

INTERPHARM HOLDINGS INC
Form PRE 14C
December 26, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**SCHEDULE 14C
INFORMATION STATEMENT PURSUANT TO SECTION 14(c)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14(c)-5(d)(2))
- Definitive Information Statement

INTERPHARM HOLDINGS, INC.
(Name of the Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

- No Fee Required
- Fee Computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

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

4. Proposed aggregate value of transaction:

5. Total fee paid:

Fee paid previously with preliminary materials.

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

1. Amount previously paid:

2. Form, schedule, or registration statement number:

3. Filing party:

4. Date filed:

INFORMATION STATEMENT

January , 2008

INTERPHARM HOLDINGS, INC.

This Information Statement is being distributed pursuant to Rule 14c-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") to the holders of record at the close of business on December 21, 2007 (the "Record Date") of the common stock, par value \$.01 per share ("Common Stock"), of Interpharm Holdings, Inc., a Delaware corporation (the "Company"), as well as the holders of record on the Record Date of the following series of the Company's Preferred Stock: the Series B-1 Convertible Preferred Stock, par value \$.01 per share ("Series B-1 Preferred Stock"); the Series C-1 Convertible Preferred Stock, par value \$.01 per share (the "Series C-1 Preferred Stock"); and the Series C Convertible Preferred Stock, par value \$.01 per share (the "Series C Preferred Stock").

SUMMARY

This Information Statement informs our stockholders of actions taken and approved on November 6, 2007, by the holders of our voting stock holding shares entitling such holders to cast more than a majority of the votes entitled to be cast with respect to such actions. Those actions approved the following transactions (collectively, the "Financing Transactions") accomplished pursuant to (i) a Securities Purchase Agreement dated as of November 14, 2007, by and among the Company, its wholly owned subsidiary, Interpharm, Inc., and the Purchasers identified therein (the "Securities Purchase Agreement"), and (ii) a Consent and Waiver Agreement dated as of November 7, 2007 (the "Consent and Waiver"), among the Company, Tullis-Dickerson Capital Focus III, L.P. ("Tullis"), Aisling Capital II, L.P. ("Aisling"), Cameron Reid ("Reid") and members of, and entities controlled by, the Sutaria family (who collectively control approximately 69% of our voting stock) (such members and entities being sometimes also referred to as the "Majority Shareholders"). The Financing Transactions consist of :

- (i) the sale on November 7, 2007 to Maganlal and Vimla Sutaria of the Company's \$3,000,000 principal amount of the Company's Junior Subordinated Secured 12% Note Due 2010 (the "Sutaria Note");
- (ii) the sale on November 14, 2007 to Tullis, Aisling, Reid and Sutaria Family Realty, LLC ("SFR") of \$5,000,000 principal amount of the Company's Secured 12% Notes Due 2009 (the "STAR Notes");
- (iii) the exchange on November 14, 2007, of outstanding warrants to purchase an aggregate of 4,563,828 shares of our Common Stock at an exercise price of \$1.639 per share that had been issued to each of Tullis and Aisling in connection with the Series B-1 Preferred Stock (the "B-1 Warrants") and the Series C-1 Preferred Stock (the "C-1 Warrants"), for amended and restated warrants entitling each of Tullis and Aisling to purchase 2,281,914 shares of Common Stock at an exercise price of \$0.95 per share (the "Amended and Restated Warrants") (this transaction also being sometimes referred to as the "Warrant Exchange"); and

(iv) our agreement, upon the filing and dissemination of a definitive Information Statement on Schedule 14C (the “Stockholder Approval”), to:

