notice of Availability and a full set of proxy materials to shareholders who requested delivery of the materials in paper form.

GENERAL

Q. Why am I receiving these proxy materials?

A. On October 3, 2017, the Company entered into an Exchange Agreement (the “Exchange Agreement”) with the Company’s wholly owned subsidiary Energy One LLC and APEG Energy II, L.P., (“APEG”), an entity controlled by Angelus Private Equity Group, LLC, pursuant to which, on the terms and subject to the conditions of the Exchange Agreement, APEG will exchange \$4,463,380 of outstanding borrowings under the Company’s Credit Facility, for 5,819,270 new shares of Common Stock of the Company, par value \$0.01 per share (the “Exchange”), at an exchange price of \$0.767 representing a 1.3% premium over the 30-day volume weighted average price of the Company’s Common Stock on September 20, 2017 (the “Exchange Shares”). In addition, at the closing of the Exchange, the Company will pre-pay, in cash, \$600,000 of the outstanding principal under the Credit Facility, leaving approximately \$937,000 outstanding. Also, accrued, unpaid interest on the Credit Facility held by APEG will be paid in cash at the closing of the transaction. Immediately following the close of the transaction, APEG will hold approximately 49.3% of the outstanding Common Stock of U.S. Energy. The terms of the Exchange Agreement are more fully described below under the caption “The Exchange Agreement.”

The Exchange requires shareholder approval of the issuance of shares of Common Stock under NASDAQ Stock Market Rule 5635(b) (the "Exchange Proposal"). The Exchange is expected to occur following satisfaction of the closing conditions in the Exchange Agreement, including shareholder approval of the Exchange Proposal.

The Exchange is being pursued to reduce the Company's debt, leverage and cash interest expense, and increase the Company's financial flexibility during the current period of volatile commodity prices in the oil and gas industry, which has had a significant, adverse effect on the Company.

On the completion of the Exchange the Company will have significantly reduced interest expense as a result of the decrease in its outstanding debt, and we intend to use cash that we previously used for interest expense to increase our capital budget and resume growing our production base. In addition, the reduction of our debt will increase the Company's ability to access additional capital and grow its asset base.

A. Our Common Stock is listed on The NASDAQ Capital Market, and in order for us to maintain the listing, our Common Stock must maintain a minimum bid price of \$1.00 as set forth in NASDAQ Stock Market Rule 5550(a)(2) (the "Rule"). If the closing bid price of the Common Stock is below \$1.00 for 30 consecutive trading days, then the closing bid price of the Common Stock must be \$1.00 or more for 10 consecutive trading days during a 180-day grace period to regain compliance with the rule. On March 23, 2017, NASDAQ notified the Company that the bid price of its listed security had closed at less than \$1 per share over the previous 30 consecutive business days, and, as a result, did not comply with the Rule. In accordance with Listing Rule 5810(c)(3)(A), the Company was provided 180 calendar days, or until September 19, 2017, to regain compliance with the Rule.

The Company has not regained compliance with the Rule and is not eligible for a second 180-day period. Specifically, the Company does not meet the minimum \$5 million shareholders' equity, \$50 million Market Value of Listed Securities, or \$750,000 net income from continuing operations initial listing requirements for The NASDAQ Capital Market. Accordingly, unless the Company had requested an appeal of this determination as described in further detail below, the Company's securities would have been scheduled for delisting from The NASDAQ Capital Market and would have been suspended at the opening of business on September 29, 2017. A Form 25-NSE would have been filed with the Securities and Exchange Commission (the "SEC") to remove the Company's securities from listing and registration on The NASDAQ Stock Market.

The Company timely requested an appeal, which delayed the delisting of the Company's securities from NASDAQ until resolution of the appeal or meeting the listing standard of \$1.00/share price for 10 (ten) consecutive days prior to the hearing. A hearing on the appeal was held on October 26, 2017. In connection with the appeal, the Company submitted a business plan to NASDAQ and will continue to work with NASDAQ to attempt to comply with all continued listing standards. The appeal may result in an award of additional time up to 180 days to comply with the listing standards as requested in the appeal. A Reverse Stock Split will increase the trading price of the Company's Commons Stock above \$1.00 per share and, accordingly, should allow the Company to maintain its listing on The NASDAQ Capital Market. However, if the Company meets NASDAQ's listing requirements prior to the Special Meeting, the Board, in its discretion, may elect not to effect the Reverse Stock Split.

To permit the Company to complete the Exchange and the Reverse Stock Split, it is providing these proxy materials in connection with the solicitation by our Board of proxies to be voted at the Special Meeting on the Exchange Proposal and Reverse Stock Split. If the Exchange Proposal is approved by the Company's shareholders, it will complete the Exchange, subject to satisfaction or waiver of other closing conditions. If the Reverse Stock Split is approved by the Company's shareholders, and if the Board, in its discretion elects to effect the Reverse Stock Split, the Company will file articles of amendment to its Amended and Restated Articles of Incorporation with the Secretary of the State of Wyoming.

