

Form 8-K for C-CHIP TECHNOLOGIES CORP

17-Feb-2005

Entry Material Agreement, Financial Obligation Matter, Sale of Equity

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

On February 16, 2005, C-Chip Technologies Corporation (the "Company") entered into a Purchase Agreement with eighteen institutional and accredited investors (the "Investors") under the terms of which the Company agreed to issue Units consisting of (i) an aggregate of \$4,675,000 of the Company's 9.0% Senior Secured Convertible Notes, Series A (the "Series A Notes or the "Notes"), which are convertible into shares of the Company's Common Stock, par value \$0.00001 per share ("Common Stock"), (ii) Series E warrants to purchase an aggregate of 5,394,202 shares of Common Stock (subject to adjustment) for a period of five (5) years at an exercise price of \$.75 per share (subject to adjustment) (the "Series E Warrants"); and (iii) Series F warrants to purchase an aggregate of 1,798,042 shares of Common Stock (subject to adjustment) for a period of one (1) year at an exercise price of \$.70 per share (subject to adjustment) (the "Series F Warrants", and collectively with the Series E Warrant, the "Warrants"). The minimum investment was \$125,000 (i.e. a \$125,000 Note, a Series E Warrant for 144,230 shares and a Series F Warrant for 48,076 shares).

There is no material relationship between the Company or its affiliates and the Investors other than as described in Item 1.01.

The obligations of the Company are guaranteed by all of the Subsidiaries of the Company pursuant to the terms of a Guaranty Agreement.

The Notes and the Guaranty have a secured by perfected priority security interests in all the assets of the Company and its Subsidiaries, including, without limitation, accounts receivable, intellectual property rights and inventory (the "Collateral") pursuant to the terms of a Pledge and Security Agreement, subject only to certain liens of its prior bank lender up to \$400,000.

The Series E Warrants allow each Investor to be issued common stock purchase warrants in an amount equal to seventy five percent (75%) of the number of common shares underlying the Note based on the Fixed Conversion Price. The Series E Warrants shall have a term of five (5) years from the effective date and shall have an exercise price equal to \$.75 per share.

The Series F Warrants allow each Investor to be issued common stock in an amount equal to twenty five percent (25%) of the number of common shares underlying the Note based on the Fixed Conversion Price. The Series F Warrants shall have a term of one (1) year from the effective date and shall have an exercise price equal to \$.70 per share.

The Fixed Conversion Price on the Note is sixty-five cents (\$.65). The Notes have a maturity date of 24 months from the date of issuance and are payable 9% per annum until the Notes begin amortizing. Once the notes begin amortizing the Coupon shall become 7% per annum. Coupons shall be payable at the option of the Company by the Company to the Investors semi-annually either in cash, in kind or in registered common stock at a ten percent (10%) discount to the "Market Price". The Market Price is defined as the average of the five (5) closing prices of the Company's common stock for the five (5) trading days preceding the ex-dividend date or date an amortization payment is due or a conversion is to occur. Subject to the Amortization terms, the Series A Notes shall be convertible into common stock at the Fixed Conversion Price. Conversion of the Stated Value of the Note and accrued interest may occur prior to the Maturity Date, at the option of the Holder, any time after the Securities and Exchange Commission ("SEC") declares the Company's SB-2 Registration Statement effective (the "Conversion Dates").

