

AMERICAN POWER GROUP Corp
Form DEFR14A
August 20, 2015

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 x
Filed by a Party other than the Registrant o

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.

AMERICAN POWER GROUP CORPORATION
(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:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
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- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

AMERICAN POWER GROUP CORPORATION

7 Kimball Lane, Building A
Lynnfield, Massachusetts 01940
(781) 224-2411

August 31, 2015

Dear Stockholders:

I am pleased to enclose the proxy statement for our Special Meeting of stockholders to be held on October 21, 2015.

At the Special Meeting you will be asked to consider and vote upon the following proposals:

1. To approve an amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock to modify the anti-dilution provisions of the 10% Convertible Preferred Stock to exclude certain issuances of securities from triggering anti-dilution adjustments to the conversion ratio of the 10% Convertible Preferred Stock.
2. To approve an amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 150,000,000 to 200,000,000.
3. To approve one or more adjournments of the Special Meeting, if deemed necessary to facilitate the approval of the foregoing proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve such proposals.
4. To transact any other business that may properly come before the Special Meeting and any adjournment or postponement thereof.

The date, time, place, and agenda for the Special Meeting are set forth in the accompanying notice of Special Meeting. The accompanying proxy statement contains important information about the proposals to be submitted for a vote at the Special Meeting.

Please review this information carefully in deciding how to vote. Our Board of Directors unanimously recommends that you vote "FOR" each proposal.

YOUR VOTE ON THESE MATTERS IS IMPORTANT. Please see the accompanying notice of meeting for instructions on how to vote.

I look forward to seeing you at the meeting.

Sincerely,

Lyle Jensen

President and Chief Executive Officer

AMERICAN POWER GROUP CORPORATION

7 Kimball Lane, Building A
Lynnfield, Massachusetts 01940
(781) 224-2411

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON OCTOBER 21, 2015

NOTICE IS HEREBY GIVEN that a Special Meeting of stockholders (the "Special Meeting") of American Power Group Corporation, a Delaware corporation (the "Company," "we" or "us"), will be held on October 21, 2015, at 10:00 a.m., local time at the offices of Morse, Barnes-Brown & Pendleton, P.C. City Point, 230 Third Avenue, 4th Floor, Waltham, MA 02451. At our Special Meeting we will ask you:

1. To approve an amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock to modify the anti-dilution provisions of the 10% Convertible Preferred Stock to exclude certain issuances of securities from triggering anti-dilution adjustments to the conversion ratio of the 10% Convertible Preferred Stock.
2. To approve an amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 150,000,000 to 200,000,000.
3. To approve one or more adjournments of the Special Meeting, if deemed necessary to facilitate the approval of the foregoing proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve such proposals.
4. To transact any other business that may properly come before the Special Meeting and any adjournment or postponement thereof.

Our Board of Directors unanimously recommends that you vote "FOR" Proposals 1, 2 and 3 and that you allow our representatives to vote the shares represented by your proxy as recommended by our Board of Directors.

Our Board of Directors has fixed the close of business on August 24, 2015 as the record date for the determination of stockholders entitled to vote at the Special Meeting, and only holders of record of shares of Common Stock and Preferred Stock at the close of business on that day will be entitled to vote. The stock transfer books of the Company will not be closed.

A complete list of stockholders entitled to vote at the Special Meeting shall be available for examination by any stockholder, for any purpose germane to the Special Meeting, during ordinary business hours for the ten days prior to the date of the Special Meeting at our principal executive offices. The list will also be available at the Special Meeting.

Whether or not you expect to be present at the Special Meeting, please fill in, date, sign, and return the enclosed Proxy, which is solicited by management. The Proxy is revocable and will not affect your vote in person in the event you attend the Special Meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

Lyle Jensen

President and Chief Executive Officer

August 31, 2015
Lynnfield, Massachusetts

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE SPECIAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE READ THE PROXY STATEMENT, SIGN THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED STAMPED ENVELOPE. YOUR PROXY MAY BE REVOKED AT ANY TIME BEFORE THE VOTE AT THE SPECIAL MEETING BY FOLLOWING THE PROCEDURES OUTLINED IN THE ACCOMPANYING PROXY STATEMENT. THE SHARES REPRESENTED BY YOUR PROXY WILL BE VOTED ACCORDING TO YOUR SPECIFIED RESPONSE. PROPERLY EXECUTED PROXIES THAT DO NOT CONTAIN VOTING INSTRUCTIONS WILL BE VOTED "FOR" THE APPROVAL OF THE PROPOSALS AND THE ACTIONS CONTEMPLATED THEREBY. IF YOU FAIL TO RETURN A PROPERLY EXECUTED PROXY CARD OR TO VOTE IN PERSON AT THE SPECIAL MEETING, THE EFFECT WILL BE A VOTE AGAINST PROPOSALS 1 AND 2, WITH NO EFFECT ON PROPOSAL 3.

