

REEDS INC
Form 424B4
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Registration No. 333-156908

REED'S INC.

10,000,000 Transferable Rights to Subscribe for up to 225,000 Shares of
Series B Convertible Preferred Stock at \$10.00 per Share
1,125,000 Shares of Common Stock Issuable Upon Conversion of Series B Convertible Preferred Stock

We are distributing at no charge to the holders of our common stock on November 13, 2009, which we refer to as the record date, subscription rights to purchase up to an aggregate of 225,000 shares of our Series B Preferred. We will distribute to you one right for every share of common stock that you own on the record date. Each share of Series B Preferred carries a five percent (5%) annual dividend for a term of three (3) years, will have an initial stated value of \$10.00 per share, and will be convertible into shares of our common stock at a conversion ratio of five (5) shares of common stock for each share of Series B Preferred held at the time of conversion, representing an initial conversion price of \$2.00 per share, which is subject to adjustment.

You are receiving this prospectus because you held shares of our common stock as of the close of business on November 13, 2009, the record date for this rights offering. As of the record date, there are [] shares of common stock outstanding. We have granted you one right for each share of our common stock that you owned on the record date. You may purchase one share of our Series B Preferred for every four (4) rights granted to you. If you exercise your rights in full, you may also concurrently exercise an over-subscription right to purchase additional shares of Series B Preferred that remain unsubscribed at the expiration of the rights offering, subject to availability and allocation of shares among persons exercising this over-subscription right. The over-subscription rights allow a holder to subscribe for an additional amount equal to up to 400% of the shares for which such holder was otherwise entitled to subscribe. The exercise price for over-subscription rights is the same as the exercise price per whole share as the basic subscription rights. Rights may only be exercised for whole numbers of shares; no fractional shares of Series B Preferred will be issued in this offering.

We intend to offer any shares of Series B Preferred that remain unsubscribed (after taking into account all over-subscription rights exercised) at the expiration of the rights offering to the public at \$10.00 per share of Series B Preferred.

The rights will expire at 5:00 p.m., New York City time, on December 14, 2009, which date we refer to as the expiration date. If the rights offering is undersubscribed, we may extend the period for exercising the rights for up to an additional 30 trading days in our sole discretion. A "trading day" is any day the NASDAQ Stock Market is open for trading. Any rights not exercised at or before that time will expire worthless without any payment to the holders of those unexercised rights. There is no minimum subscription amount required for consummation of the rights offering. We will raise no more than \$2,250,000 in this offering.

As of November 3, 2009, the aggregate market value of our outstanding common stock held by non-affiliates was approximately \$10,292,778, based on approximately 5,949,583 shares are held by non-affiliates, and a per share price of \$1.73 based on the closing sale price of our common stock on November 3, 2009. As of the date hereof, we are offering \$3,750,000 of securities pursuant to General Instruction I.B.6 of Form S-3 during the prior 12 calendar month period that ends on and includes the date hereof (including \$2,250,000 offered hereunder and \$1,500,000 under a shelf registration statement on Form S-3 filed on May 15, 2009, as amended (Registration No. 333-159298) (the "Shelf Registration")). As of the date hereof, \$1,167,759 of securities were sold under the Shelf Registration.

You should carefully consider whether to exercise your subscription rights before the expiration date. All exercises of subscription rights are irrevocable. Our board of directors is making no recommendation regarding your exercise of the subscription rights. Investing in our securities involves a high degree of risk. In addition, your holdings in our company will be diluted if you do not exercise the full amount of your basic subscription rights. See “Risk Factors” beginning on page 17 of this prospectus.

Our common stock is quoted on the NASDAQ Capital Market under the symbol “REED.” The last reported sale price of our common stock on November 3, 2009 was \$1.73 per share. The rights are transferable and will be listed for trading on the NASDAQ Capital Market under the symbol “REEDR” during the course of this offering. We intend to apply to the OTC Bulletin Board for quotation of our Series B Preferred. We cannot assure you that our Series B Preferred will meet the requirements for quotation or that there will be an active trading market for our Series B Preferred.