The Note shall amortize monthly (1/20th per month) beginning four (4) months from Closing and ending on the anniversary of the twenty-fourth (24th) month after Closing. The Company may satisfy the Amortization provision in cash and/or registered common stock based on a ten percent (15%) discount to the Market Price. A cash premium equal to 10% of the principal payment shall be paid with each cash payment. The Notes contain a prepayment option. Beginning any time after the Securities and Exchange Commission ("SEC") declares the SB-2 registration effective ("Effective Date"), if the closing bid price of the Company's common stock equal or exceeds \$2.00 for a period of ten (10) consecutive trading days, and the Company's common stock has an average trading volume in excess of 200,000 shares per day for those same ten (10) prior trading days, the Company may force the Series A Note Investors to convert into registered Common Shares of the Company based on the Fixed Conversion Price. The Company shall file a Registration Statement on Form SB-2 (or an alternative available form if the Company is not eligible to file a Form SB-2) covering the Common Shares underlying the Note and the Warrant Shares no later than thirty (30) days after the Closing, and use its best efforts to have the Registration Statement declared effective within one hundred and fifty (150) days after the Closing. In the event the Registration Statement has not been declared effective within one hundred eighty (180) days of the Closing, the Company shall pay to the Investors liquidated damages equal to 1.5% of the amount invested and shall pay to the Investors liquidated damages equal to 1.5% of the amount invested for each subsequent 30-day period, up to a maximum of a 15.0% total penalty. If the Registration Statements is not declared effective within two hundred seventy (270) days, 25% of the Series E Warrants shall become cashless Warrants and 50% of the Series F Warrants shall become cashless Warrants.

For any equity or equity linked private financing consummated within 12 months after the Closing, the holders of the Notes shall have a pro-rata right, along with the holders of the Company's Series A Note, to purchase all or part of the private financing. The Investors shall have ten (10) trading days to respond. A carve out of this provision was granted to the Issuer for the issuance of stock for situations involving strategic partnerships, acquisition candidates and public offerings. For the twenty-four (24) month period after the Closing, if the Company consummates a private equity or equity-linked financing (the "New Financing"), the Investors may exchange any remaining Notes at their Stated Value for the securities in the New Financing.

Subject to there being a minimum of \$2,500,000 of the Stated Value of the Notes outstanding at the time of the contemplated issuance referred to in this term ("Remaining Shares"), the Company shall not issue any securities or financial instruments that rank pari passu or senior to the Notes without the approval of at least one half (50%) of the Remaining Note Holders. A carve out of four million dollars (\$4,000,000) was granted to the Company for non-equity linked bank debt. The Conversion Price of the Notes and the Exercise Price of the Warrants is subject to adjustment for issuances of Common Stock (other than issuances related to this Financing) at a purchase price of less than the Conversion Price or Exercise Price, such that the conversion price or exercise price shall be adjusted using a weighted average price based on such new issuances for the exercise price of the Warrants and a full ratchet price for the Conversion Price of the Notes, both subject to customary adjustments.

In the event of a change of control transaction (third party acquiring greater than 50% in voting rights in one or a series of related transactions) the Holders may elect to have the Notes redeemed by the Company at 120% of its Face Value plus all accrued interest. The Company shall satisfy the redemption request in cash or common shares at the Company's option.

The proceeds of this transaction will be used as working capital which is defined as general corporate purposes including growth and capital initiatives.

The Company will pay a portion of the legal and due diligence expenses of the Investors.

The law of the State of New York governs this transaction.

Midtown Partners & Co., LLC., an SEC and NASD registered broker dealer acted as the placement agent for the Notes. Midtown Partners & Co., LLC is located in Boca Raton, Florida. A commission of up to 7% of the gross proceeds from the placement will be paid to the placement agent and other participating entities.

As part of the transaction described above, as collateral security for the payment and performance of the Company's obligations under the Notes that are being issued to the Investors pursuant to the Purchase Agreement and certain related obligations, (i) the Company is granting, to the Collateral Agent, for the benefit of the Investors, a security interest in the Collateral (as defined below), pursuant to the terms and conditions of that certain (a) Pledge and Security Agreement by the Company, 6327915 Canada Inc., 6340211 Canada Inc. and 6327931 Canada Inc. in favor of the Collateral Agent and (b) Pledge and Security Agreement by the Canadian Security Agency (2004) Inc. in favor of the Collateral . . .