AMERICAN POWER GROUP CORPORATION

7 Kimball Lane, Building A
Lynnfield, Massachusetts 01940
(781) 224-2411

PROXY STATEMENT

Special Meeting of Stockholders
To Be Held on October 21, 2015
10:00 A.M.

The enclosed Proxy is solicited by the Board of Directors (the "Board of Directors") of American Power Group Corporation, a Delaware corporation, for use at our special meeting of stockholders (the "Special Meeting") to be held on October 21, 2015 at the offices of Morse, Barnes-Brown & Pendleton, P.C. City Point, 230 Third Avenue, 4th Floor, Waltham, MA 02451 and any adjournments thereof. The Board of Directors has set the close of business on August 24, 2015 as the record date (the "Record Date") for the determination of stockholders entitled to vote at the Special Meeting. A stockholder executing and returning a proxy has the power to revoke it at any time before it is exercised by filing a later-dated proxy with, or other communication to, the Secretary of the Company or by attending the Special Meeting and voting in person. It is anticipated that this Proxy Statement will be mailed to our stockholders on or about August 31, 2015. References to the "Company," "us," "we," or "our," refer to American Power Group Corporation.

The Special Meeting is for the purpose of considering and voting:

1. To approve an amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock to modify the anti-dilution provisions of the 10% Convertible Preferred Stock to exclude certain issuances of securities from triggering anti-dilution adjustments to the conversion ratio of the 10% Convertible Preferred Stock.
2. To approve an amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 150,000,000 to 200,000,000.
3. To approve one or more adjournments of the Special Meeting, if deemed necessary to facilitate the approval of the foregoing proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve such proposals.
4. To transact any other business that may properly come before the Special Meeting and any adjournment or postponement thereof.

The Board of Directors is not aware of any other business to come before the Special Meeting, and unanimously recommends that you vote "FOR" these proposals.

Only stockholders of record as of the Record Date will be entitled to vote at the Special Meeting and any adjournments thereof. As of the Record Date, 54,810,655 shares of our Common Stock, par value \$.01 per share ("Common Stock"), were issued and outstanding, 937.78 shares of our 10% Convertible Preferred Stock, par value \$1.00 per share ("10% Preferred Stock"), were issued and outstanding and 200 shares of our Series B 10% Convertible Preferred Stock, par value \$1.00 per share ("Series B Preferred Stock"), were issued and outstanding. The holders of our Common Stock are entitled to one vote per share, and the holders of our 10% Preferred Stock and Series B Preferred Stock are entitled to 25,000 votes per share. Therefore, the holders of our outstanding shares of 10% Preferred Stock and Series B Preferred Stock (together, the "Preferred Stock") have a total of 28,444,452 votes on matters to come

before the Special Meeting on which such holders are entitled to vote, which represents 34% of our outstanding voting securities.

The affirmative vote of the holders, as of the Record Date, of (i) at least 67% of the issued and outstanding shares of our 10% Preferred Stock, voting as a separate class, and (ii) a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, is required to approve Proposal 1. The affirmative vote of the holders, as of the Record Date, of a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, is required to approve Proposal 2. The affirmative vote of the holders, as of the Record Date, of a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, that are represented in person or by proxy and voting at the Special Meeting is required in order to approve Proposal 3. Each of these proposals is more fully described in the accompanying proxy statement.

The representation in person or by proxy of a majority of the votes entitled to be cast by the stockholders entitled to vote at the Special Meeting is necessary to establish a quorum for the transaction of all business to come before the Special Meeting. Abstentions and broker non-votes are counted as present or represented for purposes of determining the presence of a quorum. A “broker non-vote” occurs when a broker holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the broker does not have discretionary voting power and has not received instructions from the beneficial owner. A broker “non-vote” will have the same legal effect as a vote against Proposals 1 and 2.

