

MAI SYSTEMS CORP  
Form PRE 14C  
December 16, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**SCHEDULE 14C**

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**Information Statement**  
**Pursuant to Section 14 (c) of the Securities Exchange Act of 1934**

(Amendment No.    )

Check the appropriate box:

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

**MAI SYSTEMS CORPORATION**

(Name of Registrant as Specified in its Charter)

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Payment of Filing Fee (Check the appropriate box):

- ý No fee required.
  - o 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 maximum aggregate value of transaction: \$
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  - o Fee paid previously with preliminary materials.
    - o Check box if 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 No.:
      - (3) Filing Party:
      - (4) Date Filed:
-

**MAI SYSTEMS CORPORATION**

26110 Enterprise Way

Lake Forest, California 92630

(949) 598-6000

**INFORMATION STATEMENT**

**WE ARE NOT ASKING YOU FOR A PROXY AND**

**YOU ARE REQUESTED NOT TO SEND US A PROXY.**

Our Board of Directors is furnishing this information statement to all holders of record of the issued and outstanding shares of our common stock, \$0.01 par value ( Common Stock ), as of the close of business on December 30, 2004 (the Record Date ), in connection with our proposed Amendment to our Amended and Restated Certificate of Incorporation ( Amendment ) to effectuate a 1-for-150 reverse stock split (the Reverse Stock Split ). If consummated, the Reverse Stock Split would enable us to terminate our periodic reporting obligations under Section 13 of the Securities Exchange Act of 1934, as amended ( Exchange Act ), and the registration of our Common Stock under Section 12(g) of the Exchange Act (collectively, Registration and Periodic Reporting Obligations ).

Section 242 of the Delaware General Corporation Law requires us to obtain stockholder approval of the Amendment. We have one class of capital stock outstanding, our Common Stock. Only stockholders of record at the close of business on the Record Date are entitled to approve and adopt the Amendment. As of the Record Date, shares of Common Stock were issued and outstanding, held of record by approximately stockholders. Each share of Common Stock issued and outstanding on the Record Date is entitled to one vote with regard to the approval and adoption of the Amendment. There are no dissenters rights of appraisal with respect to the Amendment.

Under the Delaware General Corporation Law and our bylaws, our stockholders may approve the Amendment without a meeting, without prior notice and without a vote if a written consent to the Amendment is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on the action were present and voted (here, a majority of the outstanding shares of Common Stock). The holders of a majority of the outstanding shares of Common Stock are members of HIS Holding, LLC, an investor group consisting of two members of our senior management, one member of our Board of Directors, and our principal senior lender ( Investor Group ). The Investor Group has approved the Amendment by written consent dated effective as of December 30, 2004. Accordingly, your consent is not required and is not being solicited in connection with the Amendment. See The Reverse Stock Split- Approval of the Reverse Stock Split By Our Directors and Stockholders at page 7 for further details.

We will pay the expenses of furnishing this information statement, including the cost of preparing, assembling and mailing this information statement. We anticipate that this information statement will be sent or given on or about , 2005 to the record holders of Common Stock as of close of business on the Record Date, and that the Amendment will be filed with the Delaware Secretary of State and become effective no earlier than the twentieth day after this information statement is sent or given to those holders of Common Stock.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Reverse Stock Split, passed upon the merits or fairness of the Reverse Stock Split, or passed upon the adequacy or accuracy of the disclosure in this information statement. Any representation to the contrary is a criminal offense.**

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**SUMMARY TERM SHEET**

**Summary of the Proposed Reverse Stock Split**

*Purpose of the Reverse Stock Split*

The purpose of the Reverse Stock Split is to position ourselves to terminate our Registration and Periodic Reporting Obligations so that we may continue future operations as a private company, relieving us of the costs, administrative burdens and competitive disadvantages associated with operating as a public company. We intend to accomplish this purpose by reducing the number of holders of record of our Common Stock to fewer than 300 by cashing out the fractional shares that would otherwise result from the Reverse Stock Split. See *Reasons for the Reverse Stock Split* at page 12.

*Establishment and Findings of Special Committee*

Our Board of Directors adopted resolutions on November 15, 2004 establishing a Special Committee of the Board of Directors to investigate whether the Amendment to our Amended and Restated Certificate of Incorporation to implement the Reverse Stock Split was advisable, in the best interests of, and substantively and procedurally fair to, our unaffiliated stockholders, whether they are cashed out and/or remain as our stockholders. The form of the Amendment is attached to this information statement as **Appendix A**. See *Special Committee of the Board of Directors* at page 9.

The Special Committee retained its own legal counsel to advise it on all matters related to the Reverse Stock Split. The Special Committee did not obtain a third party fairness report, opinion, appraisal, or other independent assessment of the fairness of the terms of the Reverse Stock Split or the value of our Common Stock, but did rely on an internal company study. See *Procedural Factors Disfavoring the Reverse Stock Split; Interests of our Chairman and Executive Officers in the Reverse Stock Split - The Special Committee and Our Board of Directors Did Not Obtain a Fairness Report* at page 15.

In determining the price to be paid in lieu of issuing fractional shares of \$0.17 per share, the Special Committee considered, among other things, the historical market price for our Common Stock for the 30-, 60- and 90-day periods prior to December 1, 2004. The Special Committee also reviewed an internal study prepared by management that considered our going concern value, earnings value, discounted cash flow value, net asset value (liquidation value) and net book value in evaluating the fairness of the price being offered to all stockholders. See *Financial Analysis and Summary of Factors Reviewed to Determine \$0.17 Per Share Fractional Share Purchase Price* at page 10 and *Financial Analysis Performed by Management* at page 10.

After a complete review of the Reverse Stock Split proposal and consultation with legal counsel, the Special Committee on December 2, 2004 presented its findings to the Board of Directors. The Special Committee reported on each of the three principal means of reducing our number of shareholders: merger, tender offer and reverse stock split. The Special Committee found that the Reverse Stock Split was the most viable and cost-effective alternative available to us to reduce the number of our stockholders below 300, thereby positioning us to terminate our Registration and Periodic Reporting Obligations. The Special Committee further concluded that by continuing future operations as a private company, we would be relieved of the costs, administrative burdens and competitive disadvantages associated with operating as a public company. See Special Committee of the Board of Directors at page 9; Background of the Reverse Stock Split; Alternatives Considered by the Special Committee and the Board of Directors at page 12; and Special Factors Considered in Approving the Reverse Stock Split at page 12.

The Special Committee further found that the advantages of the Reverse Stock Split to the unaffiliated stockholders outweighed the disadvantages, and that it was substantively and procedurally fair, and, therefore, that the transaction was in all of our stockholders' best interests. See Special Committee of the Board of Directors at page 7 and Special Factors Considered in Approving the Reverse Stock Split at page 12.

*Approval of Board of Directors*

On December 2, 2004, our Board of Directors (with Richard S. Ressler, our Chairman, recusing himself because he is the managing member of the Investor Group) adopted resolutions authorizing and approving the Amendment and the implementation of the Reverse Stock Split. The Board of Directors directed management to submit the Amendment to our stockholders for approval and reserved the right to abandon the Amendment and the Reverse Stock Split at any time prior to the Effective Time. See The Reverse Stock Split - Approval of the Reverse Stock Split By Our Board of



Directors and Stockholders at page 7 and Substantive and Procedural Factors Considered by the Special Committee and Our Board of Directors as to the Fairness of the Reverse Stock Split at page 14.

*Approval of Stockholders*

We had approximately stockholders of record holding an aggregate of shares of common stock outstanding as of the Record Date. Of those shares, approximately %, or shares, were controlled by the Investor Group. Each stockholder is entitled to one vote per share. The proposed action to implement the Reverse Stock Split requires the affirmative vote or written consent of the holders of a majority of the outstanding shares of our common stock as of the Record Date. Members of the Investor Group holding a majority of our voting power approved the Amendment by written consent effective as of December 30, 2004. See The Reverse Stock Split - Approval of the Reverse Stock Split By Our Board of Directors and Stockholders at page 7.

*Estimated Effective Time*

We anticipate that the Amendment will be filed with the Delaware Secretary of State and the Reverse Stock Split will become effective on or about , 2005 ( Effective Time ). However, in no event will the Reverse Stock Split be consummated earlier than that twentieth day after this information statement is sent or given to those persons or entities that held Common Stock as of the Record Date. See The Reverse Stock Split - Effective Time of the Reverse Stock Split at page 7.

*Implementation and Effects of Reverse Stock Split*

Following the Reverse Stock Split, we anticipate that we will have approximately 250 stockholders of record holding an aggregate of approximately 385,000 outstanding shares of our Common Stock. See Effects of the Reverse Stock Split on our Company at page 18.

Every holder of record of Common Stock at the Effective Time will be entitled to receive one share of our Common Stock in exchange for every 150 shares of Common Stock held by that holder immediately prior to the Effective Time. No fractional shares will be issued. Instead, in lieu of issuing fractional shares to holders who would otherwise be entitled to receive a fractional share of our Common Stock as a result of the Reverse Stock Split ( Cashed-Out Stockholders ), we will pay cash consideration at the rate of \$0.17 for each share of Common Stock that was outstanding before the Effective Time but was not converted into a full share of post-split Common Stock (the Cash Consideration ). See The Reverse Stock Split Basic Terms at page 7; Effects of the Reverse Stock Split on Stockholders Who Hold Fewer than 150 Shares of Common Stock in a Single Account at page 17; and Effects of the Reverse Stock Split on Stockholders Who Hold More Than 150 Shares of our Common Stock in a Single Account at

page 17.

We plan to pay the expenses and Cash Consideration for the Reverse Stock Split using our available cash. We estimate that we will use approximately \$75,000 in cash to complete the Reverse Stock Split, which includes professional fees and other expenses related to the transaction and cash payments to be made in lieu of issuing fractional shares. We estimate that the fractional shares that would otherwise be issued in the Reverse Stock Split would aggregate to approximately 139,000 pre-split whole shares of Common Stock, resulting in cash payments to Cashed-Out Stockholders of approximately \$24,000 (139,000 whole shares at \$0.17). See Source of Funds and Financial Effect of the Reverse Stock Split at page 8.

Our Common Stock is traded over-the-counter on the OTC Bulletin Board under the symbol MAIY.OB. On December 8, 2004, the last trading price for our Common Stock prior to the announcement of the proposed Reverse Stock Split was \$0.16. The Cash Consideration represents a premium of approximately 11%, 10% and 7% over the weighted average closing trading price of the common stock over the 30-, 60- and 90- day periods, respectively, prior to the announcement of the Reverse Stock Split. See Market Prices of Our Common Stock and Dividend Policy at page 29.