Q. Who is APEG and why is it interested in an investment in U.S. Energy Corp.?

A. APEG (APEG Energy II, L.P.) was formed by Angelus Private Equity Group, LLC ("Angelus"), a private equity firm headquartered in Austin, TX, to make energy investments across the capital structure through multiple platforms. Angelus specializes in investments primarily in development stage real estate properties and growth oriented domestic energy assets. On May 2, 2017, the Amended and Restated Credit Agreement dated July 30, 2010, as amended (the "Credit Agreement"), between Energy One and Wells Fargo Bank, N.A. ("WFB"), was sold, assigned and transferred to APEG. APEG purchased and assumed all of WFB's rights and obligations as the lender to Energy One in the Credit Agreement. Angelus has stated that it is extremely excited about the opportunity to strategically partner with the shareholders and management of the Company. Angelus further stated, with a transformed and deleveraged balance sheet and an experienced management team like the Company's, Angelus sees tremendous opportunities for growth and value expansion for both the Company and Angelus investors.

Q. What is the purpose of the Exchange and why is it important?

A. The Exchange is conditioned on, among other things, shareholder approval of the Exchange Proposal.

If completed in its entirety, the Exchange would reduce the principal amount of the Company's long-term debt by approximately \$5.1 million, or 84%, as of September 30, 2017, and total cash interest expense would decrease by up to \$0.9 million over the remaining life of the Credit Facility. Moreover, our annual cash interest expense would decline by approximately \$0.6 million.

Reducing the Company's debt and cash interest expense will allow it to increase its capital investment using cash freed up by interest savings, enabling it to return to growth. A de-levered balance sheet also will allow the Company access to additional capital that could be used to grow the business or otherwise enhance shareholder value through mergers or acquisitions.

If the Exchange is completed, the Company would reduce its leverage from \$6.0 million at September 30, 2017 to approximately \$0.9 million, at July 30, 2019, the maturity date of the Credit Facility.

If the Company is unable to complete the proposed Exchange and substantially reduce its debt, the Company will need to pursue alternative strategies, which may include discounted equity issuances, asset sales, alternative debt for equity exchanges or other debt reduction or restructuring transactions. Each of these alternatives involves uncertainties, potential delays and litigation risks. In such an event, the Company expects that the end result would be more dilutive or less value-enhancing to existing shareholders than the Exchange, and leave the Company less well positioned to resume growth and take advantage of a recovery in commodity prices.

Q. What is the purpose of the Reverse Stock Split and why is it important?

A. The Reverse Stock Split would allow the Company to maintain its listing on The NASDAQ Capital Market. If the shareholders do not approve the Reverse Stock Split, the Company will be delisted from The NASDAQ Capital Market and the Company's shareholders may experience decreased liquidity and/or increased volatility in the Company's Common Stock, and a diminution of institutional investor interest. The Board also believes that such delisting could cause a loss of confidence of industry partners, customers, lenders and potential employees, which could harm our business and its future prospects.

Q. What will happen to the Company if the Exchange is completed?

A. If the Exchange is completed, the Company's leverage, cash flow and liquidity will be improved, which the Company believes will provide it with more time to realize the benefits of any commodity price recovery. The Company will be able to use cash previously dedicated to interest expense on its capital expenditures budget for future growth, or for further debt reduction.

If the Exchange is completed, 5,819,270 shares of Common Stock will be issued to APEG.

Q. What will happen if the Reverse Stock Split is approved?

A. If the Reverse Stock Split is approved, and if the Board, in its discretion, elects to effect the Reverse Stock Split, the Company will file articles of amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of Wyoming.

As a result of the Reverse Stock Split, every five shares of existing Common Stock will be combined into one share of Common Stock. As of October 31, 2017, the approximate number of outstanding shares of Common Stock that would result from the 1-for-5 reverse stock split ratio, based on 5,983,510 shares of Common Stock issued and outstanding as of October 31, 2017, would be 1,196,702. If the Exchange Proposal is approved, based on 11,802,780 shares of Common Stock issued and outstanding, the approximate number of outstanding shares of Common Stock that would result from the 1-for-5 reverse stock split ratio would be 2,360,556.

Q. What are the recommendations of the Board?

A. The Board unanimously recommends that you vote FOR the approval of the Exchange Proposal. The reasons for this recommendation are more fully described below under the caption "Reasons for the Exchange Agreement."

The Board unanimously recommends that you vote FOR the approval of the Reverse Stock Split. The reasons for this recommendation are more fully described below under the caption "Reasons for the Reverse Stock Split."

The Board unanimously recommends that you vote FOR the adjournment proposal.

Q. When and where is the Special Meeting?

A. The Special Meeting will be held at 950 S. Cherry Street, Suite 1515, in Denver, Colorado, on December 27, 2017, at 8:30 a.m. Mountain Time.

Q. Who Can Vote

A. Only holders of our Common Stock at the close of business on the record date of November 1, 2017 are entitled to receive notice of and to vote at the Special Meeting. As of October 31, 2017, there were 5,983,510 shares of our Common Stock issued and outstanding.

