

MAI SYSTEMS CORP
Form PRER14C
March 18, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

SCHEDULE 14C

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

Check the appropriate box:

- 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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- No fee required.
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- (1) Title of each class of securities to which transaction applies:
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 - (4) Date Filed:
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MAI SYSTEMS CORPORATION

26110 Enterprise Way

Lake Forest, California 92630

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INFORMATION STATEMENT

WE ARE NOT ASKING YOU FOR A PROXY AND

YOU ARE REQUESTED NOT TO SEND US A PROXY.

Our Board of Directors and the Investor Group described below are furnishing this information statement to all holders of record of the issued and outstanding shares of our common stock, \$0.01 par value, as of the close of business on December 30, 2004 (the Approval Record Date), in connection with a proposed Amendment to our Amended and Restated Certificate of Incorporation (Amendment) to effectuate a 1-for-150 reverse stock split. If consummated, the reverse stock split would enable us to terminate our periodic reporting obligations under Sections 13 and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), the registration of our common stock under Section 12(g) of the Exchange Act and the quotation of our common stock on the OTC Bulletin Board. .

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 Approval Record Date are entitled to approve and adopt the Amendment. As of the Approval Record Date, 57,847,862 shares of our common stock were issued and outstanding, held of record by approximately 577 stockholders. Each share of common stock issued and outstanding on the Approval 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 our common stock are members of HIS Holding, LLC, an investor group consisting of two members of our senior management, W. Brian Kretzmer and James W. Dolan, the Chairman of the Board, Richard S. Ressler, and certain of our principal senior lenders, The Canyon Value Realization Fund (Cayman), Ltd., Canyon Value Realization Fund, L.P., and CPI Securities L.P (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 February 11, 2005 to the record holders of common stock as of close of business on the Approval 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 public reporting 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 15.

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 17.

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 historical market prices and recent transactions, 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 11 and *Financial Analysis Performed by Management* at page 11.

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 public 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 14; and *Special Factors Considered in Approving the Reverse Stock Split* at page 14.

The Special Committee further found that the advantages of the reverse stock split to the unaffiliated stockholders (both those being cashed out and those remaining as stockholders after the reverse stock split) 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 9 and "Special Factors Considered in Approving the Reverse Stock Split" at page 14.

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 controlling shareholder of Orchard Capital Corporation, 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 its 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 16.

Approval of Stockholders

We had approximately 577 stockholders of record holding an aggregate of 57,847,862 shares of common stock outstanding as of the Approval Record Date. Of those shares, approximately 83.5%, or 48,312,968 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 Approval Record Date. Members of the Investors Group that hold 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.

Recent Transactions and Potential Conflicts of Interest with Investor Group

Members of the Investor Group that control the majority of our common stock include the Chairman of our Board of Directors, Richard S. Ressler, two of our executive officers, W. Brian Kretzmer and James W. Dolan, and certain of our senior lenders, The Canyon Value Realization Fund (Cayman), Ltd., Canyon Value Realization Fund, L.P., and CPI Securities L.P. See *Other Information - Background Information Concerning Our Directors, Executive Officers and Controlling Stockholders*, page 25.

In April 2004, the Investor Group acquired 2,433,333 of our shares of common stock and approximately \$3.1 million of our indebtedness from CSA Private Limited, a subsidiary of Computer Sciences Corporation. See *Prior Transactions Between the Investor Group and Our Company - Investor Group Purchase of Company Shares Owned by Computer Sciences Corporation*, page 27.

In September 2004, the Investor Group acquired a controlling interest in the Company by converting approximately \$3.3 million in company indebtedness and investing \$1 million in our company for approximately 42 million shares of our common stock. See *Prior Transactions Between the Investor Group and Our Company - September 22, 2004 Stockholder Approval of the Management Equity/Conversion Transaction that Resulted in a Change in Control of Our Company*, page 27.

There are potential conflicts of interest between the Investor Group and our unaffiliated shareholders. For example, the reverse stock split will increase the percentage ownership interest of the Investor Group in our common stock. In addition, the reverse stock split will reduce the liquidity of our common stock, which may have a greater

impact on our unaffiliated stockholders than on the Investor Group. See Procedural Factors Disfavoring the Reverse Stock Split; Interests of our Chairman and Executive Officers in the Reverse Stock Split, page 17.