- amend the Company’s Certificate of Incorporation so as to (a) designate 20,825 shares of our authorized preferred stock as Series D-1 Convertible Preferred Stock, which will be convertible into shares of Common Stock at a conversion price of \$0.95 per share (the “Series D-1 Preferred Shares”), and (b) reduce the conversion price of the Series B-1 Preferred Stock and the Series C-1 Preferred Stock from \$1.5338 per share to \$0.95 per share (the “Charter Amendments”);
- exchange the STAR Notes for (a) the Company’s Secured Convertible 12% Notes Due 2010 (the “Convertible Notes”) in an aggregate principal amount equal to the principal amount of the STAR Notes plus accrued interest thereon through the date of such exchange, which will be convertible into shares of Common Stock at a conversion price of \$0.95 per share, and (b) 5-year warrants (the “New Warrants”) to purchase an aggregate of 1,842,103 shares of Common Stock at an exercise price of \$0.95 per share (this transaction also being sometimes referred to as the “STAR Note Exchange”); and
- exchange all of the outstanding shares of the Series B-1 Preferred Stock and the Series C-1 Preferred Stock (all of which are owned by Tullis and Aisling) for the Series D-1 Preferred Shares (this transaction also being sometimes referred to as the “Preferred Stock Exchange”).

A copy of the Written Consent of a Majority of the Shareholders approving the foregoing actions is attached to this Information Statement as Exhibit A.

The Charter Amendments will not become effective, and the re-pricing of the Series B-1 and C-1 Preferred Stock and the Preferred Stock Exchange will not occur, until the filing with the Office of the Secretary of State of Delaware of a Certificate of Designations, Preferences and Rights of the Series D-1 Preferred Shares at least 20 days after the date of the mailing of this Information Statement to the Company’s stockholders. Similarly, the STAR Note Exchange will not occur until at least 20 days after the date of the mailing of this Information Statement to our stockholders.

This Information Statement is being disseminated to our stockholders on or about January ____, 2008.

THIS IS NOT A NOTICE OF A SPECIAL MEETING OF STOCKHOLDERS AND NO STOCKHOLDER MEETING WILL BE HELD TO CONSIDER ANY MATTER DESCRIBED HEREIN. WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

RECORD DATE; OUTSTANDING SHARES; VOTES APPROVING THE FINANCING TRANSACTIONS

As of the Record Date, December 21, 2007, the number of shares of each class of the Company's voting stock outstanding was as follows:

- o 66,190,000 shares of Common Stock,
- o 10,000 shares of Series B-1 Preferred Stock,
- o 10,000 shares of Series C-1 Preferred Stock, and
- o 279,208 shares of Series C Preferred Stock..

Each share of our Common Stock and Series C Preferred Stock is entitled to one vote on all matters, and vote together as a single class. Each share of our Series B-1 Preferred Stock and our Series C-1 Preferred Stock is, subject to certain limitations, entitled to that number of votes as is equal to the number of shares of Common Stock such preferred share is convertible into at the Record Date and votes together with all other classes of our stock as a single class, except that the Certificate of Designations, Preferences and Rights of each of the Series B-1 Preferred Stock and the Series C-1 Preferred Stock provides that the approval of the holders of at least a majority of the outstanding shares of Series B-1 Preferred Stock and/or (as the case may be) the Series C-1 Preferred Stock, voting as a separate class, is necessary to, among other things, amend or repeal any provision of or add any provision to our Certificate of Incorporation that would materially adversely alter or change any of the powers, preferences, privileges or rights of that series of preferred stock. In addition, Section 242 of the Delaware General Corporation Law requires that the holders of the outstanding shares of a class shall be entitled to vote as a class upon a proposed amendment to the Certificate of Incorporation, if the amendment would alter or change the powers, preferences, or special rights of the shares of such class so as to affect them adversely.

On November 6, 2007, the holders of the number of shares of the class or series of the Company's stock set forth below signed written consents (see Exhibit A hereto) approving the Financing Transactions.