	Subscription Price	Dealer Manager Fee (1)	Proceeds, Before Expenses, to us
Per share	\$10.00	\$0.80	\$9.20
Total (2)	\$2,250,000	\$180,000	\$2,070,000

(1) We have agreed to pay to Source Capital Group, Inc. as compensation an advisory fee equal to 4% of the gross proceeds from the exercise of rights in this offering or the purchase of Series B Preferred by others, plus warrants to purchase 4% of the shares of common stock underlying the Series B Preferred sold in this offering, priced at 125% of the effective initial conversion price of the Series B Preferred and an accountable expense allowance equal to 0.5% of gross offering proceeds, capped at \$10,000, upon completion of the rights offering. We are also obligated to pay any broker-dealer where the holder exercising such rights indicates in writing that such broker-dealer has solicited such exercise, a cash commission of 4% of the gross proceeds from the exercise of such right by the rights holder. Such solicitation fees may be paid to Source Capital Group, Inc. if it is the soliciting broker, or to others. We will also pay Source Capital Group, Inc. (or any sub-agent engaged by Source Capital Group, Inc.) a cash fee of 4% of the proceeds from any sale of Series B Preferred to persons who do not hold rights.

(2) Assumes that the rights offering is fully subscribed and that the maximum offering amount in the aggregate of \$2,250,000 is subscribed.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense. The shares of our Series B Preferred offered hereby and our common stock are not deposits, savings accounts, or other obligations of a bank or savings association and are not insured by the FDIC or any other governmental agency.

Our principal executive offices are located at 13000 South Spring Street, Los Angeles, California 90061. Our telephone number is 310-217-9400. If you have any questions or need further information about this rights offering, please contact MacKenzie Partners, Inc., our information agent for the rights offering, at (212) 929-5500 (call collect) or (800) 322-2885 (toll-free) or via email at reedrights@mackenziepartners.com .

Dealer-Manager
Source Capital Group, Inc.
The date of this prospectus is November 5, 2009

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ABOUT THIS PROSPECTUS

Unless the context otherwise requires, all references to “Reed’s,” “we,” “us,” “our,” “our company,” or similar language in this prospectus refer to Reed’s, Inc., a Delaware corporation.

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. For further information, please see the section of this prospectus entitled “Where You Can Find Additional Information.” We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information appearing in this prospectus is accurate as of any date other than the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or any sale of a security. Our business, financial condition, results of operations and prospects may have changed since those dates.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information. Similarly, while we believe that the statistical data, industry data and forecasts and market research are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information. We have not sought the consent of the sources to refer to their reports appearing in this prospectus.

This prospectus contains trademarks, tradenames, service marks and service names of Reed’s, Inc.

We have not authorized any dealer, agent or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or an accompanying prospectus supplement. This prospectus and the accompanying prospectus supplement, if any, do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus and the accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus and the accompanying prospectus supplement, if any, is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus and any accompanying prospectus supplement is delivered or securities are sold on a later date.

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

The following are examples of what we anticipate may be common questions about the rights offering. The answers are based on selected information from this prospectus. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the rights offering. This prospectus contains more detailed descriptions of the terms and conditions of the rights offering and provide additional information about us and our business, including potential risks related to the rights offering, our common stock and our business.

Exercising the rights and investing in our securities involves a high degree of risk. We urge you to carefully read the section entitled "Risk Factors" beginning on page 17 of this prospectus and all other information included in this prospectus in its entirety before you decide whether to exercise your rights.

Q: What is a rights offering?

A: A rights offering is a distribution of subscription rights on a pro rata basis to all existing common stockholders of a company. We are distributing to holders of our common stock, at no charge, as of the close of business on the record date (November 13, 2009), up to 10,000,000 subscription rights to purchase up to an aggregate of 225,000 shares of our Series B Preferred valued, in the aggregate, at up to \$2,250,000. You will receive one subscription right for every share of common stock you own at the close of business on the record date. You may purchase one share of our Series B Preferred for every four (4) rights granted to you. The subscription rights will be evidenced by subscription rights certificates, which may be physical certificates but will more likely be electronic certificates issued through the facilities of the Depository Trust Company, or DTC.

Q: Why are you undertaking the rights offering?

A: We are making the rights offering to raise funds primarily for production of inventory and marketing, plus for general working capital purposes. We had approximately \$421,000 of available cash and cash equivalents as of June 30, 2009. If we fail to raise capital by the end of 2009, we would expect to have to significantly decrease operating expenses, which will curtail the growth of our business.