Abstentions will be treated as shares that are present and entitled to vote for purposes of determining the number of shares present and entitled to vote with respect to any particular matter, but will not be counted as a vote in favor of such matter. Accordingly, an abstention from voting on a matter has the same legal effect as a vote against the matter.

The entire cost of soliciting proxies will be borne by the Company. The costs of solicitation will include the costs of supplying necessary additional copies of the solicitation materials to beneficial owners of shares held of record by brokers, dealers, banks, trustees, and their nominees, including the reasonable expenses of such record holders for completing the mailing of such materials to such beneficial owners. Solicitation of proxies may also include solicitation by telephone, fax, electronic mail, or personal solicitations by directors, officers, or employees of the Company. No additional compensation will be paid for any such services. The Company may engage a professional proxy solicitation firm to assist in the proxy solicitation and, if so, will pay such solicitation firm customary fees plus expenses.

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND RELATED PROPOSALS

Why am I receiving this Proxy Statement and proxy card?

You are receiving this Proxy Statement and proxy card because you own shares of our Common Stock or Preferred Stock. This Proxy Statement describes the proposals on which we would like you, as a stockholder, to vote at the Special Meeting. It also gives you information on the proposals so that you can make an informed decision.

Who can vote at the Special Meeting?

Only stockholders of record at the close of business on August 24, 2015 will be entitled to vote at the Special Meeting.

What is being voted on?

You are being asked to vote on the following matters:

1. To approve an amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock to modify the anti-dilution provisions of the 10% Convertible Preferred Stock to exclude certain issuances of securities from triggering anti-dilution adjustments to the conversion ratio of the 10% Convertible Preferred Stock.
2. To approve an amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 150,000,000 to 200,000,000.
3. To approve one or more adjournments of the Special Meeting, if deemed necessary to facilitate the approval of the foregoing proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve such proposals.

4. To transact any other business that may properly come before the Special Meeting and any adjournment or postponement thereof.

What will happen if the proposed amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock is approved?

If the proposed amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock (the "Original Certificate") is approved, we will file a Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock (the "Series C Certificate") with the Secretary of State of Delaware, establishing a new series of Convertible Preferred Stock to be known as Series C Convertible Preferred Stock (the "Series C Preferred Stock"). Immediately upon the effectiveness of the filing of the Series C Certificate with the Secretary of State of Delaware:

5

the outstanding subordinated contingent convertible promissory notes we issued in June 2015, in an aggregate (a) principal amount of \$2,475,000 (the “Notes”), together with all accrued but unpaid interest thereon, will automatically be converted into shares of Series C Preferred Stock at a conversion price of \$10,000 per share;

upon such conversion, the Company will also issue to each holder of a converted Note a warrant (the “Warrants”) to (b) purchase that number of shares of our Common Stock, par value \$.01 per share (“Common Stock”), into which such holder’s shares of Series C Preferred Stock are initially convertible, at an initial exercise price of \$.20 per share;

no anti-dilution adjustment to the conversion ratio of the 10% Preferred Stock will be triggered by the issuance of (c) the Series C Preferred Stock, the Warrants or the shares of Common Stock that may be issued upon the conversion or exercise of such securities; and

(d) the holders of the 67% of the 10% Preferred Stock may waive such anti-dilution adjustments with respect to any future issuances of securities by the Company.

What will happen if the proposed amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock is not approved?

If the proposed amendment to the Original Certificate is not approved:

the Notes will not convert into shares of Series C Preferred Stock, the Notes, in the aggregate principal amount of (a) \$2,475,000, together with all accrued but unpaid interest thereon, instead will become due and payable on November 30, 2015, and the Company does not believe it will have sufficient funds available to repay the Notes;

(b) no shares of Series C Preferred Stock will be authorized or issued and no Warrants will be issued; and

the approval of the holders of the 100% of the 10% Preferred Stock would continue to be required to waive anti-dilution adjustments to the conversion ratio of the 10% Preferred Stock that may be triggered by future (c) issuances of securities by the Company, which, except as set forth in the Original Certificate and if such waivers are not obtained, would result in the issuance of a larger number of shares of Common Stock upon conversion of the 10% Preferred Stock and reduce each holder of Common Stock’s ownership percentage in the Company.

What will happen if the proposed amendment to the Restated Certificate of Incorporation is approved?

