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**

**(Amendment No. 2)**

Check the appropriate box:

a. ý Preliminary Information Statement

b. o Confidential, for Use of the Commission Only (as permitted by Rule l4c-5(d) (2))

c. o Definitive Information Statement

# MAI SYSTEMS CORPORATION

(Name of Registrant as Specified in its Charter)

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-ll(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 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***

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<br>6922 Hollywood Boulevard, Suite 900<br>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***

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***

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***

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. 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 directors that had reviewed the Management Equity/Conversion Transaction discussed below under Prior Transactions Between the Investor Group and Our Company. The Special Committee was formed consisting of Messrs. Mayer and Ross, with Mr. Ross as the Chairman, 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 son is an employee (but not an executive officer) of CIM Group, an affiliate of MAI. CIM Group is a real estate development company that is affiliated with MAI because it is an entity under the control of Richard S. Ressler, our Chairman and majority beneficial stockholder.

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 principal role that Rutan & Tucker, LLP played in the reverse stock split was as legal counsel to the Special Committee, although this firm has also advised us on issues related to preparation of this information statement. Other than its representation of the Special Committee, Rutan & Tucker, LLP 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 its legal counsel, Rutan & Tucker, LLP, 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 our in-house legal counsel, David M. Griffith, and attorneys of Rutan & Tucker, LLP.

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. The Special Committee came to this conclusion because we had very recently incurred the expense of having a fairness opinion issued for the Management Equity/Conversion Transaction. The estimated cost to update this fairness opinion equaled or exceeded the initial opinion cost of $35,000. The updating of the opinion was done by the same members of senior management, W. Brian Kretzmer, our Chief Executive Officer and President, and James W. Dolan, our Chief Financial and Operating Officer, who had worked closely with the firm that had produced the initial fairness opinion, by supplying them with the financial information and other data required for them to fully complete their analysis form their opinion on the fairness of the share price used in the Management Equity/Conversion Transaction. Based on their substantial experience with the process of preparing the assumptions and analysis that went into the fairness opinion, the Special Committee concluded that they could rely on the study prepared by Messrs. Kretzmer and Dolan. See the discussion below under Financial Analysis Performed by Management.

On December 1, 2004, the Special Committee approved a 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 at a special meeting of the Board. 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 public reporting 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 (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, in the best interests of our company and our unaffiliated stockholders. The Special Committee found that for those smaller unaffiliated stockholders holding less than 150 shares who would be cashed out, that the price paid to them exceeded what they would receive in an open market sale after deducting commissions. For those unaffiliated stockholders holding more than 150 shares who would remain as stockholders after the reverse stock split, the Special Committee found that although they would experience a reduction in liquidity of their shares, the value of their shares may increase as a result of our anticipated reduced annual general and administrative expenses associated with being a non-reporting entity.

At the December 2, 2004 special meeting, 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, at this special meeting 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), then 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 unaffiliated stockholders (both those being cashed out and those remaining as stockholders after the reverse stock split).

*Fairness Determination by Certain Members of the Investor Group and Filing Persons*

Certain of the members of the Investor Group and those individuals or entities deemed filing persons for purposes of Schedule 13E-3 have adopted the findings of our Special Committee and Board of Directors regarding the material factors upon which it was determined that the reverse stock split was fair to our unaffiliated stockholders. Specifically, Richard S. Ressler, Orchard Capital Corporation, James W. Dolan, W. Brian Kretzmer. HIS Holding, LLC have stated their belief as to the fairness of the proposed transaction to unaffiliated stockholders, both those who will be cashed out by the reverse stock split and those who will remain as stockholders after the reverse split, based upon their ratification of the analysis and conclusions of our Special Committee and Board as to the reverse stock split. 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.

***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 son 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 (which includes earnings value and 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. In determining the $0.17 per share price to be paid for fractional shares, substantial weight (80%) was given to the historical market price analysis. Of the remaining 20%, 15% weight was given to the net asset value (liquidation value) analysis and net book value analysis, in the aggregate, the remaining 5% weight was given to the earnings value (earnings times an appropriate multiplier) analysis and the discounted cash flow (net present value of projected cash flows) analysis, in the aggregate, with most of the 5% weight given to the earnings value analysis. Management also put substantial weight on the fact that, very recently, on September 22, 2004, our shareholders approved the conversion of over $3 million of indebtedness and the private placement of $1 million by the Investor Group at $0.10 per share. 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.

Management reviewed the information, data and methodology used by the firm that had issued the fairness opinion that was included in our 2004 proxy statement relating to the valuation of our common stock in connection Management Equity/Conversion Transaction at $0.10 per share. Management updated the analysis based on current information and data. Management s update indicated that there were no material changes in the analysis that would alter the basis for a valuation of $0.10 per share. Accordingly, management concluded that the $0.10 per share valuation is fair to our unaffiliated stockholders.