Our board of directors has elected a rights offering over other types of financings because a rights offering provides our existing stockholders the opportunity to participate in this offering first, and our board believes this creates less percentage dilution of stockholder ownership interest in our company than if we issued shares to new investors.

Q: How much money will Reed's raise as a result of the rights offering?

A: Assuming full participation in the rights offering, we estimate that the net proceeds from the rights offering will be approximately \$1,870,855 after deducting expenses related to this offering payable by us estimated at approximately \$379,145. We may decide to close the rights offering and accept such proceeds of the basic subscription rights and over-subscription rights as we have received as of the expiration date of the rights offering whether or not they are sufficient to meet the objectives we state in this prospectus, other corporate milestones that we may set, or to avoid a "going concern" modification in future reports of our auditors as to uncertainty with respect to our ability to continue as a going concern. We will raise no more than \$2,250,000 in this offering. See "Risk Factors — Completion of this offering is not subject to us raising a minimum offering amount and proceeds may be insufficient to meet our objectives, thereby increasing the risk to investors in this offering."

Q: What is a right?

A: Each right carries with it a basic subscription right and an over-subscription right. Four (4) rights entitle the holder of the rights the opportunity to purchase one share of Series B Preferred at the subscription price of \$10.00 per share. Each right will be evidenced by a transferable rights certificate.

Q: How does a rights holder transfer a subscription right?

A: The subscription rights may be transferred or assigned during the subscription period. If your shares are held of record by a broker, custodian bank or other nominee on your behalf, you may sell your subscription rights by contacting your broker, custodian bank or other nominee through which you hold your common stock. If you are a record holder of a subscription rights certificate, you may transfer your subscription rights through the subscription agent, in which case, you must deliver your properly executed subscription rights certificate, with appropriate instructions, to the subscription agent. The subscription agent will only facilitate subdivisions, transfers or sales of subscription rights until 5:00 p.m., New York City time, on December 9, 2009, three business days prior to the scheduled December 14, 2009 expiration date of this rights offering. You may also choose to sell your subscription rights through a broker, custodian bank or other nominee. We intend to apply for quotation of the subscription rights on the NASDAQ Capital Market under the symbol "REEDR" beginning on or about November 17, 2009, until 4:00 p.m., New York City time, on December 9, 2009, the last business day prior to the scheduled expiration date of this rights offering.

Q: What is a basic subscription right?

A: Four (4) basic subscription rights give you the opportunity to purchase one share of our Series B Preferred. You may exercise any number of your basic subscription rights or you may choose not to exercise any subscription rights at all.

For example, if you own 400 shares of our common stock on the record date and you are granted one right for every share of our common stock you own at that time, then you have the right to purchase up to 100 shares of Series B Preferred, subject to adjustment to eliminate fractional rights. If you hold your shares in the name of a broker, dealer, custodian bank, trustee or other nominee who uses the services of the DTC, then DTC will notify you of your right to cause them to be exercised.

Q: What is an over-subscription right?

A: If you elect to purchase all of the shares available to you pursuant to your basic subscription right, you may also concurrently elect to subscribe for any number of additional shares that may remain unsubscribed as a result of any other stockholders not exercising their basic subscription rights, subject to a pro rata adjustment if over-subscription requests exceed shares, as more fully described below. The over-subscription rights allow a holder to subscribe for an additional amount equal to up to 400% of the shares for which such holder was otherwise entitled to subscribe at the same exercise price per whole share as a basic subscription right.

For example, if you own 400 shares of our common stock on the record date, and exercise your basic subscription right to purchase all (but not less than all) 100 shares of Series B Preferred which are available for you to purchase, then, you may also concurrently exercise your over-subscription right to purchase up to 400 additional shares of Series B Preferred that remain unsubscribed as a result of any other stockholders not exercising their basic subscription rights, subject to the pro rata adjustments described below. Accordingly, if your basic and over-subscription rights are exercised and honored in full, you would receive a total of 500 shares of Series B Preferred in this offering. Payments in respect of over-subscription rights are due at the time payment is made for the basic subscription right.

Q. What happens if rights holders exercise their respective over-subscription rights to purchase additional shares of Series B Preferred?