Following the Reverse Stock Split, we plan to terminate our Registration and Periodic Reporting Obligations, which means that our Common Stock will not qualify to be traded on any automated quotation system operated by a national securities association and will no longer be traded on the OTC Bulletin Board. Our Common Stock may be eligible to trade in the Pink Sheets, however we have no present plans to apply for our Common Stock to be traded in the Pink Sheets. For this reason, stockholders will experience a loss of liquidity after the Reverse Stock Split and may be required

to hold their shares of Common Stock for an indefinite period of time. See [Substantive Factors Disfavoring the Reverse Stock Split -Cessation of Public Sale Opportunities](#) at page 16.

Following the Reverse Stock Split and the termination of our Registration and Periodic Reporting Obligations, we will no longer be a public-reporting company, but rather will operate as a private company. We expect our business and operations to continue as they are currently being conducted and, except as disclosed in this information statement, the Reverse Stock Split is not anticipated to materially affect the conduct of our business. We expect to be subject to substantially the same risks and uncertainties after the Reverse Stock Split. See [Conduct of our Business after the Reverse Stock Split](#) [Future Company Plans](#) at page 19.

We believe the Reverse Stock Split will be treated as a tax-free recapitalization for federal income tax purposes, which will result in no material federal income tax consequences to us. Depending on each stockholder's individual situation, the Reverse Stock Split may give rise to certain income tax consequences for stockholders. See [Certain Material Federal Income Tax Consequences](#) at page 20.

#### *Effects if Reverse Stock Split is Not Consummated*

If the Reverse Stock Split is not consummated, our Registration and Periodic Reporting Obligations will continue, and we will not benefit from the substantial reduction in general and administrative costs associated with being a non-reporting company. In addition, our senior management will have to continue to devote significant time to our reporting obligations, which they will not be able to devote to other company operations. See [Reasons for the Reverse Stock Split - Cost Savings](#) at page 13.

#### *Regulatory Filings and Approvals*

We have filed a Schedule 13E-3 with the Securities and Exchange Commission ( [Commission](#) ), to notify the Commission of our intent to go private. We anticipate that following the completion of the Reverse Stock Split and the filing of a Form 15 with the Commission, our Registration and Periodic Reporting Obligations will immediately terminate. See [Other Information - Where You Can Find More Information](#) at page 25.

We are not aware of any governmental or regulatory approval required for completion of the Reverse Stock Split, other than compliance with applicable federal and state securities laws and the corporate laws of the States of Delaware and California. See [Regulatory Approvals](#) at page 25.



## SPECIAL FACTORS

### The Reverse Stock Split

#### *Basic Terms*

Under the terms of the Reverse Stock Split, every holder of record at the Effective Time will be entitled to receive one share of our Common Stock in exchange for every 150 shares held by such person immediately prior to the Effective Time. No fractional shares will be issued. Instead, in lieu of issuing fractional shares to Cashed-Out Stockholders who would otherwise be entitled to receive a fractional share of our Common Stock as a result of the Reverse Stock Split, we will pay Cash Consideration at the rate of \$0.17 for each share of Common Stock that was outstanding immediately prior to the Effective Time but was not converted into a full share of post-split Common Stock.

To avoid becoming a Cashed-Out Stockholder as a result of the Reverse Stock Split, a stockholder may:

purchase a sufficient number of shares of Common Stock on the open market and have them registered in the stockholder's name and consolidated with its current record account if it is a record holder, or have them entered in its account with a nominee, such as its broker or bank, in which the stockholder currently holds shares of Common Stock, so that the stockholder holds at least 150 shares of Common Stock in its account immediately prior to the Effective Time; or

if applicable, consolidate the stockholder's accounts, or accounts with nominees, so that the stockholder holds at least 150 shares of Common Stock in a single record account immediately prior to the Effective Time.

Because of the limited trading market for our Common Stock, a stockholder may be unable to purchase enough shares to retain an equity interest in our company.

For payment purposes, we intend for the Reverse Stock Split to treat stockholders holding Common Stock in a street name through a nominee, such as a bank or broker, in the same manner as stockholders whose shares are registered in their own names. Nominees will be instructed to effect the Reverse Stock Split for their beneficial holders. Accordingly, we also refer to those street name holders who receive a cash payment instead of fractional shares as Cashed-Out Stockholders. However, nominees may have different procedures, and stockholders holding shares in street name should contact their nominees.

The Reverse Stock Split is structured to be a Rule 13e-3 transaction under the Exchange Act because it is intended to, and if completed will likely, reduce the number of record holders of our Common Stock to fewer than 300, which will position us to terminate our Registration and Periodic Reporting Obligations. In connection with the Reverse Stock Split, we have filed a Rule 13e-3 Transaction Statement on Schedule

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13E-3 with the Commission. We intend to apply for the termination of our Registration and Periodic Reporting Obligations as soon as practicable after the Effective Time.

### *Effective Time of the Reverse Stock Split*

We anticipate that the Amendment will be filed with the Delaware Secretary of State and the Reverse Stock Split will become effective on or about \_\_\_\_\_, 2005. However, in no event will the Effective Time of the Reverse Stock Split be earlier than the twentieth day after this information statement is sent or given to those persons or entities that held Common Stock as of the Record Date. The record date for determining the shares of our Common Stock that will be subject to the Reverse Stock Split will be the Effective Time.

### *Approval of the Reverse Stock Split By Our Board of Directors and Stockholders*

As detailed below in \_\_\_\_\_ Special Committee of the Board of Directors, our Board of Directors has approved the Amendment and the implementation of the Reverse Stock Split and reserved the right to abandon the Amendment and the Reverse Stock Split at any time prior to the Effective Time. Under the Delaware General Corporation Law and our bylaws, our stockholders may approve the Amendment and Reverse Stock Split without a meeting, without prior notice and without a vote if a written consent to the Amendment is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on the action were present and voted (here, a majority of the outstanding shares of Common Stock). The Investor Group, which holds a majority of the outstanding shares of our Common Stock, has approved the Amendment by written consent dated effective as of December 30, 2004. Accordingly, no other stockholder approval is required and is not being solicited in connection with the Amendment.

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Information about the Investor Group that consented to the Amendment and the number of shares of Common Stock owned as of the Record Date and included in the written consent approving the Reverse Stock Split is as follows:

<b>Name of Stockholder</b>	<b>Number of Shares</b>
HIS Holding, LLC 6922 Hollywood Boulevard, Suite 900 Los Angeles, California 90028	43,172,110

The number of shares shown as owned and included in the written consent approving the Reverse Stock Split excludes shares held separately by the four members of HIS Holding, LLC because shares held separately were not made part of the written consent. Additional beneficial ownership information is contained below in *Interests of Certain Persons in or Opposition to the Reverse Stock Split- Security Ownership of Certain Beneficial Owners and Management*.

### *Stock Certificates*

Our transfer agent, Mellon Investor Services, has been appointed as our exchange agent to carry out the exchange of existing Common Stock certificates for new Common Stock certificates and to send cash payments in lieu of issuing fractional shares. Promptly following the Effective Time, the transfer agent will send a letter of transmittal to each affected stockholder. The letter will describe the procedures for surrendering stock certificates in exchange for new Common Stock certificates and/or the Cash Consideration. Upon receipt of the stock certificates and properly completed letters of transmittal, the transfer agent will issue the appropriate new stock certificates and/or make the appropriate cash payment within approximately 20 business days.

No service charges will be payable by our stockholders in connection with the exchange of certificates or the payment of cash in lieu of issuing fractional shares because we will bear those expenses. We will not pay interest on cash sums due to any stockholder in connection with the Reverse Stock Split.

All stock certificates outstanding immediately prior to the Effective Time evidencing ownership of our Common Stock will be deemed cancelled without further action by their holders as of the Effective Time. Please do not send any stock certificates to our transfer agent or us in connection with the Reverse Stock Split until you receive and complete a letter of transmittal.

### *Provision for Unaffiliated Stockholders*

Neither we, nor any executive officer or director of our company nor any person controlling us has made any provision in connection with the Reverse Stock Split to grant unaffiliated stockholders access to our corporate files or to obtain counsel or appraisal services for such stockholders.

### *Source of Funds and Financial Effect of the Reverse Stock Split*

Given that the actual number of shares of Common Stock that we will purchase is unknown at this time, the total cash we will pay to stockholders is currently unknown, but is estimated to be approximately \$24,000. Our cash at the beginning of December 2004 was approximately \$124,000. We expect to pay the Cash Consideration to be paid in connection with the Reverse Stock Split and other expenses for the Reverse Stock Split through our available cash. The Reverse Stock Split and the use of approximately \$75,000 in cash to complete the Reverse Stock Split, which includes professional fees and other expenses related to the transaction and cash payments to be made in lieu of issuing fractional shares, are not expected to adversely affect our capitalization, liquidity, results of operations or cash flow.

*Fees and Expenses*

The following is a reasonably itemized statement of the fees and expenses that have been incurred or that are estimated to be incurred in connection with the Reverse Stock Split and the transactions related thereto: \$24,000 in Cash Consideration for fractional shares; \$5,000 to our auditors; \$25,000 to our legal counsel; \$11,000 for printing and other costs in connection with the mailing of this information statement; and \$10,000 for exchange agent services.

*Accounting Consequences*

The Reverse Stock Split will not affect the par value of our Common Stock, which remains \$0.01 per share. The Reverse Stock Split will result in an increase in per share net income or loss and net book value of our Common Stock because



fewer shares of our Common Stock will be outstanding. Our financial statements, supplementary financial information and quantitative and qualitative disclosures about market risk, included in **Appendices C and D** of this information statement, do not reflect the Reverse Stock Split. See **Appendix B** of this information statement for pro forma financial information reflecting the Reverse Stock Split.

#### *Certain Legal Matters*

We are not aware of any license or regulatory permit that appears to be material to our business that might be adversely affected by the Reverse Stock Split, nor any approval or other action by any governmental, administrative or regulatory agency or authority, domestic or foreign, that would be required to consummate the Reverse Stock Split, other than approvals, filings or notices required under federal and state securities laws and the corporate laws of the States of Delaware and California.