Class or Series	Votes Approving The Financing Transactions (1)	Total Outstanding Shares of Such Class or Series	Percentage of Total Shares of Such Class or Series Approving the Financing Transactions
Common Stock	46,124,780	66,190,000	69.69% (3)
Series B-1 Preferred Stock	0	10,000 (2)	0%
Series C-1 Preferred Stock	0	10,000 (2)	0%
Series C Preferred Stock	0	279,208	0%

(1) The holders of the Series B-1 Preferred Stock, Series C-1 Preferred Stock and Series C Preferred Stock, having had due and actual notice of the actions to be consented to, abstained from voting thereon.

(2) If the holders of the Series B-1 Preferred Stock and of the Series C-1 Preferred Stock had not abstained and, instead, had cast the votes they otherwise would have been entitled to, such holders would have been entitled to cast an aggregate of 40,000,000 votes.

(3) Calculation excludes the number of shares of Common Stock into which the Series B-1 Preferred Stock and the Series C-1 Preferred Stock were convertible on November 6, 2007.

Based on the foregoing, the requisite number of votes of the holders of each class of the Company's stock entitled to vote on the Financing Transactions, voting as separate classes as well as a single class, have been obtained.

Absence of Dissenters' Rights of Appraisal

Neither the approval of, nor the completion of, any of the Financing Transactions provides to and stockholder of the Company any right to dissent and obtain an appraisal of or payment for the stockholder's shares under the Delaware General Corporation Law or the Company's Certificate of Incorporation or By-laws.

BACKGROUND AND REASONS FOR THE FINANCING TRANSACTIONS

In February, 2006, we entered into a four-year credit and financing arrangement with the Wells Fargo Business Credit operating unit ("WFBC") of Wells Fargo Bank ("Wells Fargo") that, pursuant to a Credit and Security Agreement dated as of February 9, 2007 (the "Senior Credit Agreement"), provided the Company with a \$41,500,000 credit facility (the "WFBC Credit Facility") comprised of:

- a \$22,500,000 revolving credit facility;
- a \$12,000,000 real estate term loan;
- a \$3,500,000 machinery and equipment term loan; and
- a \$3,500,000 additional/future capital expenditure facility.

Subsequent to entering into the WFBC Credit Facility arrangement, and pursuant to Securities Purchase Agreements dated May 15, 2006 and September 11, 2006 (collectively, the "2006 SPAs"), the Company received gross proceeds of \$20,000,000 from the issuance and sale of the Series B-1 Preferred Stock and the Series C-1 Preferred Stock to Tullis and Aisling, respectively. In conjunction therewith, and for no additional consideration, the Company also issued the B-1 Warrants to Tullis and the C-1 Warrants to Aisling.

As of June 30, 2007, the Company had defaulted under the Senior Credit Agreement with respect to: (i) financial reporting obligations, including the submission of its annual audited financial statements for the fiscal year ended June 30, 2007, and (ii) financial covenants related to minimum cash flow requirements, maximum allowable total capital expenditures, financial leverage and unfinanced capital expenditures for the fiscal year ended June 30, 2007 (collectively, the "Existing Defaults"). At the time of the Financing Transactions, we owed approximately \$26,400,000 under the WFBC Credit Facility. As a consequence, the Company was faced with the potential foreclosure of the WFBC Credit Facility, acceleration of approximately \$26,400,000 of outstanding Wells Fargo indebtedness, and execution on the collateral - consisting of substantially all of the Company's property and real estate - we had pledged as security for our borrowings from Wells Fargo. If Wells Fargo had taken these actions, the Company would have suffered substantial financial losses and potential bankruptcy.

In October, 2007, WFBC agreed to waive the Existing Defaults based on the Company's consummation and receipt of \$8,000,000 in fresh financing through the issuance of the subordinated debt described below, and on October 25, 2007, the Company and WFBC finalized a Forbearance Agreement that terminates on December 31, 2007 (the "Forbearance Period"), which was subsequently amended on November 13, 2007. The parties also have agreed to establish financial covenants for the 2008 fiscal year prior to the conclusion of the Forbearance Period.