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, which included:
- earnings value (earnings times an appropriate multiplier); and
- 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/Conversion 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 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 (total invested capital) 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 (market capitalization plus debt) 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. Based on these factors, we used the same screening criteria and publicly traded companies as used by the firm that opined on the fairness of the price of our common stock for purposes of the Management Equity/Conversion Transaction for comparable software and IT companies having a debt-to-equity ratio greater than 80%. Several of the comparable companies also had negative EBITDA. The publicly traded comparable software and IT technology companies identified included eight companies: Anacomp Inc., Brightstar Information Technology Group Inc., Datatec Systems Inc., Datec Group Ltd., ePlus Inc., Internet Initiative Japan Inc., Sapiens International Corp, USDATA Corp. We then calculated the multiples for the ratio of total invested capital to revenues and EBITDA for these eight comparable companies. The multiples for the ratio of total invested capital to revenues for these comparable companies averaged 0.93 to 1. The multiples for the ratio of total invested capital to EBITDA for these comparable companies averaged 14.4 to 1. At $0.10 per share, our ratios were 0.69 to 1 and 13.7 to 1, respectively, which are comparable to the aforementioned comparable company ratios. Although little weight was put on this analysis, the reverse stock split consideration price of $0.10 per share was determined to be fair under this analysis.

Following is a table that reconciles our historical earnings to EBITDA for each of the last fiver fiscal years:

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Income (loss) from continuing operations before income taxes | $ (11,993) | $ 1,606 | $ 3,833 | $ 447 | $ 42 |
| Depreciation and amortization | $ 2,208 | $ 1,489 | $ 1,452 | $ 819 | $ 512 |
| EBITDA | $ (9,785) | $ 3,095 | $ 5,285 | $ 1,266 | $ 554 |

**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.

The following assumptions were utilized to determine our discounted cash flow value (see our historical financial information included in **Appendices C and D** which should be read in conjunction with these assumptions which are based upon such historical results):

**Overall:**

Management did not foresee any material change in the business environment or substantial change in our operations. The present business model was expected to continue and for that reason management believed our projections represent performance consistent with the last three years. There will be some cautious growth as new products are introduced. A full hospitality industry recovery was not expected yet and, therefore, the overall market conditions will not materially change. Management therefore did not anticipate any material gain in market share

**Revenue**:

Revenue in a continuingly uncertain industry is expected to grow only slightly at rate of 6.4% per year over the period. Although our revenues have decreased at an average rate of approximately 14% per year form 1999 to 2003, management believed this forecasted growth to be reasonable and achievable. Management believed this forecasted growth was reflective of our market position, industry challenges and the overall expected acceptance of our new products. Management believed that during the initial 24 months of selling the new products, we will be successful, but will be limited by our capacity to install. We will therefore be selective in the acquisition of new business to ensure our success and profitability. This assumption reflects our belief that the life cycle for our new products is 5 to 10 years and that the new products will carry us through 2010.

**Operating Expenses:**

Management expects that operating expenses will increase at a rate of approximately 3.5% over the period reflecting our recently demonstrated ability to manage costs from 2000-2004. In 2005, development expenses shall increase as our previous new products become available for general release in 2005. Selling general and administrative efforts will slightly increase as we bring the new products to market and we gain momentum in 2006 and beyond as we expect revenues to increase at a rate of 6.45% per year.

**Gross Margins:**

Management anticipates the overall gross margins percentage of revenue to be sustainable around 70%, excluding amortization of any intangible assets to cost of sales (see pro forma financial statements at **Appendix B**). Our direct costs are well understood and tightly controlled and we are not subject to major changes in our business model.

Our discounted cash flow value was calculated to be approximately $8.7 million. Subtracting our debt of approximately $7.7 million results in approximately $1 million of value to the stockholders, or about $0.02 per share ($1 million divided by 57.8 million shares outstanding). Based upon this analysis, the reverse stock split consideration price of $0.10 per share was determined to be fair to our unaffiliated stockholders.

**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. As noted above, management s recommendation was most heavily weighted (80%) on the historical market price analysis as the trading price of our stock is the most objective analysis to rely upon. Of the remaining 20%, 15% weight was given to the net asset value (liquidation value) analysis and net book value analysis, in the aggregate. The remaining 5% weight was given to the our earnings value (earnings times an appropriate multiplier) analysis and discounted cash flow (net present value of projected cash flows) analysis, in the aggregate, with most of the 5% weight given to our earnings value analysis, as certain of the various assumptions used in the discounted cash flow analysis are subjective in nature and, accordingly, less reliable than calculations using historical or market trading data. As certain assumptions are more or less probable than other assumptions, the range of valuations resulting from certain of these lesser weighted analysis described above should not be taken to be management s view of our actual value. In performing these other 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. Management also put substantial weight on the fact that, very recently, on September 22, 2004, our stockholders approved the conversion of over $3 million of indebtedness and the private placement of $1 million by the Investor Group at $0.10 per share. 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 public reporting 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 public reporting would result in substantial cost savings and better competitive positioning, which would help us maximize stockholder value. In order to terminate our public reporting, 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.