#### **Special Committee of the Board of Directors**

Subsequent to our 2004 annual stockholders meeting that was held on September 22, 2004, our Board of Directors requested that our senior management and legal counsel present to our Board of Directors an analysis of the positive and negative factors relating to the privatization of our company. On November 15, 2004, our Board of Directors held a special meeting during which our senior management and legal counsel described the benefits and detriments of and various alternatives for taking our company private, including merger, tender offer and reverse stock split. Our Board of Directors and management determined that the Reverse Stock Split would be the best means of accomplishing this goal.

In view of the possible conflicts of interest involved in the Reverse Stock Split, our Board of Directors unanimously decided on November 15, 2004, that it would be advisable to form the Special Committee of independent members of our Board of Directors consisting of Messrs. Mayer and Ross, with Mr. Ross as the Chairman of the Special Committee, to evaluate the Reverse Stock Split proposal and assess whether the proposal is in the best interests of our stockholders. Neither of these directors is employed by or affiliated with our company or the Investor Group or any of their affiliates (except in the capacity as a director of our company). However, Mr. Ross is an employee (but not an executive officer) of CIM Group, an affiliate of MAI.

Our Board of Directors further determined that it would be prudent for the Special Committee to retain independent legal counsel to assist in reviewing the Reverse Stock Split proposal. On November 15, 2004, the Special Committee interviewed Rutan & Tucker, LLP, Costa Mesa, California, and decided to retain this firm. The only role that Rutan & Tucker played in the Reverse Stock Split was as legal counsel to the Special Committee. Other than its representation of the Special Committee, Rutan & Tucker has no relationship (legal or otherwise) with any of the independent directors that constitute the Special Committee. The Special Committee also instructed senior management to prepare an internal study of the Reverse Stock Split and a pricing analysis for the price to be paid to stockholders in lieu of issuing fractional shares in the Reverse Stock Split.

On November 30, 2004, senior management presented to the Special Committee and their legal counsel an internal company study of the Reverse Stock Split and a pricing analysis for the repurchase of fractional shares. During the course of the presentation, the Special Committee raised numerous questions and requested additional information and analysis, each of which was responded to by our senior management and legal counsel. The Special Committee determined that it would not be cost-effective to obtain a third party fairness report, opinion, appraisal, or other independent assessment of the fairness of the terms of the Reverse Stock Split or the value of our Common Stock, and was satisfied that they could rely on the internal company study for their pricing analysis.

On December 1, 2004, the Special Committee approved an appropriate price to be paid in lieu of issuing fractional shares in connection with the Reverse Stock Split. Each of the Special Committee members reviewed the information set forth below under Financial Analysis and Summary of Factors Reviewed to Determine \$0.17 Per Share Fractional Share Purchase Price . The Special Committee, by written consent dated as of December 2, 2004, approved a 1-for-150 reverse split of our Common Stock, with \$0.17 per share to be paid in cash in lieu of issuing fractional shares. The selected split ratio was a result of calculations intended to determine how many stockholders needed to be cashed out to achieve our goal of going private.

On December 2, 2004 the Special Committee presented its findings to our Board of Directors. The Special Committee found that the purpose of the Reverse Stock Split was to reduce the number of our stockholders below 300, thereby positioning us to terminate our Registration and Periodic Reporting Obligations and continue future operations as a private company and relieving us of the substantial costs, administrative burdens and competitive disadvantages associated with operating as a public company. The Special Committee further reported that the advantages of the Reverse Stock Split to the unaffiliated

stockholders outweighed the disadvantages, and that it was substantively and procedurally fair, and therefore, in the best interests of our company and our stockholders.

Our Board of Directors reviewed the Special Committee's presentation and the internal company study of the Reverse Stock Split and pricing analysis. Our Board of Directors asked questions and received answers regarding the Reverse Stock Split from the Special Committee and representatives of senior management. The Special Committee advised our Board of Directors that it had approved the Reverse Stock Split, and recommended that our Board of Directors approve the Reverse Stock Split. After extensive consideration and discussion, our Board of Directors (with Richard S. Ressler, our Chairman, recusing himself because he is the managing member of the Investor Group), adopted the Special Committee's recommendation regarding the Reverse Stock Split based on the Special Committee's determination that the Reverse Stock Split was fair and in the best interests of our company and our stockholders.

#### *Disclosure of Financial Interests of Special Committee Members*

As of December 1, 2004, the Special Committee members each held options to purchase 12,500 shares of Common Stock and each was the beneficial owner of 37,500 shares of Common Stock. Mr. Ross is employed by (but not an executive officer of) CIM Group, an affiliate of our company.

#### *Financial Analysis and Summary of Factors Reviewed to Determine \$0.17 Per Share Fractional Share Purchase Price*

In determining the price to be paid in lieu of issuing fractional shares, the Special Committee considered, among other things, the historical market price for our Common Stock for the 30-, 60-, and 90-day periods prior to December 1, 2004. As discussed below, the Special Committee also considered our going concern value, earnings value, discounted cash flow value, net asset value (liquidation value) and net book value in reviewing the fairness of the price being offered to unaffiliated stockholders. Although management determined that the payment of a purchase price of \$0.10 per share in lieu of issuing fractional shares in connection with the Reverse Stock Split was fair, we intend to pay a purchase price of \$0.17 per share, representing a premium of \$0.07 per share (70%) over the fair value as determined by management below. In determining this premium, we considered, among other things, that the weighted average closing prices of our Common Stock for the 30-, 60- and 90-day periods preceding December 1, 2004 were approximately \$0.153, \$0.154, and \$0.159 per share, respectively. We also considered that the fractional shares that would otherwise be issued in the Reverse Stock Split would aggregate to approximately 139,000 pre-split whole shares of Common Stock, resulting in cash payments to Cashed-Out Stockholders of approximately \$24,000 based on the \$0.17 per share price. This cash total represents only an additional aggregate \$10,000 above the cash payments that would be calculated based on management's estimated fair value of our Common Stock of \$0.10 per share, which amount is not material to us.

#### *Financial Analysis Performed by Management*

The following paragraphs summarize the financial analyses performed by management as of November 29, 2004 to assist the Special Committee and our Board of Directors in determining the price to be paid in lieu of issuing fractional shares in the Reverse Stock Split. Management recommended to the Special Committee a fractional share price of \$0.10 per share.

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In arriving at its recommendation, management relied on both financial and other information and assured the Special Committee that it was not aware of any facts or circumstances that would make any such information inaccurate or misleading. With respect to the preliminary financial projections utilized, management assumed that those projections were reasonable based on the best currently available estimates and judgments, and that those projections provide a reasonable basis upon which it could form a recommendation. Management also assumed that the Reverse Stock Split would be consummated substantially in accordance with the terms as generally set forth in this information statement.

Management's recommendation is based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of their analyses. The estimates contained in management's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by such analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, management's analyses and estimates are inherently subject to uncertainty.

Management presented six material factors in its financial analyses supporting its recommendation:

historical market price of our Common Stock;

our going concern value;

our earnings value (earnings times an appropriate multiplier);

discounted cash flow (net present value of projected cash flows);

net asset value (liquidation value); and

net book value.

Each of these factors was analyzed in comparison with similar companies to ours and similar transactions to the Reverse Stock Split transaction and is summarized below.

**Historical Market Price Analysis.** Management utilized a historical stock price analysis to review and compare our stock performance to the price recommended in the Reverse Stock Split. In addition, management reviewed the liquidity of our shares in the public trading markets and the daily closing market price and trading volume of our shares for various periods ended November 30, 2004. While the 30-, 60- and 90-day average price of \$0.153, \$0.156 and \$0.163 per share, respectively, were higher than the consideration price recommended by management of \$0.10 per share, management concluded that trading of our stock on the OTC Bulletin Board may not reflect the fair price of the stock because of the thin trading market, wide bid-ask spread, the stock dilution from the recent Management Equity/Infusion Transaction that was approved by our stockholders on September 22, 2004 and resulted in the issuance on November 1, 2004 of approximately 43,172,000 shares of our Common Stock, and high historical volatility of our stock price. Additionally, the average daily trading volume of our Common Stock for the three- and twelve-month periods prior to November 30, 2004 were approximately 14,000 and 15,000 shares, respectively. As there has not been a market for large share transactions in our Common Stock, any large transaction may result may result in significantly lower trading prices than the historical prices noted above.

**Going Concern Value.** Management reviewed projections that assume that we are a going concern based upon the current status of our business. Management analyzed the reasonableness of the projections based upon historical performance, current financial conditions and industry comparisons. Management was then able to arrive at a going concern value based on the earnings value and discounted cash flow value discussed below.

**Earnings Value.** Management reviewed our historical revenues and earnings before interest, taxes, depreciation and amortization ( EBITDA ) and compared these figures to the total invested capital value of \$13.0 million that is implied by using a share price of \$0.153, which represents the weighted average daily closing market price of our Common Stock for the 30-day period ended November 30, 2004. The implied multiples for the ratio of total invested capital to revenues for 2003 and for the average of the five years ending December 31, 2003, were 0.7 and 0.5, respectively. The implied multiples for the ratio of total invested capital to EBITDA for 2003 and for the average of the five years

ending December 31, 2003 were 5.1 and 9.4, respectively. Management then compared these implied multiples for us to those publicly traded companies operating in the software and IT consulting industries. Factors considered in this analysis included our size in terms of revenues and assets, declining revenues and profitability, financial distress in terms of negative working capital and non-compliance with debt covenants, the absence of highly comparable public companies, and the fact that we are in a highly competitive software and IT consulting industry.

**Discounted Cash Flow Value.** Based upon forecasts and after review of historical performance, current financial conditions, industry outlook, competitive market landscape, and other analyses, management developed projected cash flows that it deemed reasonable and valid at the time of valuation. The projected cash flows incorporated various assumptions, including, but not limited to, net sales growth, profit margins, income taxes, depreciation, capital expenditures, and working capital levels, all of which are critical to the development of projected cash flows. These projected cash flows were then discounted at a weighted cost of capital of 20% as calculated using the capital asset pricing model. Management believed that the discount rate of 20% was appropriate for us and our industry.

**Net Asset Value (Liquidation Value).** Management concluded that our total debt may approximate or exceed any asset value upon liquidation, leaving little if any value to equity holders in liquidation. Based upon this determination, the fractional share price of \$0.10 per share may be greater than our net asset value.

**Net Book Value.** Management determined that in valuing us on a net book value, we have a negative book value, and therefore, the value represented by the recommended fractional share price of \$0.10 per share was significantly greater than the net book value of our company.