Maganlal and Vimla Sutaria, Sutaria Family Realty, Reid (the Company's Chief Executive Officer), Tullis and Aisling offered to provide the \$8,000,000 in additional, fresh financing required by Wells Fargo. Nonetheless, pursuant to the 2006 SPAs and to certain protective provisions of the Certificates of Designations, Preferences and Rights of the Series B-1 and C-1 Preferred Stock, the consent of Tullis and Aisling was required for the issuance of the Sutaria Note and for the STAR Note financing. In consideration for those consents, which are contained in the Consent and Waiver, the Company agreed to the STAR Note Exchange and the Warrant Exchange, and the Majority Shareholders agreed to give Tullis and Aisling tag along rights on certain sales by the Majority Shareholders of our Common Stock. In addition, pursuant to the Consent and Waiver, the Majority Shareholders gave a voting proxy to a committee composed of Perry Sutaria and a representative of each of Tullis and Aisling to vote their shares of Common Stock for the election of the Company's directors, and with respect to any changes in the Company's By-laws.

THE FINANCING TRANSACTIONS

On November 7, 2007, and November 14, 2007, as required by the Forbearance Agreement, the Company received a total of \$8,000,000 in gross proceeds from the issuance and sale of subordinated debt, as follows:

· **Issuance of the Sutaria Note.** On November 7, 2007, Dr. Maganlal K. Sutaria, the Chairman of the Company's Board of Directors, and Vimla M. Sutaria, his wife, loaned \$3,000,000 to the Company which loan is evidenced by the Sutaria Note. Interest of 12% per annum on the Sutaria Note is payable quarterly in arrears, and for the first 12 months of that Note's term may be paid in cash or, at the Company's option, in additional notes ("PIK Notes"). Thereafter, the Company is required to pay at least 8% interest in cash and the balance, at the Company's option, in cash or PIK Notes. Repayment of the Sutaria Note (and any PIK Notes issued in lieu of cash interest payments on the Sutaria Note) is secured by third priority liens on substantially all of the Company's property and real estate. Pursuant to intercreditor agreements, the Sutaria Note (and any such PIK Notes) are subordinated to the liens held by WFBC pursuant to the Senior Credit Agreement and by the holders of the STAR Notes described below. The terms of the Sutaria Note are summarized below in the section of this Information Statement entitled "**DESCRIPTION OF SECURITIES-The Sutaria Note.**"

· **Issuance of the STAR Notes.** On November 14, 2007, the Company issued and sold \$5,000,000 principal amount of the STAR Notes as follows:

Tullis-Dickerson Capital Focus III, L.P. ("Tullis")	\$ 833,333
Aisling Capital II, L.P. ("Aisling")	\$ 833,333
Cameron Reid ("Reid")	\$ 833,333
Sutaria Family Realty, LLC ("SFR")	\$ 2,500,000

Interest of 12% per annum on the STAR Notes is payable quarterly in arrears, and may be paid, at the Company's option, in cash or PIK Notes. Repayment of the STAR Notes (and any PIK Notes issued in lieu of cash interest payments on the STAR Notes) is secured by second priority liens on substantially all of the Company's property and real estate. As more particularly described below, the STAR Notes will be exchangeable for our Convertible Notes upon our obtaining the Stockholder Approval. The terms of the STAR Notes are summarized below in the section of this Information Statement entitled "**DESCRIPTION OF SECURITIES-The STAR Notes.**"

Additionally, pursuant to the Securities Purchase Agreement and the Consent and Waiver, we completed (in the case of the Warrant Exchange) and agreed to consummate (in the cases of the Charter Amendments, STAR Note Exchange and Preferred Stock Exchange) the following:

· **The Warrant Exchange.** In May and September of 2006, in conjunction with issuing the Series B-1 Preferred Stock and the Series C-1 Preferred Stock to Tullis and Aisling, respectively, we also issued the B-1 Warrants to Tullis and the C-1 Warrants to Aisling. As noted above, the B-1 Warrants entitled Tullis, and the C-1 Warrants entitled Aisling, to purchase 2,281,914 shares of our Common Stock at a per share exercise price of \$1.639. As part of the consideration for Tullis and Aisling entering into the Consent and Waiver with the Company, and in exchange for the B-1 and C-1 Warrants, on November 14, 2007 we issued to each of Tullis and Aisling an Amended and Restated Warrant, entitling the holder to purchase 2,281,914 shares of the Company's Common Stock at a reduced exercise price of \$0.95 per share instead of \$1.639 per share.