A: We will allocate the remaining available shares pro rata among rights holders who exercised their respective over-subscription rights, based on the number of over-subscription shares of Series B Preferred to which they subscribed. The allocation process will assure that the total number of remaining shares available for basic and over-subscriptions is distributed on a pro rata basis. The percentage of remaining shares of Series B Preferred each over-subscribing rights holder may acquire will be rounded down to result in delivery of whole shares.

Payments for basic subscriptions and over-subscriptions will be deposited upon receipt by the subscription agent and held in a segregated account with the subscription agent pending a final determination of the number of shares of Series B Preferred to be issued pursuant to the basic and over-subscription rights. If the pro rated amount of shares allocated to you in connection with your basic or over-subscription right is less than your basic or over-subscription request, then the excess funds held by the subscription agent on your behalf will be promptly returned to you without interest or deduction. We will deliver certificates representing your shares of our Series B Preferred or credit your account at your nominee holder with shares of our Series B Preferred that you purchased pursuant to your basic and over-subscription rights as soon as practicable after the rights offering has expired and all proration calculations and reductions contemplated by the terms of the rights offering have been effected.

Q. Are there any circumstances in which either Reed's could be obligated to distribute subscription rights for a number of shares of Series B Preferred which exceeds its available shares of Series B Preferred? What would happen in this case?

A: If we receive a sufficient number of basic subscriptions, the aggregate number of exercises could exceed the 225,000 shares of Series B Preferred authorized and available in this offering for issuance. In such a case, we would reduce on a pro rata basis, the number of basic subscriptions we accept so that we will not become obligated to issue, upon exercise of the basic subscriptions, a greater number of shares of Series B Preferred than we have authorized and available for issuance. If we have a sufficient number of shares of Series B Preferred available to meet basic subscriptions but receive an excess of over-subscriptions, we would reduce on a pro rata basis, the number of over-subscriptions we accept so that we will not become obligated to issue, upon exercise of the over-subscriptions, a greater number of shares of Series B Preferred than we have authorized and available for issuance.

Q: Will the officers, directors and significant stockholders of Reed's be exercising their rights?

A: Our officers, directors and greater than 5% beneficial stockholders may participate in this offering, but none of our officers, directors or greater than 5% beneficial stockholders are obligated to so participate.

Q: Will the subscription rights and the shares of Series B Preferred that I receive upon exercise of my rights be tradable on the NASDAQ Capital Market?

A: The subscription rights will be tradable and listed for trading on the NASDAQ Capital Market under the symbol "REEDR" during the term of this offering. We intend to apply to the OTC Bulletin Board for quotation of our Series B Preferred during the course of this offering. We cannot assure you that our Series B Preferred will meet the requirements for quotation or that there will be an active trading market for our Series B Preferred. However, the Series B Preferred will not be subject to any restrictions on transfer.

Q: How do I exercise my basic subscription right?

A: You may exercise your subscription rights by properly completing and signing your subscription rights certificate. Your subscription rights certificate, together with full payment of the subscription price, must be received by Continental Stock Transfer & Trust Company, the subscription agent for this rights offering, on or prior to the expiration date of the rights offering. We sometimes refer to Continental Stock Transfer & Trust Company in this prospectus as the subscription agent. Continental Stock Transfer & Trust Company is not the transfer agent and registrar for our common stock.

If you use the mail, we recommend that you use insured, registered mail, return receipt requested. We will not be obligated to honor your exercise of subscription rights if the subscription agent receives the documents relating to your exercise after the rights offering expires, regardless of when you transmitted the documents.

Q: How do I exercise my over-subscription right?

A: In order to properly exercise your over-subscription right, you must: (i) indicate on your subscription rights certificate that you submit with respect to the exercise of the rights issued to you how many additional shares of Series B Preferred you are willing to acquire pursuant to your over-subscription right and (ii) concurrently deliver the subscription payment related to your over-subscription right at the time you make payment for your basic subscription right. All funds from over-subscription rights that are not honored will be promptly returned to investors, without interest or deduction.

Q: Am I required to subscribe in the rights offering?

A: No.

Q: Will my voting and other rights be diluted if I do not exercise my subscription rights?