You may hold your shares “of record” or in “street name.” The difference between shareholders of record and street name holders is:

Shareholder of Record. If your shares are registered directly in your own name with our transfer agent, Computershare Trust Company, Inc., you are considered to be the holder of record of those shares and you may vote directly via internet, by telephone, by mail or in person.

Street Name Shareholder. If your shares are held in a stock brokerage account or by a broker or other nominee, you are considered the “street name” holder, and the beneficial owner, of those shares and you have the right to direct your broker or nominee how to vote. However, since you are not the shareholder of record, you may not vote those shares in person at the Annual Meeting unless you obtain a “legal proxy,” which you must bring to the meeting in order to vote in person at the meeting.

Q. What is a Quorum and what are my Voting Rights?

A. A quorum for the meeting will exist if a majority of the voting power of the shareholders is present at the meeting, in person or represented by properly executed proxies delivered to us prior to the meeting. Shares of Common Stock present at the meeting that abstain/withhold from voting, or that are the subject of “broker non-votes,” will be counted as present for determining a quorum.

New York Stock Exchange (“NYSE”) Rule 452 governs discretionary voting by brokers of shares held in street name when beneficial owners have not instructed how such shares should be voted. Because the rule governs all brokers who are members of the NYSE, it affects all public companies that have shares held in street name, not just companies listed on the NYSE. Under the rule, such brokers have discretionary authority to vote street name shares on “routine” items such as the ratification of the Company’s appointment of auditors, but not on other matters, including the election of directors. Accordingly, if your broker does not receive instructions from you, your broker will not be able to vote your shares on the Exchange Proposal or the Reverse Stock Split, and a “broker non-vote” will occur with respect to that matter.

You are entitled to one vote for each share of U.S. Energy Common Stock you hold.

Q. How Many Votes are Needed?

A. The Exchange Proposal will be approved if the number of votes cast in favor of the Exchange Proposal exceeds the number of votes cast against the Exchange Proposal. Abstentions and broker non-votes are not considered votes cast and they will have no effect on the Exchange Proposal.

The Reverse Stock Split will be approved if the number of votes cast in favor of the Reverse Stock Split exceeds the number of votes cast against the Reverse Stock Split. Abstentions and broker non-votes are not considered votes cast and they will have no effect on the Reverse Stock Split.

The adjournment proposal will be approved if the number of votes cast in favor of the adjournment proposal exceeds the number of votes cast against the adjournment proposal. Abstentions and broker non-votes are not considered votes cast and they will have no effect on the adjournment proposal

Q. How Will My Proxy Be Voted

A. The Board is soliciting a proxy to provide you with the opportunity to vote on all matters scheduled to come before the meeting (as stated in the Notice of Special Meeting which accompanies this Proxy Statement), whether or not you attend in person.

Your shares will be voted as you specify if you properly complete and return the appropriate form of proxy. If you make no specifications, your proxy will be voted in favor of the Exchange Proposal, the Reverse Stock Split, and the adjournment proposal as listed above.

Q. Can I Revoke My Proxy

A. If you are a shareholder of record and submit a proxy, you may revoke it later or submit a revised proxy at any time before it is voted. You also may attend the meeting in person and vote by ballot, which would cancel any proxy you previously submitted. If you are a street name shareholder and you vote by proxy, you may change your vote by submitting new voting instructions to your broker or other nominee in accordance with that entity's procedures.

Q. What happens if I do not respond or if I respond and fail to indicate my voting preference or if I abstain from voting?

A. If you fail to sign, date and return your proxy card or fail to vote by telephone or Internet as provided on your proxy card, your shares will not be counted toward establishing a quorum for the Special Meeting.

If you submit your proxy but abstain from voting on the Exchange Proposal, the Reverse Stock Split and / or the adjournment proposal, your shares will be counted as present at the meeting for the purpose of determining if a quorum exists.

If your shares are held in street name and you do not provide voting instructions to your broker as described above, your broker does not have the discretionary authority to vote your shares regarding the Exchange Proposal or the Reverse Stock Split.

Q. What will happen if the Exchange Proposal is not approved?

A. If the Exchange Proposal is not approved, the proposed Exchange will not be completed. If the Company is unable to complete the proposed Exchange and substantially reduce its debt, it will need to pursue alternative strategies, which may include equity issuances, asset sales, alternative debt for equity exchanges or other debt reduction or restructuring transactions, with each alternative potentially resulting in significantly less value to existing shareholders.

Q. What will happen if the Reverse Stock Split is not approved?

A. If the Reverse Stock Split is not approved the Company may be delisted from The NASDAQ Capital Market and the Company's shareholders may experience decreased liquidity and/or increased volatility in the Company's Common Stock, and a diminution of institutional investor interest. The Board also believes that such delisting could cause a loss of confidence of industry partners, customers, lenders and potential employees, which could harm our business and its future prospects