If the proposed amendment to the Restated Certificate of Incorporation is approved, the Board of Directors will have the authority to issue an additional 50,000,000 shares of Common Stock without further stockholder approval. The Board of Directors believes that the increase in the number of authorized shares of Common Stock is in the best interests of the Company and our stockholders. Frequently, opportunities arise that require prompt action, and the Board of Directors believes the delay necessitated for stockholder approval of a specific issuance could be detrimental to the Company and our stockholders. The Board of Directors believes that the authorized Common Stock should be increased to provide sufficient shares for such corporate opportunities and purposes as may be determined by the Board of Directors. These purposes may include, among others, the issuance of Common Stock to facilitate potential mergers or acquisitions, raising capital or acquiring technology rights through the sale of stock, and/or attracting or retaining valuable employees by the issuance of stock options. Except as described elsewhere in this proxy statement, the Company has no plans, understandings, commitments or agreements or undertakings concerning the issuance of any such additional shares which would be authorized by the approval of this proposal.

What will happen if the proposed amendment to the Restated Certificate of Incorporation is not approved?

If the proposed amendment to the Restated Certificate of Incorporation is not approved there will be approximately 7.9 million shares of Common Stock, not including shares outstanding and shares already reserved for issuance, as described in this proxy statement, available for issuance without further stockholder approval. The Board of Directors does not believe these shares of Common Stock will be sufficient to satisfy future corporate opportunities and purposes, such as the issuance of Common Stock to facilitate potential mergers or acquisitions, raising capital or acquiring technology rights through the sale of stock, and/or attracting or retaining valuable employees by the issuance of stock options. Except as described elsewhere in this proxy statement, the Company has no plans, understandings, commitments or agreements or undertakings concerning the issuance of any such additional shares which would be authorized by the approval of this proposal, however frequently, opportunities arise that require

6

prompt action, and the Board of Directors believes that delay necessitated for stockholder approval of a specific issuance could be detrimental to the Company and our stockholders. The Board of Directors believes the increase in the authorized shares of Common Stock is in the best interests of the Company and our stockholders.

Does the Board of Directors recommend that I vote in favor of the proposals to be considered and voted upon at the Special Meeting?

Yes. Our Board of Directors unanimously recommends that you vote your shares:

• “FOR” the proposed amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock;

• “FOR” the proposed amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock; and

• “FOR” the adjournment of the Special Meeting, if necessary to obtain the requisite number of proxies to approve either of the foregoing proposals.

How many votes are required to approve the amendment to the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock?

The affirmative vote of the holders, as of the Record Date, of (i) at least 67% of the issued and outstanding shares of our 10% Preferred Stock, voting as a separate class, and (ii) a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, is required to approve the amendment. For this purpose, abstentions, broker “non-votes” and shares not represented at the Special Meeting will have the same effect as a vote against the amendment.

How many votes are required to approve the amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock?

The affirmative vote of the holders, as of the Record Date, of a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, is required to approve the amendment. For this purpose, abstentions, broker “non-votes” and shares not represented at the Special Meeting will have the same effect as a vote against the amendment.

How do I vote?

If your shares are registered directly in your name with our transfer agent, then, after carefully reading and considering the information contained or referred to in this Proxy Statement, including the Appendices, you may either (i) complete, sign and date your proxy card and voting instructions and return them in the enclosed postage-paid envelope or (ii) vote in person at the Special Meeting. Please vote your shares as soon as possible so that your shares will be represented at the Special Meeting.

If my shares are held in “street name” by my broker or other nominee, will my nominee vote my shares for me?

If your shares are held of record by a broker or other nominee, the nominee will vote your shares only if you provide instructions on how to vote. Please consult your broker or nominee for voting instructions and tell that person how you would like him or her to vote your shares. If you do not tell your broker or other nominee how to vote, your

shares will not be voted. If your shares are held of record by a broker or other nominee and you wish to vote at the Special Meeting, you must obtain from the record holder a proxy issued in your name or bring an account statement or letter from the nominee indicating your beneficial ownership as of the record date.

Can I change my vote after I have delivered my proxy?

Yes. You may revoke your proxy at any time before it is voted at the Special Meeting by (i) delivering a written notice of revocation to Charles E. Coppa, our Chief Financial Officer and Corporate Secretary, at American Power Group Corporation 7 Kimball Lane, Building A, Lynnfield, Massachusetts 01940; (ii) delivering a later-dated proxy; or (iii) attending the Special Meeting and voting in person. Attendance at the Special Meeting, in and of itself, will not constitute a revocation of a proxy. If your shares are held in an account at a brokerage firm or a bank, you should contact your brokerage firm or bank for instructions on how to change your vote.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. We may also engage a professional proxy solicitation firm to assist in the proxy solicitation and, if so, will pay such solicitation firm customary fees plus expenses.