Although the aggregate number of shares of our Common Stock issuable upon the full exercise of the Amended and Restated Warrants is the same as the shares issuable upon full exercise of the B-1 Warrants and C-1 Warrants (in either case resulting in an approximately 6.8% reduction in the voting power and per share earnings of our presently outstanding Common Stock), as compared to the B-1 and C-1 Warrants, the reduced exercise price of the Amended and Restated Warrants will result in an approximately \$3,000,000 (or 58%) reduction in the gross proceeds to the Company if the Amended and Restated Warrants are fully exercised. In all other respects the Amended and Restated Warrants are identical to the B-1 and C-1 Warrants.

The terms of the Amended and Restated Warrants are summarized below in the section of this Information Statement entitled "Description of Securities- **The Amended and Restated Warrants.**"

· **The Charter Amendments.** As indicated above, and in addition to the Warrant Exchange, in consideration of Tullis and Aisling entering into the Consent and Waiver (which was necessary in order for us to sell the Sutaria Note and the STAR Notes and thereby fully meet Wells Fargo's requirement under the Forbearance Agreement that the Company raise an additional \$8,000,000 in financing) the Company agreed to (a) file with the Secretary of State of Delaware a Certificate of Designations, Preferences and Rights for a new series of our preferred stock, the Series D-1 Convertible Preferred Stock, which filing will have the effect under the Delaware General Corporation Law of amending the Company's Certificate of Incorporation, and (b) further amend the Certificate of Incorporation so as to reduce the conversion price of the Series B-1 Preferred Stock and Series C-1 Preferred Stock in each case to \$0.95 per share. Pursuant to the Consent and Waiver these filings (the "Charter Filings") shall be made no earlier than January 18, 2008, and no later than February 28, 2008 (or such later date as may be necessary to address any SEC comments with respect to this Information Statement).

The terms and provisions of the Series D-1 Preferred Stock will be substantially identical to those of the Series B-1 Preferred Stock and Series C-1 Preferred Stock, except that the conversion price of the Series D-1 Preferred Stock will be \$0.95 per share instead of \$1.5338 per share, and the Series D-1 Preferred Stock will have anti-dilution protection more favorable to the holders than does the Series B-1 and C-1 Preferred Stock. As more fully described below under the section of this Information Statement entitled “The Preferred Share Exchange,” the Series D-1 Preferred Stock will, pursuant to the Consent and Waiver, be issued to Tullis and Aisling in exchange for the presently outstanding Series B-1 and C-1 Preferred Stock, of which they are the sole holders. The terms of the Series D-1 Preferred Stock are summarized below in the section of this Information Statement entitled “DESCRIPTION OF SECURITIES- The Series D-1 Preferred Stock .”

· **The STAR Note Exchange.** Pursuant to the Securities Purchase Agreement, upon completing the process of obtaining the Stockholder Approval (which, pursuant to the Consent and Waiver, consists of filing with the SEC a Preliminary Information Statement on Schedule 14C relating to the Financing Transactions and filing a Definitive Information Statement on Schedule 14C with the SEC and disseminating the same to those of our shareholders who, as of the Record Date, would have been entitled to vote on the Financing Transactions had a shareholders’ meeting been called) the STAR Notes will be exchanged for (a) the Company’s Secured Convertible 12% Notes Due 2010 (which we also have referred to as the “Convertible Notes”) in an aggregate original principal amount equal to the principal and accrued interest on the STAR Notes through the date of such exchange, and (b) the New Warrants, which will entitle the holders to purchase up to an aggregate of 1,842,103 shares of our Common Stock at an exercise price of \$0.95 per share.