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 Approval Record Date, we had approximately 577 stockholders of record, including approximately 69 owning fewer than five shares, approximately 291 owning fewer than 100 shares, and approximately 328 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 public reporting. As a result, on December 2, 2004, our Board of Directors (with Richard S. Ressler recusing himself because he is the controlling shareholder of Orchard Capital Corporation, Managing Member of the Investor Group), approved a l-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 public reporting obligations imposed by the Commission, which have been greatly increased as a result of the Sarbanes-Oxley Act of 2002. Many of the requirements of this legislation are only now being felt by our company as a result of the phase-in schedule for smaller public companies. The timing of the reverse stock split relates to the expenses of operating for another year as a public reporting company, as a large portion of these expenses are incurred at the beginning of the fiscal year. Direct costs associated with compliance with the Commissions public reporting requirements 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 Commission s public reporting requirements are estimated to 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 our public 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 Approval Record Date, our common stock was held of record by approximately 577 stockholders, and approximately 328 stockholders of record held fewer than 150 shares, representing approximately 57% of the total number of holders of record of our Common stock. These accounts holding fewer than 150 shares represented approximately 2% 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 public reporting for each stockholder account, will be approximately $1,040 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 public reporting obligations 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 public reporting and other obligations associated with operating as a public company. However, the actual savings to be realized from terminating our public reporting 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 public reporting. 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 public reporting 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 public reporting 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 public reporting 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 Certain Smaller Stockholders with Liquidity*

Many of our stockholders hold small positions of less than 150 shares which cannot be cost effectively sold because the brokerage commission in an open market transaction would eliminate most or all of the proceeds to the stockholder. 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 by not being required to pay a brokerage commission.

*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 unaffiliated 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 public reporting 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 l-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 Rever**se Stock Split; Interests of our Chairman and Executive Officers in the Reverse Stock Split

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

The Investor Group, comprised principally of certain of our officers and directors, recently acquired a 85.09% controlling interest in our Company in September 2004. Based upon this controlling interest, this affiliated stockholder now holds sufficient shares of our common stock to approve the reverse stock split without securing the approval of our other affiliated or unaffiliated stockholders. Nevertheless, our Board of Directors believe 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 unaffiliated 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 on behalf of the unaffiliated stockholders because the reverse stock split is structured in such a way that it will apply equally to both affiliated and unaffiliated stockholders. Additionally, our Special Committee did not retain an unaffiliated representative to act solely on behalf of unaffiliated stockholders for purposes of negotiating the terms of the reverse stock split. Instead, the transaction was approved unanimously by our disinterested directors who are not employees of our company, and the Special Committee did an extensive financial review to confirm the fairness of the reverse stock split as discussed above under Financial Analysis and Summary of Factors Reviewed to Determine $0.17 Per Share Fractional Share Purchase Price and Financial Analysis Performed by Management.

Our decision to not secure a third-party fairness report could result in unfairness to unaffiliated stockholders. Unaffiliated stockholders will have their shares bought out at a price that has been determined to be fair by our Special Committee and Board of Directors based upon a study prepared by our senior management whose ownership stake in the company will be increased by a minimal amount as a result of the reverse stock split.

. 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 of the reverse split). 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 Approval Record Date, the beneficial ownership percentage of our executive officers and directors, including vested options, will increase from 80.75% to 80.94% as a result of the reverse stock split. The beneficial ownership percentage of the Investor Group will increase from 85.09% to 85.30%, 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. The ownership of individual investors within the Investor Group will increase by no more than 0.2% each as a result of the Reverse Stock Split.

**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 public reporting 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 public reporting 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 public reporting 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 somewhat illiquid based upon the light trading volume. Larger shareholders may be required to liquidate their positions in our common stock over a period of several trading days. Our Board of Directors believes, however that the further loss of liquidity caused by the reverse stock split will be outweighed by the benefits of terminating our public reporting.

*Cessation of Publicly Available Information*

Upon terminating our public reporting, 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 public reporting. 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 public reporting 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 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 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.

**Procedure for Stockholders Who Hold Shares in Street Name**

Stockholders who hold our shares in street name will be contacted by their broker or other institutional manager and receive from them a copy of our exchange agent s transmittal letter and instructions for surrendering their stock certificates in exchange for either cash consideration (if they hold fewer than 150 shares), or cash consideration and new stock certificates (if they hold more than 150 shares). They will transmit their instructions to their representative, who in turn will electronically transmit their shares to our exchange agent.

**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 x $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 x $0.17 = $17.00; 50 x $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 x $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 Approval Record Date, 57,847,862 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 57,847,862 to approximately 385,000, 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 public reporting requirements of the Exchange Act. We believe the reverse stock split will reduce the number of record holders of common stock from approximately 577 to approximately 250, which will position us to terminate our public reporting and continue future operations as a private company, thereby relieving us of the costs, administrative burdens and competitive disadvantages associated with a 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 Approval 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 public reporting.

We believe the completion of the reverse stock split and the subsequent termination of our public reporting 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 public reporting. However, our cost saving estimates may be inaccurate, and the actual savings to be realized from terminating our public reporting 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 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 public reporting 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.