Who should I call if I have any questions about the Special Meeting?

If you have any questions about the Special Meeting, you should contact Charles E. Coppa, our Chief Financial Officer and Corporate Secretary, at (781) 224-2411.

8

THE SPECIAL MEETING

Time, Date and Place; Matters to be Considered

The Special Meeting will be held on October 21, 2015, at 10:00 a.m. local time, at the offices of Morse, Barnes-Brown & Pendleton, P.C. City Point, 230 Third Avenue, 4th Floor, Waltham, MA 02451. At the Special Meeting, stockholders will be asked to consider and vote upon each of the proposals and conduct such other business as may properly come before the Special Meeting and any adjournment thereof.

Voting and Record Date

The Board of Directors has fixed August 24, 2015, as the Record Date for determining holders of shares of our Common Stock that are entitled to receive notice of and to vote at the Special Meeting. As of the Record Date, 54,810,655 shares of our Common Stock, par value \$.01 per share (“Common Stock”), were issued and outstanding, 937.78 shares of our 10% Convertible Preferred Stock, par value \$1.00 per share (“10% Preferred Stock”), were issued and outstanding and 200 shares of our Series B 10% Convertible Preferred Stock, par value \$1.00 per share (“Series B Preferred Stock”), were issued and outstanding. The holders of our Common Stock are entitled to one vote per share, and the holders of our 10% Preferred Stock and Series B Preferred Stock are entitled to 25,000 votes per share. Therefore, the holders of our outstanding shares of 10% Preferred Stock and Series B Preferred Stock (together, the “Preferred Stock”) have a total of 28,444,452 votes on matters to come before the Special Meeting on which such holders are entitled to vote, which represents 34% of our outstanding voting securities.

The affirmative vote of the holders, as of the Record Date, of (i) at least 67% of the issued and outstanding shares of our 10% Preferred Stock, voting as a separate class, and (ii) a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, is required to approve Proposal 1. The affirmative vote of the holders, as of the Record Date, of a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, is required to approve Proposal 2. The affirmative vote of the holders, as of the Record Date, of a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, that are represented in person or by proxy and voting at the Special Meeting is required in order to approve Proposal 3. Abstentions, broker “non-votes” and shares not represented at the Special Meeting will have the same effect as votes against Proposals 1 and 2. Assuming the presence of a quorum, abstentions, broker “non-votes” and shares not represented at the Special Meeting will have no effect on Proposal 3.

The Board of Directors has unanimously approved each of the proposals and recommends that stockholders vote “FOR” the approval of each of the proposals. We are seeking requisite stockholder approval of each of the proposals.

A complete list of stockholders entitled to vote at the Special Meeting will be available at least 10 days before the Special Meeting for examination by any stockholder, for any purpose germane to the Special Meeting, during ordinary business hours at our principal executive offices. The list will also be available at the Special Meeting.

Quorum

The required quorum for the transaction of business at the Special Meeting is a majority of the votes entitled to be cast by the stockholders entitled to vote on matters to be considered at the Special Meeting. Broker non-votes and shares that are voted “FOR” or “AGAINST” a proposal or marked “ABSTAIN” are treated as being present at the Special Meeting for purposes of establishing a quorum.

Abstentions and Broker Non-Votes

Broker “non-votes” and the shares of voting stock as to which a stockholder abstains are included for purposes of determining whether a quorum of shares of voting stock is present at a meeting. A broker “non-vote” occurs when a nominee holding shares of voting stock for the beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Proposals 1, 2 and 3 are non-discretionary items, which means that a nominee may not vote on either proposal without instructions from the beneficial owner. Since Proposals 1 and 2 require the affirmative vote of the holders of a majority of our issued and outstanding voting stock entitled to vote at the Special Meeting, abstentions and broker “non-votes” have the effect of votes “AGAINST” Proposals 1 and 2. Since Proposal 3 requires the affirmative vote of the holders, as of the Record Date, of a majority of the issued and outstanding shares of our Common Stock and Preferred Stock, voting together as a single class, that are represented in person or by proxy and voting at the Special Meeting, assuming the presence of a quorum, abstentions and broker “non-votes” will have no effect on Proposal 3.