Initially, the Convertible Notes will be convertible into approximately 5,263,000 shares of Common Stock, and the full conversion of the Convertible Notes and the full exercise of the New Warrants would result in the issuance of approximately 7,100,000 additional shares of Common Stock and, consequently, an approximately 10.6% reduction in both the voting power of our presently outstanding Common Stock and the per share earnings (and, hence, theoretical value) of that Common Stock. Further, to the extent that the \$0.95 per share conversion price of the Convertible Notes and the \$0.95 exercise price of the New Warrants are less than the per share price paid for our presently outstanding Common Stock, conversion and/or exercise will be dilutive to our present shareholders. Additionally, the Convertible Notes and the New Warrants will have anti-dilution protection with respect to issuances of Common Stock or Common Stock equivalents at less than \$0.95 per share (“Dilutive Shares”), pursuant to which their conversion or exercise prices will, in those cases, automatically be re-set to a price equal to 90% of the price at which the Dilutive Shares are deemed to have been issued. In the case of the Convertible Notes, such a re-set would increase the above-noted effects on the voting power and per share earnings of our presently outstanding Common Stock.

The repayment of the Convertible Notes will be secured by second priority liens on substantially all of the Company's property and real estate. Pursuant to intercreditor agreements, the Convertible Note liens will be junior in priority to those of Wells Fargo, but senior to those of the Sutaria Note.

The terms of the Convertible Notes and New Warrants are summarized below in the section of this Information Statement entitled "DESCRIPTION OF SECURITIES- **The Convertible Notes**" and "DESCRIPTION OF SECURITIES-The New Warrants".

The Preferred Stock Exchange. Pursuant to the Consent and Waiver, and as consideration for Tullis and Aisling entering into that agreement, upon completing the Stockholder Approval process and filing the Charter Amendments, the Series B-1 Preferred Stock and Series C-1 Preferred Stock held by Tullis and Aisling will be exchanged for shares of our new Series D-1 Preferred Stock. The exchange will be at the rate of 1.04125 Series D-1 shares for each Series B-1 or Series C-1 share, as the case may be. The Series D-1 Preferred Stock will be substantially similar to the Series B-1 and C-1 Preferred Stock, except that (a) the conversion price of the Series D-1 Preferred Stock will be \$0.95 per share instead of \$1.5338 per share, and (b) the Series D-1 Preferred Stock will have anti-dilution protection with respect to issuances of Common Stock or Common Stock equivalents at less than \$0.95 per share ("Dilutive Shares"), pursuant to which their conversion or exercise prices will, in those cases, automatically be re-set to a price equal to 90% of the price at which the Dilutive Shares are deemed to have been issued.

As compared to the Series B-1 and C-1 Preferred Stock, the reduced, \$0.95 per share conversion price and greater than 1-for-1 exchange rate of the Series D-1 Preferred Stock will increase the number of shares of our Common Stock that may become outstanding and that (because like the Series B-1 and C-1 Preferred Stock, the holders of the Series D-1 Preferred Stock are entitled to cast that number of votes on matters submitted to the vote of our shareholders as is equal to the number of shares of Common Stock issuable upon the full conversion of the holder's Series D-1 Preferred Stock) presently may be voted, by approximately 1,900,000 shares. For this reason, the full conversion of the Series D-1 Preferred Stock to be issued in the exchange will result in an approximately 3% reduction in both the voting power of our presently outstanding Common Stock and the per share earnings (and, hence, theoretical value) of that Common Stock. Further, to the extent that the \$0.95 per share conversion price of the Series D-1 Preferred Stock is less than the per share price paid for our presently outstanding Common Stock, conversion will be dilutive to our present shareholders.