ITEM 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION

On February 16, 2005, C-Chip Technologies Corporation (the "Company") entered into a Purchase Agreement with eighteen institutional and accredited investors (the "Investors") under the terms of which the Company agreed to issue Units consisting of (i) an aggregate of \$4,675,000 of the Company's 9.0% Senior Secured Convertible Notes, Series A (the "Series A Notes or the "Notes"), which are convertible into shares of the Company's Common Stock, par value \$0.00001 per share ("Common Stock"), (ii) Series E warrants to purchase an aggregate of 5,394,202 shares of Common Stock (subject to adjustment) for a period of five (5) years at an exercise price of \$.75 per share (subject to adjustment) (the "Series E Warrants"); and (iii) Series F warrants to purchase an aggregate of 1,798,042 shares of Common Stock (subject to adjustment) for a period of one (1) year at an exercise price of \$.70 per share (subject to adjustment) (the "Series F Warrants", and collectively with the Series E Warrant, the "Warrants"). The minimum investment was \$125,000 (i.e. a \$125,000 Note, a Series E Warrant for 144,230 shares and a Series F Warrant for 48,076 shares).

There is no material relationship between the Company or its affiliates and the Investors other than as described in Item 1.01.

The obligations of the Company are guaranteed by all of the Subsidiaries of the Company pursuant to the terms of a Guaranty Agreement.

The Notes and the Guaranty have a secured by perfected priority security interests in all the assets of the Company and its Subsidiaries, including, without limitation, accounts receivable, intellectual property rights and inventory (the "Collateral") pursuant to the terms of a Pledge and Security Agreement, subject only to certain liens of its prior bank lender up to \$400,000.

The Series E Warrants allow each Investor to be issued common stock purchase warrants in an amount equal to seventy five percent (75%) of the number of common shares underlying the Note based on the Fixed Conversion Price. The Series E Warrants shall have a term of five (5) years from the effective date and shall have an exercise price equal to \$.75 per share.

The Series F Warrants allow each Investor to be issued common stock in an amount equal to twenty five percent (25%) of the number of common shares underlying the Note based on the Fixed Conversion Price. The Series F Warrants shall have a term of one (1) year from the effective date and shall have an exercise price equal to \$.70 per share.

The Fixed Conversion Price on the Note is sixty-five cents (\$.65). The Notes have a maturity date of 24 months from the date of issuance and are payable 9% per annum until the Notes begin amortizing. Once the notes begin amortizing the Coupon shall become 7% per annum. Coupons shall be payable at the option of the Company by the Company to the Investors semi-annually either in cash, in kind or in registered common stock at a ten percent (10%) discount to the "Market Price". The Market Price is defined as the average of the five (5) closing prices of the Company's common stock for the five (5) trading days preceding the ex-dividend date or date an amortization payment is due or a conversion is to occur. Subject to the Amortization terms, the Series A Notes shall be convertible into common stock at the Fixed Conversion Price. Conversion of the Stated Value of the Note and accrued interest may occur prior to the Maturity Date, at the option of the Holder, any time after the Securities and Exchange Commission ("SEC") declares the Company's SB-2 Registration Statement effective (the "Conversion Dates").

The Note shall amortize monthly (1/20th per month) beginning four (4) months from Closing and ending on the anniversary of the twenty-fourth (24th) month after Closing. The Company may satisfy the Amortization provision in cash and/or registered common stock based on a ten percent (15%) discount to the Market Price. A cash premium equal to 10% of the principal payment shall be paid with each cash payment. The Notes contain a prepayment option. Beginning any time after the Securities and Exchange Commission ("SEC") declares the SB-2 registration effective ("Effective Date"), if the closing bid price of the Company's common stock equal or exceeds \$2.00 for a period of ten (10) consecutive trading days, and the Company's common stock has an average trading volume in excess of 200,000 shares per day for those same ten (10) prior trading days, the Company may force the Series A Note Investors to convert into registered Common Shares of the Company based on the Fixed Conversion Price. The Company shall file a Registration Statement on Form SB-2 (or an alternative available form if the Company is not eligible to file a Form SB-2) covering the Common Shares underlying the Note and the Warrant Shares no later than thirty (30) days after the Closing, and use its best efforts to have the Registration Statement declared effective within one hundred and fifty (150) days after the Closing. In the event the Registration Statement has not been declared effective within one hundred eighty (180) days of the Closing, the Company shall pay to the Investors liquidated damages equal to 1.5% of the amount invested and shall pay to the Investors liquidated damages equal to 1.5% of the amount invested for each subsequent 30-day period, up to a maximum of a 15.0% total penalty. If the Registration Statements is not declared effective within two hundred seventy (270) days, 25% of the Series E Warrants shall become cashless Warrants and 50% of the Series F Warrants shall become cashless Warrants.