Brokerage Accounts

If any of your shares are held in the name of a brokerage firm, bank, bank nominee or other institution, only it can vote such shares and only upon receipt of your specific instructions. Accordingly, please contact the person responsible for your account and instruct that person to execute the proxy card representing your shares. In addition, if you hold your shares in a brokerage or bank account, your broker or bank may allow you to provide your voting instructions by telephone or Internet. Please consult the materials you receive from your broker or bank prior to authorizing a proxy by telephone or Internet.

Proxies

Our Board of Directors is asking for your proxy. Giving your proxy means you authorize the named proxies to vote your shares at the Special Meeting in the manner you direct. You may vote for or against the proposals or abstain from voting. All shares of Common Stock that are represented at the Special Meeting by properly executed proxies received by us prior to or at the Special Meeting, and not duly and timely revoked, will be voted at the Special Meeting in accordance with the choices marked thereon by the stockholders. If no choice is marked, the shares represented by each proxy will be voted FOR approval of each of the proposals. At the time that this Proxy Statement was mailed to stockholders, we were not aware that any other matters not referred to herein would be presented for action at the Special Meeting. If any other matters properly come before the Special Meeting, the persons designated in the proxy intend to vote the shares represented thereby in accordance with their best judgment.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing with our Corporate Secretary at or before the taking of the vote at the Special Meeting, a written notice of revocation bearing a later date than the proxy; (ii) duly executing a later-dated proxy relating to the same shares and delivering it to our Corporate Secretary before the taking of the vote at the Special Meeting; or (iii) attending the Special Meeting and voting in person (although attendance at the Special Meeting will not in and of itself constitute a revocation of a proxy).

Attendance at the Special Meeting

Only holders of our Common Stock or Preferred Stock may attend the Special Meeting. If you wish to attend the Special Meeting in person but you hold your shares through someone else, such as a stockbroker, you must bring proof of your ownership and photo identification at the Special Meeting. For example, you could bring an account statement showing that you beneficially owned shares of our Common Stock or Preferred Stock as of the record date as acceptable proof of ownership.

Costs of Solicitation

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. We may also engage a professional proxy solicitation firm to assist in the proxy solicitation and, if so, will pay such solicitation firm customary fees plus expenses.

PROPOSAL NO. 1

PROPOSAL TO AMEND THE CERTIFICATE OF DESIGNATION OF PREFERENCES, RIGHTS AND LIMITATIONS OF 10% CONVERTIBLE PREFERRED STOCK

Purpose

The Board of Directors has recommended to the stockholders that we amend the Certificate of Designation of Preferences, Rights and Limitations of 10% Convertible Preferred Stock (the "Original Certificate") to modify the anti-dilution provisions of the 10% Convertible Preferred Stock (the "10% Preferred Stock") to exclude certain issuances of securities from triggering anti-dilution adjustments to the conversion ratio of the 10% Preferred Stock. The text of the proposed amendment is set forth in Appendix B to this Proxy Statement.

Background

On June 2, 2015, the Company entered into a convertible note purchase agreement with certain accredited investors, pursuant to which the Company issued Subordinated Contingent Convertible Promissory Notes (the "Notes") in the aggregate principal amount \$2,475,000. The Notes bear simple interest at the rate of 10% per annum and will become due and payable on November 30, 2015. The Notes are unsecured obligations of the Company and are subordinated in right of payment to the prior payment of all indebtedness and satisfaction of all obligations of the Company to Iowa State Bank.

The principal amount of the Notes, together with all accrued but unpaid interest thereon, will automatically be convertible into shares of the Company's Series C Convertible Preferred Stock, par value \$1.00 per share (the "Series C Preferred Stock"), at a conversion price of \$10,000 per share, immediately upon the effectiveness of the filing of a Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock (the "Series C Certificate") with the Secretary of State of Delaware. Each share of Series C Preferred Stock will be convertible into shares of our Common Stock, par value \$.01 per share ("Common Stock"), at a conversion price of \$0.20 per share. Upon the conversion of the Notes into shares of Series C Preferred Stock, the Company will also issue to each holder a warrant (the "Warrants") to purchase that number of shares of Common Stock into which such holder's shares of Series C Preferred Stock are initially convertible, at an initial exercise price of \$.20 per share. The Warrants will be exercisable for a period of five years from the date of issue and may be exercised on a cashless basis.