**Conclusion.** Based upon its review of these and other factors, management concluded that as of the date of its analyses, the recommended price of \$0.10 per share to be paid in lieu of issuing fractional shares in connection with the

Reverse Stock Split was fair from a financial point of view to the unaffiliated stockholders. While the foregoing summary describes the material analyses and factors reviewed by management, it does not purport to be a complete description of the presentations by management to the Special Committee or the analyses performed by management in arriving at its conclusion. The preparation of this analysis is a complex process and is not necessarily susceptible to partial analysis or summary description. Management believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, could create a misleading view of the processes underlying the recommendation. In addition, management may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuations resulting from any particular analysis described above should not be taken to be management's view of our actual value. In performing its analyses, management made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond our control. The analyses performed by management are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. The analyses performed were prepared solely as part of management's analysis of the fairness, from a financial point of view, of management's recommended price per share to be paid in lieu of issuing fractional shares in connection with the Reverse Stock Split, and were provided to the Special Committee solely in connection with the delivery of the management recommendation.

### **Special Factors Considered in Approving the Reverse Stock Split**

#### *Purpose of the Reverse Stock Split*

The purpose of the Reverse Stock Split is to position us to terminate our Registration and Periodic Reporting Obligations and enable us to continue future operations as a private company, thereby relieving us of the costs, administrative burdens and competitive disadvantages associated with operating as a public company. We intend to accomplish this purpose by reducing the number of holders of record of our Common Stock to fewer than 300 by cashing out the fractional shares that would otherwise result from the Reverse Stock Split.

#### *Background of the Reverse Stock Split; Alternatives Considered by the Special Committee and the Board of Directors*

Faced by a continuing lack of interest from public market investors and the need to increase our working capital and reduce our administrative expenses, we determined that maintaining our public company status came at a significant cost to us with no significant benefit. We determined that terminating our Registration and Periodic Reporting Obligations would result in substantial cost savings and better competitive positioning, which would help us maximize stockholder value. In order to terminate our Registration and Periodic Reporting Obligations, we must reduce the number of record holders of our Common Stock to fewer than 300.

The Special Committee and our Board of Directors reviewed several alternatives for reducing our number of record holders. The first alternative involved a tender offer. In a tender offer, publicly held shares are purchased directly from a company's stockholders. The proponent of the transaction approaches the target company to consider the proposal. When the two sides reach an agreement, the acquiror sends the stockholders a written offering document, the offer to purchase, which contains disclosures required by Commission rules, and a letter of transmittal, which stockholders may use to tender their shares. The target company issues a press release announcing, among other things, that the company recommends that stockholders accept the offer and tender their shares. Tender offers are commonly conditioned on the acquiror holding at least 90% of each class of stock of the company following the closing of the offer, which provides the acquiror with the ability to complete a short-form merger without holding a meeting of stockholders or soliciting proxies. In a short-form merger, the shares that were not tendered are typically converted into the right to receive the same consideration that was paid to the tendering stockholders or the right to assert appraisal rights. At the conclusion of the short-form merger, the target company typically has one stockholder, a subsidiary of the acquiror.

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The second alternative considered was a merger with a third party. A common form is a reverse triangular merger in which an entity formed by the acquiror merges with and into the target company, which survives the merger. As a result of the merger, the outstanding shares of the target company's stock, other than shares owned by the acquiror, are converted into the right to receive the merger consideration. The merger consideration is the cash paid to the stockholders of the target corporation. A merger typically leaves the surviving company with one stockholder, a subsidiary of the acquiror.

The final alternative considered was the Reverse Stock Split. We have made repeated attempts over a significant period of time to merge our company with a variety of other companies and have been unsuccessful in our attempts to do so on acceptable terms. Additionally, we believe that a tender offer would fail to achieve the desired results because we have a significant number of stockholders who own a small number of shares. As of the Record Date, we had approximately



stockholders of record, including approximately      owning fewer than five shares, approximately      owning fewer than 100 shares, and approximately      owning fewer than 150 shares.

Because the results of a reverse stock split are more predictable and automatic, our Board of Directors believes that the Reverse Stock Split is the most expeditious and economical way of reducing the number of holders of record to fewer than 300 and positioning us to effect the termination of our Registration and Periodic Reporting Obligations. As a result, on December 2, 2004, our Board of Directors (with Richard S. Ressler recusing himself because he is the Managing Member of the Investor Group), approved a 1-for-150 Reverse Stock Split of our Common Stock, subject to stockholder approval. The selected split ratio was a result of calculations intended to determine how many record holders needed to be cashed out to achieve our goal of going private.

### **Reasons for the Reverse Stock Split**

#### *Cost Savings*

We incur direct and indirect costs associated with our status as a public company. Among the most significant are the costs associated with compliance with the Registration and Periodic Reporting Obligations imposed by the Commission. Direct costs associated with compliance with the Registration and Periodic Reporting Obligations include, but are not limited to auditing fees, legal fees, financial printer fees and miscellaneous clerical and other administrative expenses, such as word processing, conversion to EDGAR, telephone and fax charges associated with the preparation and filing of periodic reports, proxy materials and other reports and statements with the Commission.

Based on our experience in prior years, our direct costs of complying with the Registration and Periodic Reporting Obligations are estimated to be approximate \$600,000 annually, based on estimated annual audit and accounting fees of \$80,000, estimated annual legal fees of \$40,000, estimated financial printer fees of \$45,000, estimated transfer agent fees of \$35,000, estimated costs associated with filing reports with the Commission (including internal administrative staff) of \$50,000, estimated costs for directors and officers insurance of \$150,000, estimated ongoing costs associated with Sarbanes-Oxley compliance of \$140,000 (estimated at \$250,000 in 2005) and estimated miscellaneous costs of \$60,000. Indirect costs associated with compliance with the Registration and Periodic Reporting Obligations include, among other things, the time our executive officers expend to prepare and review our periodic reports. Because we have only a few executive personnel, these indirect costs are substantial. Due to additional regulations and compliance procedures required of public companies under the Sarbanes-Oxley Act of 2002, we expect that the direct and indirect costs identified above will increase in the future.

The cost of administering each registered stockholder's account is the same regardless of the number of shares held in that account. As of the record date, our Common Stock was held of record by approximately      stockholders, and approximately      stockholders of record held fewer than 150 shares, representing approximately      % of the total number of holders of record of our Common Stock. These accounts holding fewer than 150 shares represented less than      % of the total number of outstanding shares of our Common Stock. Assuming that the Reverse Stock Split does not occur, the estimated cost relating to our Registration and Periodic Reporting Obligations for each stockholder account, will be approximately \$      in 2005.

Our Board of Directors considered the cost to us of continuing to file periodic reports with the Commission and complying with the proxy and annual report requirements under the Exchange Act compared to the benefits to us and our stockholders of continuing to operate as a public company. Under the circumstances, our Board of Directors determined that the benefits that we and our stockholders would typically expect to derive from our status as a public company are not being realized and are not likely to be realized in the foreseeable future. As a result, our Board of Directors concluded that the elimination of the costs of complying with our Registration and Periodic Reporting Obligations

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outweighed the benefits of continuing to incur such costs. We are, therefore, undertaking the Reverse Stock Split at this time to save us the substantial costs, which we expect to increase over time, and resources required to comply with the Registration and Periodic Reporting Obligations and other obligations associated with operating as a public reporting company. However, the actual savings to be realized from terminating our Registration and Periodic Reporting Obligations may be higher or lower than our estimates.

### *Lack of Capital from Public Markets*

We have been unable to take advantage of the capital available through the public markets due to our historically low stock price. Further, our Board of Directors does not presently intend to raise capital through sales of our securities in a public offering or to acquire other business entities using our Common Stock as the consideration for the acquisition. Accordingly, we have not, and are not likely to make use of, or benefit from, the advantages generally associated with operating as a public company.

*Competitive Disadvantage*

As a public company, we are required to make certain disclosures in connection with our Registration and Periodic Reporting Obligations. Those public disclosures can place us at a competitive disadvantage by providing our non-public competitors with strategic information about our business, operations and results while not having access to similar information about those competitors.

In light of our limited size and resources, competitive disadvantages related to our public reporting obligations and our lack of intent to raise capital through a public offering or effect acquisitions using our stock, our Board of Directors does not believe the costs associated with maintaining our Registration and Periodic Reporting Obligations and maintaining our stockholder accounts with less than 150 shares are justified. Our Board of Directors believes that it is in the best interests of us and our stockholders as a whole to eliminate the administrative burden and costs associated with maintaining our Registration and Periodic Reporting Obligations and maintaining stockholder accounts of fewer than 150 shares.

**Substantive and Procedural Factors Considered by the Special Committee and Our Board of Directors as to the Fairness of the Reverse Stock Split**

Our Special Committee and Board of Directors have analyzed the Reverse Stock Split and its anticipated effects on our stockholders and have deemed the Reverse Stock Split and related termination of our Registration and Periodic Reporting Obligations to be substantively and procedurally fair to, and in the best interests of, our affiliated and unaffiliated stockholders, whether they are cashed out or remain as stockholders following the Reverse Stock Split. In reaching this conclusion, our Special Committee and Board of Directors also considered, in no particular order and without preference, the factors described below.

**Procedural Factors Favoring the Reverse Stock Split**

*The Reverse Stock Split Provides our Stockholders with Liquidity*

The average daily trading volume for our Common Stock over the three months preceding the announcement date of the Reverse Stock Split on December 8, 2004 was approximately 14,000 shares, deeming it illiquid by most standards. The Reverse Stock Split will provide stockholders who hold fewer than 150 shares at the Effective Time the opportunity to liquidate their investment in us.

*The Reverse Stock Split Includes the Opportunity to Remain a Stockholder of our Company*

Prior to the Effective Time, a current holder of fewer than 150 shares of our Common Stock may elect to remain a stockholder of our company by acquiring sufficient shares so that they hold at least 150 shares in their account immediately prior to the Effective Time. Our Board of Directors considers the structure of the Reverse Stock Split to be fair to all stockholders because it allows them to control the decision of whether to remain a stockholder of our company following the Reverse Stock Split or to receive the Cash Consideration offered in connection with the Reverse Stock Split.

*No Unusual Conditions to the Reverse Stock Split*

Our Board of Directors also considered the likelihood that the Reverse Stock Split would be implemented. In this regard, it considered that there are no unusual requirements or conditions to the Reverse Stock Split, and that we have the financial resources to implement the Reverse Stock Split expeditiously.