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 March 10, 2005. 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 Approval 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 20.

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, 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. See *The Reverse Stock Split - Basic Terms* at page 6; *Effects of the Reverse Stock Split on Stockholders Who Hold Fewer than 150 Shares of common stock in a Single Account* at page 19; 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 19.

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 to be paid for 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. See *Market Prices of Our Common Stock and Dividend Policy* at page 29.

Following the reverse stock split, we plan to terminate our public reporting, 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 18.

Following the reverse stock split and the termination of our public reporting, 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 21.

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 22.

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 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 being completely cashed out 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.

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 public reporting. In connection with the reverse stock split, we and the members of the Investor Group have filed a Rule 13e-3 Transaction Statement on Schedule 13E-3 with the Commission. We intend to apply for the termination of our public reporting obligations as soon as practicable after the effective time.

Effective Time of the Reverse Stock Split

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The time for determining the shares of our common stock that will be subject to the reverse stock split will be the time that the Amendment is filed with the Delaware Secretary of State and becomes effective by its terms, which we estimate will be no later than 5:00 p.m. Eastern Standard Time on April 29, 2005. In no event, however, 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 our common stock as of the Approval Record Date.

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.

Information about the Investor Group that consented to the Amendment and the number of shares of common stock owned as of the Approval Record Date and included in the written consent approving the reverse stock split is as follows:

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

The managing member of HIS Holding, LLC is Orchard Capital Corporation, a California corporation, of which Richard S. Ressler is president and the controlling shareholder. 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. The members of HIS Holding, LLC include Richard S. Ressler, our Chairman, W. Brian Kretzmer, our Chief Executive Officer and President, James W. Dolan, our Chief Financial and Operating Officer, and certain of our principal lenders, The Canyon Value Realization Fund (Cayman), Ltd., Canyon Value Realization Fund, L.P., and CPI Securities L.P. 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

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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 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 date. 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. In lieu of such provisions, we appointed a Special Committee to protect the interests of our unaffiliated stockholders. Even though the Special Committee consists of directors of our company and therefore is not completely unaffiliated from us, committees of independent directors are a commonly used mechanism to ensure fairness in transactions of this type. The Special Committee determined that an appraisal of the value of our common stock or fairness opinion regarding the reverse stock split were not required. See discussion below under Special Committee of the Board of Directors And Procedural Factors Disfavoring the Reverse Stock Split; Interests of our Chairman and Executive Officers in the Reverse Stock Split.

Source of Funds and Financial Effect of the Reverse Stock Split

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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. The \$24,000 estimate is based upon actual shares held in individual accounts per our transfer agent records plus the actual number of accounts held in street name per records received from ADP considering that the maximum number of shares acquired from each account will be 149 fractional shares. This amount was calculated by multiplying all estimated fractional shares to be repurchased by the \$0.17 per share repurchase price. 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. We will bear all expenses, excluding brokerage commissions and taxes, if any, related to implementation of the reverse stock split.

Fees and Expenses

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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

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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. At the first Board of Directors meeting following the annual stockholders meeting, the Board first considered and discussed a going private transaction as a means of substantially reducing our general and administrative expenses and allowing senior management to redirect its focus on maximizing revenues. Thereafter, pursuant to a unanimous written consent dated September 22, 2004, all Board members requested that a review of possible privatization of our company be commenced.

On November 15, 2004, our Board of Directors held a special meeting during which our senior management and David M. Griffith, our in-house general counsel, described the benefits and detriments of and various alternatives for taking our company private, including merger, tender offer and reverse stock split. As prior counsel to our special committee formed to review the Management Equity/Conversion Transaction, Rutan & Tucker, LLP, Costa Mesa, California, participated telephonically in a portion of this meeting because of their expertise in going private transactions. 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. Some of the potential conflicts of interest that were discussed at this special meeting included those that could arise between the Investor Group and our unaffiliated stockholders because the reverse stock split will increase the percentage ownership interest of the Investor Group in our common stock. In addition, the reverse stock split will reduce the liquidity of our common stock, which may have a greater impact on our unaffiliated stockholders than on the Investor Group.

The Board of Directors decided to appoint to the Special Committee the same independent disinterested d