

MAI SYSTEMS CORP
Form DEF 14C
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14C

Information Statement

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MAI SYSTEMS CORPORATION

(Name of Registrant as Specified in its Charter)

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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 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 October 13, 2005 (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 our principal senior lender, Canyon Capital Advisors, LLC (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 November 4, 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 12.

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 15; and *Special Factors Considered in Approving the Reverse Stock Split* at page 15.

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 15.

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 17.

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 October 13, 2005. See *The Reverse Stock Split - Approval of the Reverse Stock Split By Our Board of Directors and Stockholders* at page 7.

The Board of Directors met on September 23, 2005 to receive an updated report from management on the reverse stock split. At this meeting, the Board of Directors also received the recommendation of the Special Committee reaffirming the reverse stock split and all of their prior findings and confirmed that the transaction was still substantively and procedurally fair and in the best interests of all of the shareholders. At this time, the Board of Directors (with Richard S. Ressler again recusing himself) voted to reaffirm the implementation of the reverse stock split.

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 our senior lender, Canyon Capital Advisors, LLC. See *Other Information Background Information Concerning Our Directors, Executive Officers and Controlling Stockholders*, page 26.

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 28.

Effective September 28, 2005, the Investor Group acquired \$500,000 of our indebtedness, plus accrued interest, 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. Additionally effective September 30, 2005, we reached an agreement with Canyon Capital Management LP (Canyon) to amend our \$5.7 million 11% secured subordinated debt instrument. The previous terms of the Canyon debt required the Company to make monthly interest payments of \$52,000 until its principal bank loan, a term loan through Wamco 32, Ltd (Wamco), was paid off in full in March 2006, at which time the Canyon note payable was to be converted into a three-year amortizing loan requiring equal monthly payments of principal and interest of approximately \$190,000. Under terms of the amendment with Canyon, the terms of the debt have been modified to amortize the debt over a four and a half year period, such that monthly principal and interest payments will be reduced to approximately \$130,000. The Canyon debt will still mature at the end of the three-year period in March 2009 at which time all remaining principal and interest shall be due and payable.