*The Reverse Stock Split Ratio was Calculated Without Bias Toward Any Particular Group of Stockholders and Will Apply Equally to All Shares of our Common Stock*

The purpose of the Reverse Stock Split is to reduce the number of record holders to fewer than 300 so that we can file to terminate our Registration and Periodic Reporting Obligations and continue future operations as a private company. The split ratio is a result of calculations that were intended to determine how many stockholders needed to be cashed out in order to reduce the number of record holders to fewer than 300. Our Board of Directors feels the current ratio of 1-for-150 is fair because it was calculated without bias toward any one group of stockholders. The ratio will be applied equally to all shares of our Common Stock.

**Procedural Factors Disfavoring the Reverse Stock Split; Interests of our Chairman and Executive Officers in the Reverse Stock Split**

*The Reverse Stock Split Will be Approved by our Affiliated Stockholders Without a Vote by Unaffiliated Stockholders*

With respect to the fact that the Investor Group holds sufficient shares of our Common Stock of to approve the Reverse Stock Split, our Board of Directors believes that this potential conflict is outweighed by the substantive features and procedural safeguards of the Reverse Stock Split, including the equal application of the Reverse Stock Split to all shares of our Common Stock, the fact that all stockholders will have the option to remain stockholders of our company (by purchasing additional shares prior to the Effective Time), and the fairness of the price offered to all stockholders.

*The Special Committee and Our Board of Directors Did Not Obtain a Fairness Report*

The Special Committee and our Board of Directors did not obtain a fairness report, opinion, appraisal or other independent assessment because the Reverse Stock Split is structured in such a way that it will apply equally to both affiliated and unaffiliated stockholders. While all of our affiliated stockholders will remain stockholders of our company following the Reverse Stock Split by virtue of the size of their holdings, unaffiliated stockholders will have the same opportunity if they so choose (by purchasing additional shares prior to the Effective Time). In light of this equal treatment, the Special Committee and our Board of Directors concluded that the expense associated with obtaining a fairness opinion was not justified.

*As a Result of the Reverse Stock Split, Stockholders Who Own More than 150 Shares, Such as Members of the Investor Group, Will Increase Their Percentage Ownership Interest in Our Company*

Based on information and estimates of record ownership of shares of Common Stock as of the Record Date, the beneficial ownership percentage of our executive officers and directors, including vested options, will increase from % to % as a result of the Reverse Stock Split. The beneficial ownership percentage of the Investor Group will increase from % to %, as a result of the reduction by an estimated 139,000 pre-split whole shares in the number of shares of our Common Stock outstanding due to the payment of cash in lieu of issuance of fractional shares.

**Substantive Factors Favoring the Reverse Stock Split**

*Direct and Indirect Cost Savings*

As discussed above under *Reasons for the Reverse Stock Split - Cost Savings*, we incur direct and indirect costs associated with our status as a public company. Among the most significant are the costs associated with compliance with the Registration and Periodic Reporting Obligations imposed by the Commission. We estimate that we will save approximately \$600,000 annually in direct general and administrative costs by being a private company. We also believe that because of the Sarbanes-Oxley Act, such direct costs would increase in the future. Additionally, the indirect cost to our company in terms of senior management time spent on complying with the Registration and Periodic Reporting Obligations will also be saved.

*The Reverse Stock Split Offers Stockholders the Opportunity to Receive Cash at a Premium In Lieu of Fractional Shares*

Our Board of Directors considered several methods for valuing our Common Stock to determine the \$0.17 price per share to be paid to stockholders in lieu of issuing fractional shares of our Common Stock as a result of the Reverse Stock Split. The Cash Consideration to be paid to holders of fractional shares represents a premium of approximately 11%, 10% and 7% over the weighted average closing trading price of the common stock over the 30-, 60- and 90-day periods, respectively, prior to the announcement of the Reverse Stock Split.

**Substantive Factors Disfavoring the Reverse Stock Split**

*Cessation of Public Sale Opportunities*

We intend to apply to terminate our Registration and Periodic Reporting Obligations following the Reverse Stock Split. As a result, stockholders may no longer have the alternative of selling their shares of our Common Stock in the public market, and there may be no effective trading market for our Common Stock. Any stockholder desiring to sell his or her shares may have a difficult time finding a buyer. This illiquidity may reduce the price a buyer is willing to pay for shares of our Common Stock. We anticipate that the public market for shares of our Common Stock will be substantially reduced or eliminated altogether. Following the Reverse Stock Split, our Common Stock will not qualify to be traded on any automated quotation system operated by a national securities association and will no longer be traded on the OTC Bulletin Board. Our Common Stock may be eligible to trade in the Pink Sheets, however we have no present plans to apply for our Common Stock to be traded in the Pink Sheets. For this reason, stockholders will experience a loss of liquidity after the Reverse Stock

Split and may be required to hold their shares of Common Stock for an indefinite period of time. We do not have any present plans to sell our assets or enter into any other transaction that would provide liquidity for the shares. However, we may explore from time to time various methods to provide liquidity to stockholders, including a sale or merger of our company or its assets.

Because only approximately 14,000 shares per day, on average, of our Common Stock have been traded over the three months ended December 8, 2004, the current public market is highly illiquid. Because as a practical matter there currently exists very little liquidity for our Common Stock, our Board of Directors believes any further losses of liquidity will have little effect on unaffiliated stockholders and will be outweighed by the benefits of terminating our Registration and Periodic Reporting Obligations.

#### *Cessation of Publicly Available Information*

Upon terminating our Registration and Periodic Reporting Obligations, we will no longer file, among other things, annual or quarterly reports with the Commission. Updated information regarding our business, results of operations and financial condition like the information that is currently available to the general public and our investors will not be available once we terminate our Registration and Periodic Reporting Obligations. We intend to explore methods to distribute financial information to our stockholders on a cost-effective basis. Our Board of Directors does not believe this factor makes the transaction unfair to unaffiliated stockholders because any detriment to unaffiliated stockholders that may result from the termination of our Registration and Reporting Obligations will be offset by the anticipated cost-saving benefits and competitive advantages to us of no longer publicly filing reports with the Commission.

#### *Inability to Participate in Any Future Increase in the Value of Our Common Stock*

Cashed-Out Stockholders will have no further equity interest in us with respect to their cashed out shares. Accordingly, they will no longer have the opportunity to participate in the potential upside of any increase in the value of our Common Stock. Our Board of Directors determined that this factor does not make the transaction unfair to unaffiliated stockholders because unaffiliated stockholders who desire to hold shares of our Common Stock after the Reverse Stock Split can do so by acquiring sufficient shares so that they hold at least 150 shares in their account immediately prior to the Effective Time.

#### **Effects of the Reverse Stock Split on Stockholders Who Hold Fewer than 150 Shares of Common Stock in a Single Account**

When the Reverse Stock Split is effected, stockholders holding fewer than 150 shares of our Common Stock in a single account immediately prior to the Effective Time will not receive a fractional share of our Common Stock as a result of the Reverse Stock Split, but rather will receive Cash Consideration. Given the historical illiquidity of our Common Stock, we believe the structure of the Reverse Stock Split benefits the Cashed-Out Stockholders. Among the potential detriments of the Reverse Stock Split is the fact that after the Reverse Stock Split, Cashed-Out Stockholders will have no further ownership interest in the company, and will no longer be entitled to vote as a stockholder or share in our future assets, earnings, or profits. The Cashed-Out Stockholder's only right will be to receive cash in lieu of the issuance to them of fractional shares of Common Stock.

All Cash Consideration amounts owed to the Cashed-Out Stockholders as a result of the Reverse Stock Split will be subject to applicable federal and state income taxes and state-abandoned property, or escheat, laws. Additional details regarding the federal tax consequences are described

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later in this information statement under the heading **Certain Material Federal Income Tax Consequences**. Additional details regarding state-abandoned property, or escheat, laws are described later in this information statement under the heading **Escheat Laws**.

As soon as practical after the consummation of the Reverse Stock Split, we or our exchange agent will mail a letter of transmittal to each stockholder. The letter of transmittal will contain instructions for the surrender of stock certificates to our exchange agent in exchange for the payment of the Cash Consideration. No cash payment will be made to any Cashed-Out Stockholder until the stockholder has surrendered his or her outstanding certificates, together with the completed letter of transmittal, to our exchange agent. For more detailed information, see **Stock Certificates**. After the Reverse Stock Split, stockholders will have no rights as stockholders with respect to the pre-split shares of Common Stock or the fractional shares that would have resulted from the Reverse Stock Split, whether or not those stockholders have been paid Cash Consideration.

### **Effects of the Reverse Stock Split on Stockholders Who Hold More Than 150 Shares of our Common Stock in a Single Account**

When the Reverse Stock Split is effected, stockholders with 150 or more shares of our Common Stock in a single account immediately prior to the Effective Time ( **Remaining Stockholders** ) will:



as of the Effective Time, have their shares of Common Stock converted into post-split Common Stock and receive one new share of Common Stock for every 150 shares of pre-split Common Stock in their account; and

receive Cash Consideration in lieu of fractional shares that would otherwise be issued to them as a result of the Reverse Stock Split.

The Remaining Stockholders will benefit from having the opportunity to share in our future successes, if any. However, the Remaining Stockholders will not have the option to liquidate all of their shares like the Cashed-Out Stockholders. Further, once we are private, it will be even more difficult to value, and therefore, sell their shares of Common Stock if they so desire.

#### **General Examples of Potential Effects of the Reverse Stock Split**

In general, the results of the Reverse Stock Split can be illustrated by the following examples:

**Hypothetical Scenario No. 1.** Stockholder A is a registered stockholder who holds 100 shares of our Common Stock in her record account at the Effective Time. Instead of receiving a fractional share of our Common Stock immediately after the Reverse Stock Split, Stockholder A's 100 shares will be converted into the right to receive \$17.00 ( $100 \times \$0.17$ ). Alternatively, if Stockholder A wants to continue her investment in our company, she can buy at least 50 more shares of our Common Stock and hold the shares in her record account, so long as the purchase is complete before the Effective Time.