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 date. 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.

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 The Canyon Value Realization Fund (Cayman), Ltd., Canyon Value Realization Fund, L.P., and CPI Securities L.P. 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 certain of our principal senior lenders, The Canyon Value Realization Fund (Cayman), Ltd., Canyon Value Realization Fund, L.P., and CPI Securities L.P, acquired 2,433,333 shares of our common stock and $3,133,344 of our indebtedness (representing $2,800,000 of principal and $333,344 of accrued interest) 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. As of June 30, 2004, the total amount of indebtedness disclosed in our 2004 Proxy Statement filed on August 25, 2004 was $3,194,156, which included an additional amount of $60,812 of additional accrued interest for the period from April 9, 2004 to June 30, 2004. From July 1, 2004 to the conversion date of November 1, 2004, the acquired note accrued an additional $123,055 of interest resulting in total indebtedness of $3,317,211 as of November 1, 2004 to be converted to our common stock as described below. The 2,433,333 shares of our common stock acquired by the Investor Group were distributed on November 1, 2004 to each of the members of HIS Holding as follows: Richard S. Ressler (912,500 shares); The Canyon Value Realization Fund (Cayman), Ltd., Canyon Value Realization Fund, L.P., and CPI Securities L.P (912,500 shares); W. Brian Kretzmer (304,167 shares); James W. Dolan (304,166 shares). The distribution of shares was made for the purpose of providing each member with beneficial ownership and control of those shares.

*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 31,941,560 new shares of common stock as of the conversion date of November 1, 2004), 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 41,941,560 shares. The issuance of these shares occurred on November 1, 2004, together with the issuance of an additional 1,230,550 shares that we and the Investor Group had informally agreed subsequent to the annual stockholders meeting would be issued upon conversion of the $123,055 of interest that had accrued from July 1, 2004 through October 31, 2004 (collectively, 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 Opposi**tion to the Reverse Stock Split - Security Ownership of Certain Beneficial Owners and Management

As of the Approval Record Date, December 30, 2004, a total of 57,847,862 shares of common stock were outstanding. The following table sets forth information as of the Approval Record Date regarding the beneficial ownership of common stock by:

each of our directors;

each of our executive officers;

all of our directors and executive officers as a group; and

each person known by us to beneficially own 5% or more of the outstanding shares of common stock as of the Approval Record Date.

The following table also sets forth hypothetical information regarding the beneficial ownership of the persons listed above assuming the effective time of the reverse stock split occurred on the Approval Record Date and the pre-split number of shares of our common stock that were cashed out in the reverse stock split was 139,000.

None of our directors has informed us that he intends to oppose any action to be taken by us concerning the reverse stock split transaction.

(1) Beneficial ownership is determined in accordance with Rule 13d-3 promulgated by the Commission under the Exchange Act and generally includes voting or investment power with respect to securities. Except as indicated below, we believe each holder possesses sole voting and investment power with respect to all of the shares of common stock owned by that holder, subject to community property laws where applicable. In computing the number of shares beneficially owned by a holder and the percentage ownership of that holder, shares of common stock subject to options or warrants held by that holder that are currently exercisable or are exercisable within 60 days after the date of the table are deemed outstanding. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person or group. The inclusion of shares in this table as beneficially owned is not an admission of beneficial ownership. For information regarding interests in the reverse stock split of the persons or entities listed in the table below, see Background Information Concerning Our Directors, Executive Officers and Controlling Stockholders at page 27, The Reverse Stock Split Approval of the Reverse Stock Split By Our Board of Directors and Stockholders at page 7, Interests of Certain Persons in or Opposition to the Reverse Stock Split- Security Ownership of Certain Beneficial Owners and Management at page 27, and Prior Transactions Between the Investor Group and Our Company at page 27.

| | **As of the Approval Record Date** | | **As If the Effective Time of the Reverse Stock Split Occurred on the Approval Record Date** | |
|---|---|---|---|---|
| **Name and Address** | **Number of Shares** | **Percentage of Class (1)** | **Number of Shares** | **Percentage of Class (2)** |
| Canyon Capital Advisors LLC (3) | 2,515,600 | 4.35% | 16,771 | 4.36% |

| | | | | |
|---|---|---|---|---|
| Richard S. Ressler (4) | 44,787,897 | 77.42% | 298,586 | 77.61% |
| W. Brian Kretzmer (5) | 1,086,033 | 1.88% | 7,240 | 1.88% |
| James W. Dolan (6) | 650,000 | 1.12% | 4,333 | 1.13% |
| Investor Group (7) | 43,172,110 | 74.63% | 287,814 | 74.81% |

(1) For each individual and group in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group, plus shares acquirable within 60 days of the Approval Record Date by such person or group, by the sum of 57,847,862 shares of common stock outstanding on the Approval Record Date, plus shares of common stock acquirable within 60 days of the Approval Record Date by such person or group.