A: Yes. If you do not exercise your subscription rights in full, the percentage of our common stock that you own will decrease, and your voting and other rights will be diluted to the extent that other stockholders exercise their subscription rights to purchase shares of Series B Preferred and such Series B Preferred is converted to common stock. We will raise no more than \$2,250,000 in this offering.

Q: When will the rights offering expire?

A: The subscription rights will expire, if not exercised, at 5:00 p.m., New York City time, on December 14, 2009, unless we decide to terminate the rights offering earlier or extend the expiration date for up to an additional 30 trading days in our sole discretion. If we extend the expiration date, you will have at least ten trading days during which to exercise your rights. Any rights not exercised at or before that time will expire without any payment to the holders of those unexercised rights. See “The Rights Offering — Expiration Date and Extensions.” The subscription agent must actually receive all required documents and payments before that time and date.

Q: Will Reed’s be requiring a minimum dollar amount of subscriptions to consummate the rights offering?

A: No. There is no minimum subscription requirement to consummate the rights offering. As such, proceeds from this rights offering may not be sufficient to meet the objectives we state in this prospectus, other corporate milestones that we may set, or to avoid a “going concern” modification in future reports of our auditors as to uncertainty with respect to our ability to continue as a going concern.

Q: Is exercising my subscription rights risky?

A: The exercise of your subscription rights and over-subscription rights (and the resulting ownership of our common stock) involves a high degree of risk. Exercising your subscription rights means buying shares of our Series B Preferred and should be considered as carefully as you would consider any other equity investment. You should carefully consider the information under the heading “Risk Factors” and all other information included in this prospectus before deciding to exercise your subscription rights.

Q: After I exercise my subscription rights, can I change my mind and cancel my purchase?

A: No. Once you send in your subscription rights certificate and payment, you cannot revoke the exercise of either your basic or over-subscription rights. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our Series B Preferred at the proposed subscription price. Any rights not exercised at or before that time will expire worthless without any payment to the holders of those unexercised rights.

Q: Can the board of directors cancel or terminate the rights offering?

A: Yes. Our board of directors may decide to cancel or terminate the rights offering at any time and for any reason before the expiration date. If our board of directors cancels or terminates the rights offering, we will issue a press release notifying stockholders of the cancellation or termination, and any money received from subscribing stockholders will be promptly returned, without interest or deduction.

Q: What should I do if I want to participate in the rights offering but my shares are held in the name of my broker, dealer, custodian bank, trustee or other nominee?

A: Beneficial owners of our shares whose shares are held by a nominee, such as a broker, dealer custodian bank or trustee, must contact that nominee to exercise their rights. In that case, the nominee will complete the subscription rights certificate on behalf of the beneficial owner and arrange for proper payment by one of the methods described above.

Q: What should I do if I want to participate in the rights offering, but I am a stockholder with a foreign address?

A: Subscription rights certificates will not be mailed to foreign stockholders whose address of record is outside the United States and Canada, or is an Army Post Office (APO) address or Fleet Post Office (FPO). If you are a foreign stockholder, you will be sent written notice of this offering. The subscription agent will hold your rights, subject to you making satisfactory arrangements with the subscription agent for the exercise of your rights, and follow your instructions for the exercise of the rights if such instructions are received by the subscription agent at or before 11:00 a.m., New York City time, on December 9, 2009, three business days prior to the expiration date (or, if this offering is extended, on or before three business days prior to the extended expiration date). If no instructions are received by the subscription agent by that time, your rights will expire worthless without any payment to you of those unexercised rights.

Q: Will I be charged a sales commission or a fee if I exercise my subscription rights?

A: We will not charge a brokerage commission or a fee to subscription rights holders for exercising their subscription rights. However, if you exercise your rights through a broker or nominee, you will be responsible for any fees charged by your broker or nominee.

Q: What is the recommendation of the board of directors regarding the rights offering?

A: Neither we, our board of directors, the information agent nor the subscription agent are making any recommendation as to whether or not you should exercise your subscription rights. You are urged to make your decision in consultation with your own advisors as to whether or not you should participate in the rights offering or otherwise invest in our securities and only after considering all of the information included in this prospectus, including the "Risk Factors" section that follows.

Q: How was the conversion rate of the Series B Preferred established?