The terms of the Series D-1 Preferred Stock are summarized below in the section of this Information Statement entitled "DESCRIPTION OF SECURITIES- The Series D-1 Preferred Stock."

Interest of Certain Persons in the Financing Transactions

- **Maganlal Sutaria, M.D.**, is a member of the Company's Board of Directors and serves as our Chairman of the Board. Dr. Sutaria and his wife, Vimla Sutaria, are the purchasers of the Sutaria Note, pursuant to which they have loaned \$3,000,000 to the Company as part of the Financing Transactions.
- **Raj Sutaria**, a son of Maganlal Sutaria and brother of Perry Sutaria, M.D., is an Executive Vice President of the Company, and a 33 1/3% equity holder of Sutaria Family Realty, LLC ("SFR"), which has purchased \$2,500,000 principal amount of the STAR Notes. As such, Mr. Sutaria may be deemed to have indirectly loaned \$833,333 to the Company in the Financing Transactions. As an investor in the STAR Notes, SFR will receive approximately one-half in principal amount of the Convertible Notes and one-half of the New Warrants in the STAR Note Exchange. If the Convertible Notes and New Warrants to be issued to SFR in the STAR Note Exchange were fully converted and exercised, SFR would receive approximately 3,553,000 shares of our Common Stock. To the extent of his equity interest in SFR, Raj Sutaria will be an indirect beneficiary of the STAR Note Exchange.
- **Perry Sutaria, M.D.**, a son of Maganlal Sutaria and brother of Raj Sutaria, was elected as a member of the Company's Board of Directors on December 18, 2007. Dr. Sutaria is the beneficial owner of 66.62% of the Company's outstanding Common Stock and is a 33 1/3% equity holder of Sutaria Family Realty, LLC ("SFR"), which has purchased \$2,500,000 principal amount of the STAR Notes. As such, Dr. Sutaria may be deemed to have indirectly loaned \$833,333 to the Company in the Financing Transactions. As an investor in the STAR Notes, SFR will receive approximately one-half in principal amount of the Convertible Notes and one-half of the New Warrants in the STAR Note Exchange. If the Convertible Notes and New Warrants to be issued to SFR in the STAR Note Exchange were fully converted and exercised, SFR would receive approximately 3,553,000 shares of our Common Stock. To the extent of his equity interest in SFR, Perry Sutaria will be an indirect beneficiary of the STAR Note Exchange.
- **Joan P. Neuscheler** is a member of the Company's Board of Directors and the President of Tullis-Dickerson Capital Focus III, L.P., which has purchased \$833,333 principal amount of the STAR Notes, will receive a ratable one-sixth portion of the Convertible Notes and New Warrants in the STAR Note Exchange, and will receive one-half of the Series D-1 Preferred Stock and of the Amended and Restated Warrants. If the Convertible Notes, New Warrants, Series D-1 Preferred Stock and Amended and Restated Warrants to be issued to Tullis in the STAR Note Exchange, Warrant Exchange and Preferred Stock Exchange were fully converted and exercised, Tullis would receive approximately 14,426,000 shares of our Common Stock.
- **Cameron Reid** is the Company's Chief Executive Officer, the purchaser of \$833,333 principal amount of the STAR Notes, and will receive a ratable one-sixth portion of the Convertible Notes and New Warrants in the STAR Note Exchange. If the Convertible Notes and New Warrants to be issued to Reid were all fully converted and exercised, Reid would receive 1,184,210 shares of our Common Stock.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of December 21, 2007, certain information with respect to the beneficial ownership of our voting securities by (i) any person known by us to be the beneficial owner of more than 5% of our voting securities, (ii) each director, (iii) each executive officer, and (iv) all directors and executive officers as a group.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Maganlal K. Sutaria 75 Adams Avenue Hauppauge, NY 11788	Common Stock	1,243,000 (2)	1.86%
Rajs Holdings I, LLC(3) 75 Adams Avenue	Common Stock	15,526,000 (3)	23.46%