In connection with our private placement of the Notes, our securities purchase agreements dated April 30, 2012 and November 26, 2014 were amended to provide that the issuance of the Series C Preferred Stock would not trigger adjustments to the exercise price of the warrants issued in connection with those agreements (the "Prior Warrants"). We also amended the Prior Warrants to extend the term of any Prior Warrant held by the purchasers of the Notes (and their affiliates, members of their families and certain related trusts) as of the issuance of the Notes or subsequently acquired by such persons. The maximum period by which any Prior Warrant is being extended is the difference between 60 months and the remaining term of the respective Prior Warrant as of the initial issuance of the Notes.

Notwithstanding the foregoing, the Company agreed not to file the Series C Certificate (and, therefore, may not cause the conversion of the Notes into shares of Series C Preferred Stock or issue the Warrants) unless and until (a) any and all anti-dilution adjustments otherwise applicable to the 10% Preferred Stock and the Company's Series B 10% Convertible Preferred Stock (the "Series B Preferred Stock") have been amended or waived so as to be inapplicable to the issuance or deemed issuance of the Series C Preferred Stock, the Warrants and the shares of Common Stock issuable upon the conversion of the Series C Preferred Stock and the exercise of the Warrants (the "Amendment Condition"); and (b) the holders of not less than 75% of the Prior Warrants issued in connection with the issuance of

the 10% Preferred Stock and the holders of 100% of the Prior Warrants issued in connection with the issuance of the Series B Preferred Stock have agreed to amend or waive such Prior Warrants so as to make inapplicable the anti-dilution adjustments otherwise applicable to the issuance or deemed issuance of the Series C Preferred Stock, the Warrants and the shares of Common Stock issuable upon the conversion of the Series C Preferred Stock and the exercise of the Warrants (the "Waiver Condition").

The Company has satisfied the Waiver Condition. In addition, the holder of the Series B Preferred Stock has agreed to the anti-dilution adjustments otherwise applicable to the issuance or deemed issuance of the Series C Preferred Stock, the Warrants and the shares of Common Stock issuable upon the conversion of the Series C Preferred Stock and the exercise of the Warrants. The Company agreed to take all action reasonably necessary to convene a meeting of its stockholders to be held at the earliest practicable time for the purpose of amending the Original Certificate to satisfy the Amendment Condition. The approval of Proposal

1 to amend the Original Certificate would satisfy the Amendment Condition.

If Proposal 1 is not approved the Company will not be able to satisfy the Amendment Condition and the Notes will not convert into shares of Series C Preferred Stock. The Notes, in the aggregate principal amount of \$2,475,000 together with all accrued but unpaid interest thereon, will become due and payable on November 30, 2015. The Company does not believe it will have sufficient funds available to repay the Notes on such date.

Dilution

If Proposal 1 is approved, the principal amount of the Notes, together with all accrued but unpaid interest thereon, will automatically be converted into shares of Series C Preferred Stock, at a conversion price of \$10,000 per share, immediately upon the effectiveness of the filing of the Series C Certificate with the Secretary of State of Delaware. The shares of Series C Preferred Stock will be initially convertible into approximately 12,988,662 shares of Common Stock. In addition, upon the conversion of the Notes into shares of Series C Preferred Stock, the Company will also issue to the holders of the Notes Warrants to purchase a total of approximately 12,988,662 shares of Common Stock, at an initial exercise price of \$.20 per share. The conversion of the Series C Preferred Stock and the exercise of the Warrants could result in a total of approximately 25,977,324 additional shares of Common Stock being issued, which would significantly dilute the percentage equity ownership of existing stockholders. The Company's common stockholders have no preemptive rights to subscribe for additional shares of Common Stock when issued, which means that current stockholders do not have a prior right to purchase any newly-issued shares in order to maintain their proportionate ownership of the Company's Common Stock.

Description of 10% Preferred Stock and Series B Preferred Stock

The 10% Preferred Stock and the Series B Preferred Stock each have a 10% annual dividend, payable quarterly in cash or in shares of Common Stock. As of the date of this Proxy Statement, each share of 10% Preferred Stock and each share of Series B Preferred Stock is convertible, at any time and at the option of the holder, into 25,000 shares of Common Stock. Subject to certain exceptions set forth in the Original Certificate and the Certificate of Designation of Preferences, Rights and Limitations of Series B 10% Convertible Preferred Stock (the "Series B Certificate"), the conversion ratios of the 10% Preferred Stock and the Series B Preferred Stock are subject to adjustment in the event the Company issues shares of Common Stock or other securities convertible into or exchangeable for Common Stock at a price per share which is less than the conversion price applicable to such Preferred Stock. Waivers of anti-dilution adjustments that are not so excepted require the approval of the holders of 100% of the 10% Preferred Stock and/or Series B Preferred Stock, as the case may be. The conversion price of the 10% Preferred Stock and the Series B Preferred Stock is currently \$0.40 per share.