(2) For each individual and group in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person, plus shares acquirable within 60 days of the Approval Record Date by such person or group, by the sum of 384,725 shares (57,847,862 shares of common stock outstanding on the Approval Record Date, minus 139,000 pre-split shares estimated to be cashed out in the reverse stock split, plus shares of common stock acquirable within 60 days of the Approval Record Date by such person or group all adjusted for the 150-to-1 reverse stock split).

(3) Canyon Capital Advisors LLC, The Value Realization Fund L.P., The Value Realization Fund B, L.P., C.P.I. Securities, L.P., The Canyon Value Realization Fund (Cayman), Ltd., GRS Partners II, Mitchell R. Julis, Joshua S. Friedman and R. Christian B. Evensen, as a group, beneficially own 2,515,600 shares of common stock (16,771 shares of common stock after the 150-to-1 reverse stock split). Power to vote or dispose of the shares beneficially owned by Canyon Capital Advisors, LLC is held jointly by Messrs. Julis and Friedman, as managing partners. The address of all of the above-referenced entities is 9665 Wilshire Boulevard, Suite 200, Beverly Hills, California 90212.

(4) Mr. Ressler s address is c/o Orchard Capital Corporation, 6922 Hollywood Boulevard, Suite 900, Hollywood, California 90028. Includes 14,063 shares of common stock (94 shares of common stock after the 150-to-1 reverse stock split) issuable upon exercise of options held by Mr. Ressler which are currently exercisable and exercisable within 60 days of the Approval Record Date. Also includes 43,172,110 shares of common stock (287,814 shares of common stock after the 150-to-1 reverse stock split) issued to the Investor Group over which Mr. Ressler has voting and dispositive control.

(5) Includes 591,667 shares of common stock (3,944 shares of common stock after the 150-to-1 reverse stock split) issuable upon exercise of options or warrants held by Mr. Kretzmer that are currently exercisable and exercisable within 60 days of the Approval Record Date.

(6) Includes 233,333 (1,556 shares of common stock after the 150-to-1 reverse stock split) shares of common stock issuable upon exercise of options held by Mr. Dolan which are currently exercisable and exercisable within 60 days of the Approval Record Date..

(7) The Investor Group consists of certain members of senior management and/or our Board of Directors (Richard S. Ressler is the Chairman of our Board of Directors, W. Brian Kretzmer is our Chief Executive Officer and President and James W. Dolan is our Chief Financial and Operating Officer) 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. Mr. Ressler and senior lenders own 37.5% each, and Messrs. Kretzmer and Dolan own 12.5% each, of the shares held by HIS Holding. Messrs. Kretzmer s and Dolan s percentage ownership interest in HIS Holding may be increased to 20% each. To earn the additional percentage ownership interest in HIS Holding LLC, they must be employed by Company at the time of dissolution or distributions or they can be terminated without cause, in which case the value of the increase in ownership interest shall be determined based upon 90% of the fair value of the Company at the date of termination. Per the HIS Holding, LLC Operating Agreement: The over-rides will be applicable for the benefit of Mr. Dolan and/or Mr. Kretzmer only if, at the time of realization of profits from the LLC and the intended distribution thereof, (x) distributions have been made (or are then being made) to the Members representing the return of their capital contributions plus the compounded preferred return of 10% per annum, and (y) the person entitled to an over-ride remains as an employee of MAI, but who, if terminated without cause, shall be subject to Annex C (provided that either Mr. Dolan or Mr. Kretzmer may earn an over-ride without the other). If the conditions to the over-ride are not met, as applicable to Mr. Dolan and/or Mr. Kretzmer, then such over-ride(s) will not be applicable. 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.

## Market Prices of Our Common Stock and Dividend Policy

Our common stock is traded over-the-counter on the OTC Bulletin Board under the symbol MAIY.OB. The following table sets forth the range of high and low closing prices for the calendar periods set forth below. On March 16, 2005, the high, low and closing trading prices for our common stock were $0.12, $0.12 $0.12, respectively.

| **Period** | | **High** | | **Low** |
|---|---|---|---|---|
| Fiscal 2002 | | | | |
| First Quarter | $ | 0.34 | $ | 0.24 |
| Second Quarter | $ | 0.45 | $ | 0.25 |
| Third Quarter | $ | 0.34 | $ | 0.16 |
| Fourth Quarter | $ | 0.16 | $ | 0.08 |
| Fiscal 2003 | | | | |
| First Quarter | $ | 0.55 | $ | 0.06 |
| Second Quarter | $ | 0.28 | $ | 0.05 |
| Third Quarter | $ | 0.25 | $ | 0.06 |
| Fourth Quarter | $ | 0.15 | $ | 0.08 |
| Fiscal 2004 | | | | |
| First Quarter | $ | 0.26 | $ | 0.14 |
| Second Quarter | $ | 0.34 | $ | 0.16 |
| Third Quarter | $ | 0.24 | $ | 0.15 |
| Fourth Quarter | $ | 0.21 | $ | 0.10 |

There were approximately 577 stockholders of record as of the Approval Record Date. On that date, the closing sale price of our common stock on the OTC Bulletin Board was $0.11.