**Hypothetical Scenario No. 2.** Stockholder B has two separate record accounts. As of the Effective Time, he holds 100 shares of our Common Stock in one account and 50 shares of our Common Stock in the other. All of his shares are registered in his name only. Stockholder B will be entitled to receive cash payments equal to the number of shares of our Common Stock that he holds in each record account, instead of receiving fractional shares following the Reverse Stock Split. Stockholder B would receive two checks totaling \$25.50 ( $100 \times \$0.17 = \$17.00$ ;  $50 \times \$0.17 = \$8.50$ ;  $\$17.00 + \$8.50 = \$25.50$ ). Alternatively, if Stockholder B wants to continue his investment in our company, he can consolidate his two accounts prior to the Effective Time by. In that case, his holdings will not be cashed out in connection with the Reverse Stock Split because he will hold 150 shares of our Common Stock in one record account, which would convert into one post-split share of our Common Stock. He would have to act far enough in advance so that the consolidation is complete before the Effective Time.

**Hypothetical Scenario No. 3.** Stockholder C holds 330 shares of Common Stock prior to the Effective Time. After the Reverse Stock Split, Stockholder C will hold in his record account two shares of our Common Stock ( $330/150 = 2.2$ ) and, instead of receiving a fractional share of our Common Stock in his record account immediately after the Reverse Stock Split, Stockholder C's unconverted 30 shares will be converted into the right to receive \$5.10 ( $30 \times \$0.17$ ) of

Cash Consideration.

**Effect of the Reverse Stock Split on Option Holders**

Upon effectiveness of the Reverse Stock Split, any outstanding options under our 1993 Employee Stock Option Plan and our 1995 Non-Employee Directors Stock Option Plan will have their number of shares and exercise prices adjusted to give effect to the 1-for-150 Reverse Stock Split, with any fractional shares resulting from such adjustment converting to a right to receive \$0.17 in cash per pre-Reverse Stock Split share less the exercise price of such pre-Reverse Stock Split shares subject to exercise of the option. The vesting schedule for the options will remain unchanged. Any authorized but un-issued options under our 1993 Employee Stock Option Plan and our 1995 Non-Employee Directors Stock Option Plan will have the number of shares adjusted to give effect to the 1-for-150 Reverse Stock Split.

**Effects of the Reverse Stock Split on Our Company**

The Reverse Stock Split is expected to reduce the number of record holders of our Common Stock and the number of our outstanding shares of Common Stock. Our Amended and Restated Certificate of Incorporation currently authorizes the issuance of 100,000,000 shares of capital stock consisting of 99,000,000 shares of Common Stock, \$0.01 par value per share, and 1,000,000 shares of undesignated Preferred Stock. At the Effective Time, our authorized shares of capital stock will be reduced to 666,667 consisting of 660,000 shares of Common Stock, \$0.01 par value per share, and 6,667 shares of undesignated Preferred Stock. As of the Record Date, \_\_\_\_\_ shares of our Common Stock and no shares of our undesignated Preferred Stock were outstanding. Fractional shares of Common Stock that would otherwise result from the Reverse Stock Split will instead be paid in cash. We believe that the Reverse Stock Split will reduce the number of shares of our Common Stock outstanding of record from \_\_\_\_\_ to approximately 384,000, assuming approximately 139,000 shares of pre-split Common Stock are cashed out.

Our Common Stock is currently registered under the Exchange Act and, consequently, we are subject to the Registration and Periodic Reporting Obligations of the Exchange Act. We believe the Reverse Stock Split will reduce the number of record holders of Common Stock from approximately 580 to approximately 250, which will position us to terminate our Registration and Periodic Reporting Obligations and continue future operations as a private company, thereby relieving us of the costs, administrative burdens and competitive disadvantages associated with operating as a public company.

Based on the aggregate number of record holders of our Common Stock, and the number of holders of record owning more than 150 shares of our Common Stock as of the Record Date, we estimate that payments of cash in lieu of the issuance of fractional shares to Cashed-Out Stockholders will total approximately \$24,000 in the aggregate. If stockholders holding less than 150 shares of our Common Stock purchase sufficient shares of our Common Stock to remain stockholders following the Reverse Stock Split, then the number of holders of record of our Common Stock may not be reduced below 300 and we may be ineligible to terminate our Registration and Periodic Reporting Obligations.

We believe the completion of the Reverse Stock Split and the subsequent termination of our Registration and Periodic Reporting Obligations will cause the market for shares of our Common Stock to be substantially reduced or possibly eliminated. Our Common Stock is currently traded in the over-the-counter market on the OTC Bulletin Board, which is a quotation service that displays real time quotes, last sales prices and volume information in over-the-counter equity securities. This source of liquidity will no longer be available to our stockholders following the Reverse Stock Split and the termination of our Registration and Reporting Obligations.

Our Common Stock will continue to have the same \$0.01 par value per share following the consummation of the Reverse Stock Split. In addition, each post-Reverse Stock Split share of our Common Stock will be entitled to one vote per one whole share.

We have no current plans to issue Common Stock other than pursuant to our existing Restricted Stock Plan, but we reserve the right to do so at any time and from time to time at such prices and on such terms as our Board of Directors determines to be in our best interests and the best interests of our then stockholders. Our board of directors will take such action, as it deems necessary or appropriate to make equitable adjustments to any outstanding stock options, restricted stock or other rights to acquire our Common Stock.

We are undertaking the Reverse Stock Split at this time because, among other reasons, we believe that we will save substantial costs associated with compliance with the Registration and Periodic Reporting Obligations. However, our cost saving estimates may be inaccurate, and the actual savings to be realized from terminating our Registration and Periodic Reporting Obligations may be higher or lower than our estimates.

#### *Conduct of Our Business After the Reverse Stock Split Future Company Plans*

Following the Reverse Stock Split, we will no longer be a public-reporting company, but rather will operate as a private company. We expect our business and operations to continue as they are currently being conducted and, except as disclosed in this information statement, the Reverse Stock Split is not anticipated to materially affect the conduct of our business. We expect to be subject to substantially the same risks and uncertainties after the Reverse Stock Split.

We have no current plans or proposals to effect any extraordinary corporate transaction such as a merger, reorganization, sale or liquidation, to change our Board of Directors or senior management, to change materially our capitalization, or otherwise to effect any material change in our

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corporate structure of business. Other than actions discussed in this information statement, the Investor Group has no further plans, proposals or arrangements to acquire more shares or otherwise reduce or eliminate the stockholdings of our minority stockholders. However, we may explore from time to time various methods to provide liquidity to stockholders, including a sale or merger of our company or its assets.

We are not aware of any existing voting agreements that would have an impact on our future business plans.

### *Reservation of Right to Abandon the Reverse Stock Split*

Our Board of Directors retains the right to abandon the Reverse Stock Split, even though approved by our stockholders, if it determines prior to the Effective Time that the Reverse Stock Split is not then in our best interest or the best interest of our stockholders. Among the circumstances that might cause our Board of Directors to abandon the Reverse Stock Split is the development of a significant risk of the Reverse Stock Split failing to achieve the overall goal of reducing the number of record holders to fewer than 300, or where the expense of cashing out the stockholders with fewer than 150 shares becomes so high that the transaction become financially prohibitive. If the Reverse Stock Split is not implemented, then we will

be unable to terminate our Registration and Periodic Reporting Obligations until we have fewer than 300 holders of record of Common Stock and satisfy certain other requirements of the Commission.

#### *Escheat Laws*

The unclaimed property and escheat laws of various states provide that under circumstances defined in those states' statutes, holders of unclaimed or abandoned property must surrender that property to the state. Persons whose shares are eliminated and whose addresses are unknown to us, or who do not return their stock certificates and request payment therefore, generally will have a fixed period of years from the Effective Time in which to claim the cash payment payable to them. For example, with respect to stockholders whose last known addresses are in California (as shown by our records), the period is three years. Following the expiration of that three-year period, the Unclaimed Property Law of California would likely cause the cash payments to escheat to the State of California. For stockholders who reside in other states or whose last known addresses (as shown by our records) are in states other than California, those other states may have abandoned property laws that call for the state to obtain either (i) custodial possession of property that has been unclaimed until the owner reclaims it; or (ii) escheat of such property to the state. Under the laws of those other jurisdictions, the holding period, the time period that must elapse before the property is deemed to be abandoned, may be shorter or longer than three years. If we do not have an address for the holder of record of the shares, then we would turn over unclaimed Cash Consideration to our state of incorporation, the state of Delaware, in accordance with its escheat laws.

#### *Appraisal Rights*

No appraisal rights are available under the Delaware General Corporation Law to stockholders who wish to dissent from the Reverse Stock Split. There may exist other rights or actions under state law for stockholders who are aggrieved by reverse stock splits generally. Although the nature and extent of those rights or actions are uncertain and may vary depending upon facts or circumstances, stockholder challenges to corporate actions in general are related to the fiduciary responsibilities of corporate officers and directors and to the fairness of corporate transactions. For example, stockholders could, if they deemed such to be applicable, take appropriate legal action against us and our Board of Directors, and claim that the Reverse Stock Split was unfair to the unaffiliated stockholders, and/or that there was no justifiable or reasonable business purpose for the Reverse Stock Split.

#### **Certain Material Federal Income Tax Consequences**

Summarized below are certain of the material federal income tax consequences to us and our stockholders resulting from the Reverse Stock Split. This summary is based on existing U.S. federal income tax law, which may change, even retroactively. This summary also assumes that the stockholders have held and will continue to hold their shares as capital assets under the Internal Revenue Code of 1986, as amended. This summary does not discuss all aspects of federal income taxation, including certain aspects that may be important to stockholders in light of their individual circumstances. Many stockholders, such as banks, financial institutions, insurance companies, broker-dealers, tax-exempt organizations, and securities traders that elect mark-to-market tax accounting treatment, may be subject to special tax rules. Other stockholders may also be subject to special tax rules, including but not limited to: stockholders who received our Common Stock as compensation for services or pursuant to the exercise of an employee stock option, or stockholders who have held, or will hold, stock as part of a straddle, hedging, or conversion transaction for federal income tax purposes. In addition, this summary does not discuss any state, local, foreign, or other tax considerations.

For purposes of this discussion, "U.S. person" means any of the following:

- (1) a citizen or resident of the U.S.;
- (2) a corporation or other entity taxable as a corporation created or organized under U.S. law (federal or state);
- (3) an estate the income of which is subject to U.S. federal income taxation regardless of its sources;
- (4) a trust if a U.S. court is able to exercise primary supervision over administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust, or if the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- (5) any other person whose worldwide income and gain is otherwise subject to U.S. federal income taxation on a net basis.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of our Common Stock that is a U.S. person, and the term "non-U.S. Holder" means a beneficial owner of our Common Stock that is not a U.S. person.