The holders of the 10% Preferred Stock and the Series B Preferred Stock vote with the holders of our Common Stock on all matters presented to the holders of the Common Stock on a Common Stock-equivalent basis. The holders of 10% Preferred Stock, voting as a separate class, are entitled to elect three members of the Board of Directors. The approval of the holders of at least 67% of the outstanding 10% Preferred Stock and Series B Preferred Stock, voting together as a single class, is required before we may take certain actions.

The holders of the 10% Preferred Stock and Series B Preferred Stock have priority in the event of a liquidation of our Company over the holders of our Common Stock. Upon liquidation, dissolution or winding up of our Company, whether voluntary or involuntary, before any distribution or payment is made to the holders of the Common Stock, the holders of the 10% Preferred Stock and the Series B Preferred Stock are entitled to be paid out of the assets of the Company an amount equal the stated value of such Preferred Stock, which is initially \$10,000 per share, plus any accrued, but unpaid, dividends.

The 10% Preferred Stock and the Series B Preferred Stock may be required to convert into shares of Common Stock at our election if the trading price of the Common Stock meets certain thresholds as set forth in the Original Certificate. If we fail to meet certain obligations regarding certain matters affecting the 10% Preferred Stock or the Series B Preferred Stock, the holders of such Preferred Stock may require the Company to redeem such Preferred Stock.

The foregoing descriptions of the 10% Preferred Stock and the Series B Preferred Stock do not purport to be complete and are qualified in their entirety by reference to the complete text of the Original Certificate attached as Appendix C to this Proxy Statement, and the Series B Certificate, attached as Appendix D to this Proxy Statement.

Description of the Series C Preferred Stock

When and if issued, each share of Series C Preferred Stock would be convertible, at any time and at the option of the holder, into 50,000 shares of Common Stock. Subject to certain exceptions set forth in the Series C Certificate, the conversion ratio of the Series C Preferred Stock would be subject to adjustment in the event the Company issues shares of Common Stock or other securities convertible into or exchangeable for Common Stock at a price per share which is less than the conversion price applicable to the Series C Preferred Stock. Waivers of anti-dilution adjustments that are not so excepted would require the approval of the holders of 67% of the Series C Preferred Stock. The initial conversion price of the Series C Preferred Stock would be \$0.20 per share.

The Series C Preferred Stock would not bear dividends.

The holders of the Series C Preferred Stock would vote with the holders of the 10% Preferred Stock, the Series B Preferred Stock and the Common Stock on all matters presented to the holders of the Common Stock on a Common Stock-equivalent basis. In addition to certain approval rights of the holders of the 10% Preferred Stock and the Series B Preferred Stock, the approval of the holders of at least 67% of the outstanding Series C Preferred Stock, voting as a separate class, would be required before the Company may take certain actions described in the Series C Certificate.

The Series C Preferred Stock would rank *pari passu* with the 10% Preferred Stock and the Series B Preferred Stock in the event of a liquidation of our Company. Upon liquidation, dissolution or winding up of our Company, whether voluntary or involuntary, before any distribution or payment is made to the holders of the Common Stock, the holders of the 10% Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock would be entitled to be paid out of the assets of the Company an amount equal the stated value of such Preferred Stock, which is initially \$10,000 per share, plus any accrued, but unpaid, dividends.

The Series C Preferred Stock may be required to convert into shares of Common Stock at our election if the trading price of the Common Stock meets certain thresholds as set forth in the Series C Certificate. If we fail to meet certain obligations regarding certain matters affecting the Series C Preferred Stock, the holders of the Series C Preferred Stock may require the Company to redeem the Series C Preferred Stock.

The foregoing description of the Series C Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the complete text of the Series C Certificate attached as Appendix E to this Proxy Statement.

Persons with Interests in the Proposal

The Notes are held by the following persons in the amounts set forth opposite their respective names:

Arrow, LLC	\$1,500,000
SMC Employees Partnership	\$500,000
Associated Private Equity, LLC	\$