We have not declared any dividends on our common stock during the past five years, and our Board of Directors does not currently intend to pay any cash dividends on our common stock in the foreseeable future. Payment of cash dividends is at the discretion of our Board of Directors and depends on our earnings, financial condition, capital requirements and other relevant factors.

**Pro Forma Financial Data**

See Pro Forma Financial Data at **Appendix B** to this information statement.

**Financial Statements, Supplementary Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk**

See **Appendix C** to this information statement for our audited financial statements as of December 31, 2003 and 2002 and for each of the years in the three year periods ended December 31, 2003, 2002 and 2001, which includes Supplementary Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk and our unaudited financial statements for the interim periods ended September 30, 2004 and 2003.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Forward-Looking Statements**

This information statement contains forward-looking statements with respect to the impact on our company of the reverse stock split and other matters. The forward-looking statements include statements regarding our intent, belief, or current expectations, as well as the assumptions on which those statements are based. The forward-looking statements are not guarantees of future performance and occurrences and involve risks and uncertainties. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our company, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, declining economic conditions, including a slowdown or recession; future terrorist activities affecting the hospitality industry; our company s ability to retain and increase revenue from existing clients and to execute agreements with new clients; the successful implementation of strategic relationships with other vendors and service providers; the competitive nature of the market for our software products and services; rapid technological change in the software industry and possible delays in development or shipment of new versions of key product lines; our company s ability to attract and retain qualified technical and management personnel; inability to control costs; changes in our product pricing; changes in business strategy or development plans; and other factors set forth in our company s Annual Report on Form 10-K for the year ended December 31, 2003 and other interim reports filed from time to time with the Securities and Exchange Commission. Actual results, events and performance may differ materially.

**Where You Can Find More Information**

The reverse stock split will result in a going private transaction subject to Rule 13e-3 of the Exchange Act. We and the Investor Group members have filed a Rule 13e-3 Transaction Statement on Schedule 13E-3 under the Exchange Act with respect to the reverse stock split. The Schedule 13E-3 contains additional information about us. Copies of the Schedule 13E-3 are available for inspection and copying at our principal executive offices during regular business hours by any interested stockholder, or a representative who has been so designated in writing, and may be inspected and copied, or obtained by mail, by written or oral request directed to James W. Dolan, Chief Financial and Operating Officer, at the following address: MAI SYSTEMS CORPORATION, 26110 Enterprise Way, Lake Forest, California 92630, telephone number (949) 598-6181.

We are currently subject to the information requirements of the Exchange Act and file periodic reports, and other information with the Commission relating to our business, financial and other matters.

Copies of such reports, proxy statements, this information statement and other information, as well as the Schedule 13E-3, may be copied (at prescribed rates) at the public reference facilities maintained by the Commission at these facilities currently located at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549 and may be relocated by the Commission in the near future. For further information concerning the Commission s public reference rooms, you may call the Commission at 1-800-SEC-0330. Some of this information may also be accessed on the World Wide Web through the Commission s Internet website at http://www.sec.gov.

THE BOARD OF DIRECTORS OF MAI SYSTEMS CORPORATION

Dated: March , 2005

HIS HOLDING, LLC

**APPENDIX A**

**Form of**

**Certificate of Amendment of**

**Certificate of Incorporation**

**of MAI Systems Corporation**

MAI Systems Corporation, a Delaware corporation organized and existing under and by virtue of the laws of the General Corporation Law of the State of Delaware (the Corporation ), does hereby certify that:

1. The name of the Corporation is MAI Systems Corporation.

2. The Board of Directors of the Corporation duly adopted a resolution setting forth and declaring advisable the amendment of Articles FOURTH and FIFTH of the Corporation s Certificate of Incorporation so that, as amended, said Articles shall read in their entirety as follows:

FOURTH: In accordance with the provisions of Section 303 of the General Corporation Law of the State of Delaware, the authorized capital stock of all classes of the Corporation shall consist of 666,667 shares at a par value of $0.01 per share.

FIFTH: The shares of capital stock which the Corporation shall have authority to issue shall be divided into 6,667 shares of Preferred Stock, $0.01 par value per share (hereinafter referred to as Preferred Stock ), and 660,000 shares of common stock, $0.01 par value per share. Upon the amendment of this Article to read as herein set forth, each 150 shares of common stock outstanding will be converted into one share of stock, with fractional shares that would result from such conversion being converted into cash on the basis of $0.17 for each share outstanding prior to the amendment of this Article to read as herein set forth.