For any equity or equity linked private financing consummated within 12 months after the Closing, the holders of the Notes shall have a pro-rata right, along with the holders of the Company's Series A Note, to purchase all or part of the private financing. The Investors shall have ten (10) trading days to respond. A carve out of this provision was granted to the Issuer for the issuance of stock for situations involving strategic partnerships, acquisition candidates and public offerings. For the twenty-four (24) month period after the Closing, if the Company consummates a private equity or equity-linked financing (the "New Financing"), the Investors may exchange any remaining Notes at their Stated Value for the securities in the New Financing.

Subject to there being a minimum of \$2,500,000 of the Stated Value of the Notes outstanding at the time of the contemplated issuance referred to in this term ("Remaining Shares"), the Company shall not issue any securities or financial instruments that rank pari passu or senior to the Notes without the approval of at least one half (50%) of the Remaining Note Holders. A carve out of four million dollars (\$4,000,000) was granted to the Company for non-equity linked bank debt. The Conversion Price of the Notes and the Exercise Price of the Warrants is subject to adjustment for issuances of Common Stock (other than issuances related to this Financing) at a purchase price of less than the Conversion Price or Exercise Price, such that the conversion price or exercise price shall be adjusted using a weighted average price based on such new issuances for the exercise price of the Warrants and a full ratchet price for the Conversion Price of the Notes, both subject to customary adjustments.

In the event of a change of control transaction (third party acquiring greater than 50% in voting rights in one or a series of related transactions) the Holders may elect to have the Notes redeemed by the Company at 120% of its Face Value plus all accrued interest. The Company shall satisfy the redemption request in cash or common shares at the Company's option.

The proceeds of this transaction will be used as working capital which is defined as general corporate purposes including growth and capital initiatives.

The Company will pay a portion of the legal and due diligence expenses of the Investors.

The law of the State of New York governs this transaction.

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As part of the transaction described above, as collateral security for the payment and performance of the Company's obligations under the Notes that are being issued to the Investors pursuant to the Purchase Agreement and certain related obligations, (i) the Company is granting, to the Collateral Agent, for the benefit of the Investors, a security interest in the Collateral (as defined below), pursuant to the terms and conditions of that certain (a) Pledge and Security Agreement by the Company, 6327915 Canada Inc., 6340211 Canada Inc. and 6327931 Canada Inc. in favor of the Collateral Agent and (b) Pledge and Security Agreement by the Canadian Security Agency (2004) Inc. in favor of the Collateral Agent and (ii) the Company's subsidiary are each executing a guaranty and . . .

ITEM 3.02 UNREGISTERED SALE OF EQUITY SECURITIES

On February 16, 2005, C-Chip Technologies Corporation (the "Company") entered into a Purchase Agreement with eighteen institutional and accredited investors (the "Investors") under the terms of which the Company agreed to issue Units consisting of (i) an aggregate of \$4,675,000 of the Company's 9.0% Senior Secured Convertible Notes, Series A (the "Series A Notes or the "Notes"), which are convertible into shares of the Company's Common Stock, par value \$0.00001 per share ("Common Stock"), (ii) Series E warrants to purchase an aggregate of 5,394,202 shares of Common Stock (subject to adjustment) for a period of five (5) years at an exercise price of \$.75 per share (subject to adjustment) (the "Series E Warrants"); and (iii) Series F warrants to purchase an aggregate of 1,798,042 shares of Common Stock (subject to adjustment) for a period of one (1) year at an exercise price of \$.70 per share (subject to adjustment) (the "Series F Warrants", and collectively with the Series E Warrant, the "Warrants"). The minimum investment was \$125,000 (i.e. a \$125,000 Note, a Series E Warrant for 144,230 shares and a Series F Warrant for 48,076 shares).

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