A: Our Series B Preferred has a stated value equal to the subscription price of \$10.00. Each share of Series B Preferred will be convertible into shares of our common stock at a conversion ratio of five (5) shares of common stock for each share of Series B Preferred held at the time of conversion, representing an initial conversion price of \$2.00 per share, which is subject to adjustment. The conversion rate for the shares of Series B Preferred in this offering was set by our board of directors. The conversion price approximates a slight premium to the current trading value of our common stock as of the date of this prospectus. The subscription price does not necessarily bear any relationship to the book value of our assets, results of operations, cash flows, losses, financial condition or any other established criteria for value. You should not consider the subscription price as an indication of the value of the Series B Preferred. As of the date of this prospectus, our common stock traded below the conversion price.

Q: What if my rights result in fractional shares?

A: You may not purchase fractional shares of our Series B Preferred. If your rights would allow you to purchase a fractional share, you may exercise them only by rounding down to and paying for the nearest whole share, or paying for any lesser number of whole shares.

Q: If I also own shares of Reed's Series A Convertible Preferred Stock, will I receive rights on those shares?

A: No, unless you convert one or more shares of your Series A Convertible Preferred Stock into shares of our common stock before November 10, 2009, the record date for this rights offering. If you elect to convert any or all of your shares of Series A Convertible Preferred Stock, you would no longer be entitled to dividends or other rights incident to the shares of Series A Convertible Preferred Stock that you converted.

Q: Will the Series B Preferred be traded on any stock exchange or listed on a quotation service?

A: Yes. We intend to apply to the OTC Bulletin Board for quotation of our Series B Preferred during the course of this offering. We cannot assure you that our Series B Preferred will meet the requirements for quotation or that there will be an active trading market for our Series B Preferred. There is currently no trading market for the Series B Preferred. Conversion into the underlying shares of our common stock and sale of those shares may be the only way for you to liquidate your investment in any shares of Series B Preferred you purchase in the rights offering.

Q: What are the terms of the Series B Convertible Preferred Stock?

Dividends. Subject to the prior payment in full of any dividends to which any stock specifically ranking by its terms senior to the Series B Preferred is entitled pursuant to the Certificate of Incorporation, the holders of the Series B Preferred shall be entitled to receive dividends payable quarterly, in kind, in common stock or in cash, in our sole discretion. Such dividends shall be cumulative and non-compounding and accrue on a daily basis for a period of three (3) years from the date of issuance of the Series B Preferred, at an annual rate equal to five percent (5%) of the original purchase price of \$10.00. If we elect to pay any Series B Dividend due in common stock ("Interest Shares"), the issuance price of the Interest Shares will be equal to the 10-day volume-weighted average price of the common stock on the principal national securities exchange on which such common stock is traded.

Conversion Rights. Each share of the Series B Preferred will be convertible at the election of the holder into shares of our common stock by dividing the \$10.00 stated value of the Series B Preferred by a conversion price, which will initially be \$2.00. The conversion price will be adjusted to reflect subdivisions or combinations of our common stock such as stock splits, stock dividends, recapitalizations or reverse splits.

Mandatory Conversion at Our Option. At any time after the original purchase date, if the closing price of our common stock as reported by the principal exchange or quotation system on which such common stock is traded or reported equals or exceeds \$2.75 per share of common stock, for five (5) consecutive trading days, then we shall have the right to cause all (but not less than all) outstanding shares of Series B Preferred Stock to be automatically converted into shares of common stock.

Mandatory Redemption. At any time after the third anniversary of the original purchase date, we may redeem all, but not less than all, of the outstanding shares of Series B Preferred at our sole discretion, at a price equal to the greater of (i) one hundred ten percent (110%) of the original purchase price, plus an amount equal to any unpaid and accrued dividends and (ii) the Fair Market Value of such number of shares of common stock which the holder of the redeemed Series B Preferred would be entitled to receive had the redeemed Series B Preferred been converted immediately prior to the redemption.

Voting. Holders of the Series B Preferred will have no voting rights, except as required by law.

For a detailed description of the rights, preferences and privileges of the Series B Preferred, see “Description of Securities to be Registered — the Series B Convertible Preferred Stock.”

Q: What are the U.S. federal income tax consequences of receiving or exercising my subscription rights?