We urge stockholders to consult with their own tax advisor as to the particular federal, state, local, foreign and other tax consequences, in light of their specific circumstances. If a partnership holds our Common Stock, the tax treatment of a partner generally will depend upon the status of the partner and upon the activities of the partnership. If the stockholder is a partner of a partnership holding our Common Stock, we suggest that such stockholder consult his or her tax advisor.

*Federal Income Tax Consequences to Our Company*

We believe that the Reverse Stock Split should be treated as a tax-free recapitalization for federal income tax purposes. This should result in no material federal income tax consequences to our company.

*Federal Income Tax Consequences to Stockholders Receiving No Cash Consideration from the Reverse Stock Split*

If a stockholder (1) continues to hold our Common Stock immediately after the Reverse Stock Split, and (2) receives no Cash Consideration as a result of the Reverse Stock Split, such stockholder should not recognize any gain or loss in the Reverse Stock Split. The aggregate adjusted tax basis in shares of our Common Stock held immediately after the Reverse Stock Split should be equal to the aggregate adjusted tax basis in the shares of Common Stock held immediately prior to the Reverse Stock Split, and the stockholder should have the same holding period in the Common Stock as it had in such stock immediately prior to the Reverse Stock Split.

*Federal Income Tax Consequences to Stockholders Receiving Cash Consideration from the Reverse Stock Split*

If a stockholder receives Cash Consideration as a result of the Reverse Stock Split, its tax consequences will depend on whether, in addition to receiving cash, it or a person or entity related to it continues to hold our Common Stock immediately after the Reverse Stock Split, as explained below.

*Stockholders Who Exchange All of Their Common Stock for Cash as a Result of the Reverse Stock Split.*

If a stockholder receives Cash Consideration in lieu of a fractional share as a result of the Reverse Stock Split, does not continue to hold any of our Common Stock immediately after the Reverse Stock Split, and is not related to any person or entity that holds our Common Stock immediately after the Reverse Stock Split, the stockholder will recognize capital gain or loss. The amount of capital gain or loss the stockholder recognizes will equal the difference between the cash received for the cashed-out stock and the aggregate adjusted tax basis in such stock.

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If a stockholder is related to a person or entity who continues to hold our Common Stock immediately after the Reverse Stock Split, such stockholder will recognize gain or loss in the same manner as set forth in the previous paragraph, provided that such receipt of cash either is not essentially equivalent to a dividend, or is a substantially disproportionate redemption of stock, as described below.

**Not Essentially Equivalent to a Dividend.** A stockholder will satisfy the not essentially equivalent to a dividend test if the reduction in its proportionate interest in our company resulting from the Reverse Stock Split is considered a meaningful reduction given the particular facts and circumstances. The Internal Revenue Service ( IRS ) has ruled that a small reduction by a minority stockholder whose relative stock interest is minimal and who exercises no control over the affairs of the corporation will meet this test.

**Substantially Disproportionate Redemption of Stock.** The receipt of cash in the Reverse Stock Split will be a substantially disproportionate redemption of stock for a stockholder if the stockholder owns less than 50% of the outstanding shares of our Common Stock after the Reverse Stock Split, and the percentage of the outstanding shares of our Common Stock owned by the stockholder immediately after the Reverse Stock Split is less than 80% of the percentage of shares of our Common Stock it owned immediately before the Reverse Stock Split.

In applying these tests, the stockholder will be treated as owning shares actually or constructively owned by certain individuals and entities related to the stockholder. If the receipt of Cash Consideration in lieu of fractional shares of our Common Stock does not give rise to capital gain or loss under any of the tests, it will be treated first as ordinary dividend income to the extent of the stockholder's ratable share of our undistributed earnings and profits, then as a tax-free return of capital to the extent of its aggregate adjusted tax basis in the shares, and any remaining amount will be treated as capital gain.



*Stockholders Who Both Receive Cash Consideration and Continue to Hold Our Common Stock Immediately After the Reverse Stock Split*

If a stockholder both receives Cash Consideration as a result of the Reverse Stock Split and continues to hold our Common Stock immediately after the Reverse Stock Split, it generally will recognize gain, but not loss, in an amount equal to the lesser of the excess of the sum of aggregate fair market value of its shares of our Common Stock plus the cash received over its adjusted tax basis in the shares, or the amount of cash received in the Reverse Stock Split. The aggregate adjusted tax basis in the stockholder's shares of our Common Stock held immediately after the Reverse Stock Split should be equal to its aggregate adjusted tax basis in the shares of our Common Stock held immediately prior to the Reverse Stock Split, increased by any gain recognized in the Reverse Stock Split, and decreased by the amount of cash received in the Reverse Stock Split.

Any gain recognized in the Reverse Stock Split should be treated, for federal income tax purposes, as capital gain, provided that the receipt of cash either is not essentially equivalent to a dividend with respect to the stockholder, or is a substantially disproportionate redemption of stock with respect to the stockholder as discussed above. In applying these tests, the stockholder will be treated as owning shares held by certain individuals and entities related to the stockholder, and the stockholder may take into account sales of shares of our Common Stock that occur substantially contemporaneously with the Reverse Stock Split. If the gain is not treated as capital gain under any of these tests, the gain will be treated as ordinary dividend income to the stockholder to the extent of its ratable share of our undistributed earnings and profits, then as a tax-free return of capital to the extent of its aggregate adjusted tax basis in its shares, and any remaining gain will be treated as a capital gain.

*Dividend Income, Capital Gain and Capital Loss*

The U.S. federal income tax rate currently applicable to dividends received from domestic corporations by an individual taxpayer is a maximum of 15%, subject to the requirements the individual must have held the stock with respect to which a dividend is distributed for a minimum of 61 days during the 120-day period beginning 60 days before the stock becomes ex-dividend. A taxpayer's holding period for these purposes is reduced by periods during which the taxpayer's risk of loss with respect to the stock is considered diminished by reason of the existence of options, contracts to sell and similar transactions. The reduced rate of tax applies to the taxable years between 2003 and 2008. Individual stockholders should consult their own advisors as to their eligibility for the reduced rate of tax in relation to dividends on our Common Stock.

Federal legislation also reduced the maximum U.S. federal income tax rate applicable to net capital gain (defined generally as the total capital gains in excess of capital losses for the year) recognized upon the sale of capital assets that have been held for more than 12 months to 15%. The reduced rate of tax applies to the taxable years between 2003 and 2008. Net capital gain recognized from the sale of capital assets that have been held for 12 months or less will continue to be subject to tax at ordinary income tax rates. Capital gain recognized by a corporate taxpayer will also continue to be subject to tax at the ordinary income tax rates applicable to corporations. For both individual and corporate taxpayers, there are significant limitations on the deductibility of capital losses.

*Information Reporting and Backup Withholding*

In general, payments of dividends with respect to our Common Stock are subject to information reporting. Each paying agent will be required to provide the IRS with information, including the name, address, and taxpayer identification number of each U.S. Holder receiving payments, and the aggregate amount of dividends paid to such beneficial owner during the calendar year. These reporting requirements, however, do not apply to all beneficial owners. Specifically, corporations, securities broker-dealers, other financial institutions, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts, and non-U.S. persons satisfying certain requirements are all excluded from reporting requirements.

U.S. Holders will be required to provide their social security or other taxpayer identification numbers, and in some instances, additional information, to our transfer agent in connection with the Reverse Stock Split to avoid backup withholding requirements that might otherwise apply. The letter of transmittal will require each stockholder to deliver such information when the Common Stock certificates are surrendered following the Effective Time. Backup withholding will apply if a U.S. Holder fails to establish its exemption from the information reporting requirements, is subject to the reporting requirements and fails to supply its correct taxpayer identification number in the manner required by applicable law, or underreports its tax liability, or if the paying agent has been otherwise notified by the IRS to backup withhold. The backup withholding tax rate is currently 28%. This backup withholding tax is not an additional tax and may be credited against a U.S. Holder's federal income tax liability if the required information is furnished to the IRS.

*Special Rules for Non-U.S. Holders*

If a stockholder is a non-U.S. Holder, its tax consequences will depend on whether its income or gain from the Reverse Stock Split is effectively connected with the conduct of a U.S. trade or business, or, if there is an applicable treaty, is attributable to a permanent establishment maintained in the U.S. Performance of significant personal services constitutes the conduct of a U.S. trade or business.

*Income or Gain Not Effectively Connected with the Conduct of a U.S. Trade or Business.*

Except as described below under the heading *Income or Gain Effectively Connected with the Conduct of a U.S. Trade or Business*, dividends (including deemed dividends) paid on our Common Stock held by a non-U.S. holder will be subject to U.S. federal withholding tax (but not the federal income tax) at a rate of 30% or lower treaty rate, if applicable. In order to claim a reduction of withholding under a tax treaty, a non-U.S. holder generally will be required to file IRS Form W-8BEN upon which the non-U.S. holder certifies, under penalty of perjury, its status as a non-U.S. person and its entitlement to the lower treaty rate with respect to such payments. Further, a non-U.S. holder will generally not be subject to U.S. federal income or withholding tax on gain realized on the taxable disposition of our Common Stock.

*Income or Gain Effectively Connected with the Conduct of a U.S. Trade or Business*

If dividends paid to a non-U.S. Holder are effectively connected with the conduct of a U.S. trade or business by the non-U.S. Holder or, if required by a tax treaty, the dividends are attributable to a permanent establishment maintained in the United States by the non-U.S. Holder, us and other payors generally are not required to withhold tax from the dividends, provided that the non-U.S. Holder furnishes a valid IRS Form W-8ECI certifying, under penalty of perjury, that the holder is a non-U.S. person, and the dividends are effectively connected with the holder's conduct of a U.S. trade or business and are includible in the holder's gross income. Effectively connected dividends will be subject to U.S. federal income tax on net income that applies to U.S. persons generally (and, with respect to corporate holders under certain circumstances, the branch profits tax).

In the case of any gain that is effectively connected with the conduct of a U.S. trade or business by a non-U.S. Holder (and, if required by a tax treaty, any gain that is attributable to a permanent establishment maintained in the United States), the non-U.S. Holder will generally be taxed on its net gain derived from the disposition at the regular rates and in the manner applicable to U.S. persons and, if the non-U.S. Holder is a foreign corporation, the branch profits tax may also apply.