Shares of Preferred Stock may be issued in one or more series from time to time by the Board of Directors, and the Board of Directors is expressly authorized to fix by resolution or resolutions the designations and the powers, preferences and rights, and the qualifications, limitations and restrictions thereof, of the shares of each series of Preferred Stock, including without limitation the following:

(a) the distinctive serial designation of such series which shall distinguish it from other series;

(b) the number of shares in such series;

(c) the dividend rate (or method of determining such rate) payable to the holders of the shares of such series, any conditions upon which such dividends shall be paid and the date or dates upon which such dividends shall be payable;

(d) whether dividends on the shares of such series shall be cumulative and, in the case of shares of any series having cumulative dividend rights, the date or dates or method of determining the date or dates from which dividends on the shares of such series shall be cumulative;

(e) the amount or amounts which shall be payable out of the assets of the Corporation to the holders of the shares of such series upon voluntary or involuntary liquidation, dissolution or winding up the Corporation, and the relative rights of priority, if any, of payment of the shares of such series;

(f) the price or prices at which, the period or periods within which and the terms and conditions upon which the shares of such series may be redeemed, in whole or in part, at the option of the Corporation or at the option of the holder or holders thereof or upon the happening of a specified event or events;

(g) the obligation, if any, of the Corporation to purchase or redeem shares of such series pursuant to a sinking fund or otherwise and the price or prices at which, the period or periods within which and the terms and conditions upon which the shares of such series shall be redeemed or purchased in whole or in part, pursuant to such obligation;

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(h) whether or not the shares of such series shall be convertible or exchangeable, at any time or times at the option of the holder or holders thereof or at the option of the Corporation or upon the happening of a specified event or events, into shares of any other class or classes or any other series of the same of any other or classes of stock of the Corporation, and the price or prices or rate or rates of exchange or conversion and any adjustments applicable thereto; and

3. Thereafter, pursuant to a resolution of the Board of Directors, this Certificate of Amendment was submitted to the stockholders of the Corporation for their approval, and was duly adopted in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware. Prompt written notice of the adoption of the amendments herein certified has been given to those stockholders who have not consented in writing thereto, as provided in Section 228 of the General Corporation Law of the State of Delaware.

4. This Certificate of Amendment will be effective at 5:00 p.m. Eastern Standard Time on , 2005.

IN WITNESS WHEREOF, the undersigned, W. Brian Kretzmer, has signed this Certificate of Amendment as Chief Executive Officer, President and Secretary, of the Corporation, this day of 2005.

W. Brian Kretzmer, Chief Executive Officer,

President and Secretary

**APPENDIX B**

Pro Forma Financial Data

**PRO FORMA FINANCIAL INFORMATION**

*Pro Forma Financial Information Showing Effect of the Reverse Stock Split and the Management Equity/Conversion Transaction*

The unaudited pro forma consolidated balance sheet set forth below give effect to the reverse stock split and the Management Equity/Conversion Transaction as if each had occurred on September 30, 2004. The unaudited pro forma consolidated statement of operations for the year ended December 31, 2003 give effect to the reverse stock split and the Management Equity/Conversion Transaction as if each had occurred on January 1, 2003. The unaudited pro forma consolidated statements of operations for the three and nine months ended September 30, 2004 give effect to the reverse stock split and the Management Equity/Conversion Transaction as if each had occurred on January 1, 2004. The pro forma financial information does not purport to represent our financial position or what the results of operations would have actually been had the reverse stock split and the Management Equity/Conversion Transaction occurred at such dates or to project our financial position or results of operations for any future date or period. In addition, it does not incorporate any benefits from anticipated cost savings or revenue growth from the reverse stock split or the Management Equity/Conversion Transaction.

The pro forma adjustments include the effect of to the amortization of any identifiable intangible assets recorded in connection with purchase accounting over their respective useful lives estimated at five years which reduces pro forma net income (loss) and income (loss) per share. For purposes of allocating the step-up in basis between the existing assets and liabilities in connection with the Management Equity/Conversion Transaction, we have engaged a third party expert to perform a valuation of the intangible and tangible assets.

On December 1, 2004, a Special Committee of our Board of Directors unanimously 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. 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 public reporting and continue future operations as a private company and relieving us of the 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. 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. Our Board of Directors adopted the Special Committee s recommendations 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 the Company and our stockholders.

Pursuant to an action taken by written consent of the Special Committee of the Board of Directors of MAI Systems Corporation on October 15, 2003, our company and an investor group consisting of certain members of senior management (Mr. Ressler, Mr. Dolan and Mr. Kretzmer) and certain third parties (the Investor Group ) agreed to the Management Equity/Conversion Transaction, subject to execution of definitive documents with CSA, shareholder approval and other requirements such as receipt of a fairness opinion. Subsequent to the approval of the Special Committee of the Board of Directors on October 15, 2003, the Investor Group negotiated directly with Computer Sciences Corporation to acquire the MAI shares held by CSA together with a portion of CSA s indebtedness from MAI. On April 9, 2004, Computer Sciences Corporation agreed to terms with the Investor Group to acquire CSA s equity position and $3,133,344 of our indebtedness to CSA. The acquisition of the MAI shares and indebtedness by the Investor Group did not have any impact on the pro forma financial statements. On September 22, 2004, we received approval from our shareholders for the Investor Group to convert our indebtedness acquired from CSA, which included accrued interest, to shares of its common stock based upon a conversion price of $0.10 per share. Additionally, the shareholders also approved for the Investor Group to invest $1,000,000 of new cash proceeds into the Company, which the Company received on September 24, 2004, in a private placement at $0.10 per share. On November 1, 2004, the Investor Group committed to convert the indebtedness to common stock, canceled the note and accrued interest and issued the shares at $0.10 per share.