*Backup Withholding and Information Reporting*

We must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to that holder and the tax withheld from such dividend payments. These reporting requirements apply regardless of whether withholding was reduced or eliminated by any applicable tax treaty. Copies of the information returns reporting dividend payments and any withholding thereof may also be made available to the tax authorities in the country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

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A non-U.S. holder will generally not be subject to additional information reporting or to backup withholding with respect to dividend payments on our Common Stock, or to information reporting or backup withholding with respect to payments of proceeds from the disposition of our Common Stock to or through a U.S. office of any broker, as long as the holder has furnished to the payor or broker: (i) a valid IRS Form W-8BEN certifying, under penalties of perjury, its status as a non-U.S. person; (ii) other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations; or (iii) otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder will be allowed as a credit against such holder's U.S. federal income tax liability, if any, or will otherwise be refundable, provided that the requisite procedures are followed and the proper information is filed with the IRS on a timely basis. Non-U.S. holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

As explained above, the amounts paid to a stockholder as a result of the Reverse Stock Split may result in dividend income, capital gain income, or some combination of dividend and capital gain income to such stockholder depending on its individual circumstances. We urge each stockholder to consult its tax advisor as to the particular federal, state, local, foreign, and other tax consequences of the transaction, in light of the specific circumstances.

## OTHER INFORMATION

### Regulatory Approvals

We are not aware of any material governmental or regulatory approval or filing required for completion of the transaction, other than compliance with the applicable federal and state securities laws and the corporate laws of the States of Delaware and California.

### Background Information Concerning Our Directors, Executive Officers and Controlling Stockholders

#### *Directors*

The name, business address and experience of each of our directors for at least the past five years and certain other information concerning each director has been furnished by the director and is set forth below.

**Richard S. Ressler** has been the Chairman of the Board and a director since 1995. He was our Chief Executive Officer from October 1994 until February 1997 and our President from October 1994 until May 1995. He has served in each of these capacities pursuant to a consulting agreement between our company and Orchard Capital Corporation. Mr. Ressler is the founder and President of Orchard Capital, a firm that provides investment capital and advice to companies (including MAI) in which Orchard Capital or its affiliates invest. He has been a principal of Orchard Capital since 1994. His present business address is 6922 Hollywood Boulevard, Suite 900, Hollywood, California 90028. Mr. Ressler is Chairman of CIM Group, Inc., which acts as an integrated real estate investment and management services firm for institutional investors. He has been a principal of CIM Group and its predecessor since 1994. Mr. Ressler has been Chairman of the Board and a director of j2 Global Communications, Inc., a leading unified messaging service provider, since 1997, and served as Chief Executive Officer of j2 Global from March 1997 until January 2000, serving in each of these capacities pursuant to a consulting agreement between j2 Global and Orchard Capital.

**Zohar Loshitzer** was appointed to our Board of Directors in January 1998. From July 1997 through December 31, 2000, he was Chief Information Officer, and in 2001 he became Executive Vice President, Corporate Strategy, for j2 Global Communications, Inc., a leading unified messaging services provider. His present business address is 6922 Hollywood Boulevard, Suite 900, Hollywood, California 90028. From July 1997 through November 29, 2000, he also served as a member of the Board of Directors of j2 Global Communications, Inc. From August 2000 through December 31, 2001 he acted as a consultant with MAI Systems Corporation. Since 1995, he has also been a Managing Director of Orchard Telecom, a telecommunications-consulting firm. From 1987 until 1995, he was the general manager and part owner of Life Alert, a nationwide emergency response service.

*Stephen Ross* was elected to our Board of Directors in May 2001. He is currently a consultant for Warner Brothers. His present business address is 400 Warner Boulevard, Building 2, Suite 208, Burbank, California 91522. From 1989 to 2001, he was employed by Warner Brothers as Executive Vice President, Special Projects. He also served from 1992 through 2001 as a director of the Sea World Property Trust (an Australian theme park company). From 1986 through 1989, he was employed by Lorimar Telepictures Corp. as Senior Vice President and General Counsel. From 1981 through 1986, he worked with Telepictures Corp. where he was Senior Vice President, General Counsel and a member of its board of directors. He also serves as a director of Grill Concepts, Inc., a restaurant company.

*Steven F. Mayer* was elected to our Board of Directors in May 2001. Since December 2002, he has been Managing Director of Cerberus Capital Management, LLC, a private investment firm that manages funds and accounts with approximately \$12.5 billion in aggregate committed capital. His present business address is 11812 San Vicente Boulevard, Suite 300, Los Angeles, California 90049. Cerberus invests primarily in businesses exhibiting the potential for business improvement and manages holdings in the United States and worldwide. From February 2002 until November 2002, Mr. Mayer was Executive Managing Director of Gores Technology Group, LLC, a private investment and management firm. From November 1996 until September 2001, he was a Managing Director and co-head of Corporate Finance of U.S. Bancorp Libra, the leveraged finance investment banking unit of U.S. Bancorp, and its predecessor company. He was also a Managing Director of Libra Capital Partners, L.P., an affiliated private equity firm that sponsors and invests in management-led buyouts, later stage growth financings, leveraged recapitalizations, corporate divestitures, and acquisitions. From June 1994 until November 1996, Mr. Mayer was a managing director of Aries Capital Group, LLC, a private investment firm that he co-founded. From April 1992 until June 1994, when he left to co-found Aries Capital Group, Mr. Mayer was a principal with Apollo Advisors, L.P. and Lion Advisors, L.P., affiliated private investment firms. Prior to that time, Mr. Mayer was an attorney with Sullivan & Cromwell specializing in mergers, acquisitions, divestitures, leveraged buyouts and corporate finance. Mr. Mayer currently serves as a director of Acterna Corporation, a leading telecommunications test and measurement company and Airway Industries, Inc., a leading luggage and travel accessories company.

*Executive Officers*

The name, business address and experience for at least the past five years and certain other information concerning each such executive officer has been furnished by the executive officer and is set forth below.

**W. Brian Kretzmer**, has been our Chief Executive Officer since August 1999 and was appointed as our President on September 10, 2000. His present business address is 26110 Enterprise Way, Lake Forest, California 92630. He also served as our Chief Financial Officer from August 1999 until March 2000. From August 1997 until July 1999, he was Executive Vice President and Chief Financial Officer for Segue Corporation, a California-based private company focused on providing support services to computer manufacturers utilizing Internet commerce. From July 1991 until July 1997 he held various positions with us, including Vice President, Corporate Development, Controller, Vice President, Finance, Chief Financial Officer, and Chief Information Officer. From July 1995 until July 1996 he also served as the President and Chief Operating Officer of Gaming Systems International, which was at that time a wholly-owned subsidiary of ours.

**James W. Dolan**, has been our Chief Financial Officer since March 2000 and our Chief Operating Officer since March 2001. His present business address is 26110 Enterprise Way, Lake Forest, California 92630. Previously, he served as our Vice President, Finance from September 1999 until March 2000. From 1985 to 1999, Mr. Dolan served in positions of increasing responsibility with the accounting firm of KPMG LLP, where he managed audit and consulting projects for companies ranging in size from start-up operations to large public multinational organizations. Mr. Dolan also served as KPMG's senior audit manager to MAI from 1994 through 1997.

*Controlling Stockholder HIS Holding, LLC*

Our controlling stockholder is HIS Holding, LLC, which we also refer to in this information statement as the Investor Group. This entity is a Delaware limited liability company that was formed on March 23, 2004 to act as a holding company for investments in hospitality companies. Voting and dispositive power over shares of our Common Stock held by HIS Holding, LLC is held by Richard S. Ressler as the managing member. The other members of HIS Holding, LLC are James W. Dolan, W. Brian Kretzmer and Canyon Capital Advisors, LLC. The address for HIS Holding, LLC is 6922 Hollywood Boulevard, Suite 900, Los Angeles, California 90028. See Prior Transactions Between the Investor Group and Our Company at page 26.

*Other Background Information*

Neither HIS Holding, LLC nor any of our executive officers or directors, has been convicted in any criminal proceeding in the past five years and was not the subject of any administrative proceeding in the past five years that resulted in judgment, decree or final order that involved any injunction or finding of any violation of federal or state securities laws. Each of our executive officers and directors is a citizen of the United States.

**Prior Transactions Between the Investor Group and Our Company**

*Investor Group Purchase of Company Shares Owned by Computer Sciences Corporation*

On April 9, 2004, the Investor Group, consisting of certain members of senior management and/or our Board of Directors (Mr. Ressler, Mr. Dolan and Mr. Kretzmer) and our principal senior lender, Canyon Capital Advisors, LLC, acquired 2,433,333 shares of our Common Stock and \$3,694,156 of our indebtedness that were owned by CSA Private Limited, a Singapore corporation beneficially owned by Computer Sciences Corporation (NYSE: CSC) (CSA), for a total purchase price of \$1,000,000. The purchase price was negotiated based upon arm's length discussions between members of the Investor Group and senior management of CSC.

*September 22, 2004 Stockholder Approval of the Management Equity/Conversion Transaction that Resulted in a Change in Control of Our Company*

At our 2004 annual stockholders' meeting held September 22, 2004, our stockholders approved the Investor Group's (i) conversion of the indebtedness acquired from CSA, with accrued interest, at a conversion price of \$0.10 per share (which resulted in the issuance of 33,172,110 new shares of Common Stock), and (ii) investment of \$1,000,000 in a private placement at \$0.10 per share (which resulted in the issuance of 10,000,000 new shares of Common Stock) for a total of 43,172,110 shares (the Management Equity/Conversion Transaction). Upon the completion of the Management Equity/Conversion Transaction on November 1, 2004, there was a change in control of our company, and the Investor Group then beneficially owned approximately 84.77% of our 57,847,862 outstanding shares of Common Stock as of November 1, 2004. The composition and ownership position of the Investor Group is set forth in the table below under Interest of Certain Persons in or Opposition to



Reverse Stock Split - Security Ownership of Certain Beneficial Owners and Management

**Interests of Certain Persons in or Opposition to the Reverse Stock Split - Security Ownership of Certain Beneficial Owners and Management**

As of the Record Date, December 30, 2004, a total of \_\_\_\_\_ shares of Common Stock were outstanding. The following table sets forth information as of the Record Date regarding the beneficial ownership of Common Stock by: (INFORMATION TO BE CONFIRMED/UPDATED AS OF THE RECORD DATE)