As the carrying value of the acquired indebtedness of $3,293,000 as of September 30, 2004 was lower than the fair value (quoted market price) of the 32,930,000 shares to be issued in connection with the debt conversion on the conversion date of $4,281,000 (32,930,000 shares $0.13 per share), the Company will record a debt extinguishment charge of $988,000, which has been measured as of the conversion date (commitment date) of November 1, 2004 for accounting purposes. .We will record this as a charge to earnings on November 1, 2004, the date of the debt conversion and shares were issued.

In addition, the market price for our common stock was $0.13 per share on November 1, 2004, the date of issuance of the 10,000,000 shares of our common stock to the Investor Group. Accordingly, we will record a $188,000 charge to stock compensation expense since certain members of our management are also members of the Investor Group. The amount of the charge is based on the 6,250,000 shares attributable to members of management based on their share in the Investor Group multiplied by the amount that the market price of our common stock of $0.13 per share exceeded the $0.10 per share on the date of issuance of such shares.

We believe that the aforementioned transaction permits but does not require us to use new basis or push down accounting since the members of the Investor Group will hold between 80% and 94% of the voting shares of the company upon completion of the transaction. Application of push-down accounting requires that the acquiring parent or control group obtain at least an 80% ownership interest, either in a single transaction, or though a series of transactions. In the present case, the Investor Group has acquired 78.84%, and the members of the Investor Group previously personally held 17.85% ownership, not within the Investor Group. The 17.85% personal ownership of the members outside of the Investor Group was reduced to 4.53% after the Investor Group s acquisition of 78.84% of our common stock. Our basis for considering the members as part of a control group is due to the fact that the group s intent was to mutually promote the acquisition and to collaborate on the subsequent control of the registrant and, as such, should be viewed effectively as one investor/group. We believe the 78.84% interest held by the Investor Group effectively ties the four members together into a control group, and that the remaining outside holdings of 4.53% (totaling 83.37%) should also be treated as held by the control group for purposes of applying push-down accounting, and in accordance with guidance in Topic D-97. We have elected to apply push down accounting.

We currently have a stockholders deficit of approximately $13.4 million and an accumulated deficit of approximately $232 million. After application of the push down accounting, the portion of the historic deficit attributable to the Investor Group s new ownership will be eliminated, and stockholders deficit will be partially reset based on the Investor Group s new basis in us of approximately $2.188 million. Post push down stockholders equity (deficiency) will be calculated as follows (in thousands):

| | | | | |
|---|---|---|---|---|
| Non-Investor Group: | | | | |
| Historic stockholders deficiency at September 30, 2004 | $ | (13,412) | | |
| Non-Investor Group Ownership (100% - 83.37%) | | 16.63% | | |
| Non-Investor Group basis to carry over | | | $ | (2,230) |
| | | | | |
| Investor Group: | | | | |
| New basis to push down | | | $ | 2,188(a) |
| Original basis to carry over | $ | (13,412) | | |
| Investor Group pre-existing ownership percentage | | 4.53% | | |
| | | | | (608) |
| | | | | |
| New stockholders deficiency | | | $ | (650) |

(a) The Investor Group s new basis is calculated as follows:

| | | |
|---|---|---|
| Investor Group s cash to purchase MAI common stock and indebtedness from CSA | $ | 1,000,000 |
| Investor Group s cash to purchase 10 million shares of MAI common stock | | 1,000,000 |
| Stock compensation expense (See footnote (e) to the pro forma financial statements) | | 188,000 |
| | | |
| Investor Group s new basis | $ | 2,188,000 |

Based on the balance sheet as of September 30, 2004, and considering the additional equity investment and debt conversion by the Investor Group, application of push down accounting will result in a step-up in basis of the net assets of the Company of approximately $9,469,000 calculated as follows (in thousands):

| | | |
|---|---|---|
| Historical stockholders deficiency at September 30, 2004 | $ | (13,412) |
| Conversion of Investor Group debt at book value | | 3,293 |
| Step up in value of net assets | | 9,469 |
| Post push-down accounting stockholders deficiency | $ | (650) |

Below is the purchase price allocation relating to the the net liabilities acquired (representing the excess of fair value over net historical net assets). As a third party expert has not yet performed a valuation of the intangible and tangible assets, we have estimated the fair value to be the book value for all assets and liabilities except for furniture, fixtures and equipment (valued at estimated replacement costs) and intangible assets (valued based upon estimated future revenue streams). Following is our allocation of the purchase price at estimated fair values (in thousands):

| | Historical Book Value-Pre Push Down Accounting (1) | Estimated Fair Value | Excess of Fair Value Over Book Value | Investor Group s 78.84% of Excess | Pro Forma Balance Sheet |
|---|---|---|---|---|---|
| Furniture, fixtures and equipment | $ 501 | $ 818 | | | |