

Enterprise Informatics Inc  
Form PRER14C  
April 09, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

SCHEDULE 14C  
(RULE 14c-101)

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c) of  
the Securities Exchange Act of 1934  
(Amendment No. 1)

Check the appropriate box:

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

**ENTERPRISE INFORMATICS INC.**

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(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- 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:

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(2) Aggregate number of securities to which transaction applies:

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(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):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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[PRELIMINARY]

**INFORMATION STATEMENT**

Enterprise Informatics Inc.  
10052 Mesa Ridge Court  
Suite 100  
San Diego, CA 92121  
(858) 625-3000

[                    ], 2008

Dear Shareholder,

This information statement is being furnished to the shareholders of Enterprise Informatics Inc. (the "Company," "we," "us"). A committee of the Board of Directors composed solely of independent directors and the Board of Directors as a whole have each approved an amendment to our Amended and Restated Articles of Incorporation to effect a 1,000-to-1 reverse split of our common stock and the payment of cash in lieu of the issuance of any fractional shares otherwise resulting from the reverse split.

The proposed amendment to our Amended and Restated Articles of Incorporation was approved on [                    ], 2008 by the vote of (i) a majority of the outstanding shares of the Company's common stock and (ii) a majority of the outstanding shares of the Company's common stock and Series F Convertible Preferred Stock, voting together as a single class, with the shares of Series F Convertible Preferred Stock voting on an as-converted basis, in each case, by the written consent of our majority shareholder, ERP2 Holdings, LLC. As a result, no further action by our shareholders is required in order to effect the amendment.

The reverse stock split is intended to reduce the number of our shareholders of record below 300, which will allow us to deregister our common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and terminate our reporting and other obligations as a Securities and Exchange Commission ("SEC") reporting company. The Company anticipates recurring annual cost savings of approximately \$1,030,000 as a result of the reverse stock split.

The reverse stock split is expected to be consummated in connection with a financing transaction between the Company and ERP2 Holdings, LLC. Consummation of the reverse stock split and the deregistration of the Company's common stock under the Exchange Act are preconditions to the Company's receipt from ERP2 of \$1,200,000 in loan proceeds as part of the transaction.

**The reverse stock split has not been approved or disapproved by the SEC or any state securities regulator, nor has the SEC or any state securities regulator passed upon the fairness or merits of the reverse stock split or upon the accuracy or adequacy of the information contained in this information statement. Any representation to the contrary is a criminal offense.**

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**WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

The Company is sending this information statement to its shareholders of record as of the close of business on April 10, 2008 (the "Record Date"). The Company will pay the expenses of furnishing this information statement to shareholders, including the cost of preparing, assembling and mailing this information statement. This information statement is being sent or given to shareholders on or about April 10, 2008.

The reverse stock split cannot be consummated until 20 calendar days after this information statement is first sent or given to the Company's shareholders. As a result, it is anticipated that the reverse stock split will be effected on or about April 30, 2008, or as soon thereafter as practicable. You are urged to read this information statement in its entirety for a description of the reverse stock split and the related transactions.

BY ORDER OF THE BOARD OF DIRECTORS

John W. Low  
Chief Financial Officer and Secretary

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**SUMMARY TERM SHEET**

**The Reverse Split**

A committee of the Board of Directors composed solely of independent directors and the Board of Directors as a whole have each approved a 1,000-to-1 reverse split of the Company's common stock (the "Reverse Split").

Upon completion of the Reverse Split, each shareholder holding more than 1,000 shares of our common stock will become entitled to receive one post-split common share for every 1,000 pre-split common shares held by such shareholder and, if applicable, a cash payment of \$0.05 for each pre-split common share that is not part of an even multiple of 1,000 pre-split common shares held by such shareholder.

Upon completion of the Reverse Split, shareholders holding fewer than 1,000 shares of our common stock, will become entitled to receive a cash payment of \$0.05 per pre-split common share and will cease to be shareholders of the Company.

Upon completion of the Reverse Split, the number of authorized shares of the Company's common stock will be reduced by a factor of 1,000.

**Background to the Reverse Split**

The Reverse Split is expected to be consummated in connection with a financing transaction entered into by the Company and ERP2 Holdings, LLC, a Delaware limited liability company ("ERP2") in January 2008. Certain events leading up to and including such transaction are as follows:

The Company has experienced difficulties maintaining its liquidity in recent years and, as a result, has engaged in an extensive search for parties interested in providing financing to or engaging in a strategic transaction with the Company. This search resulted in the identification of ERP2 and in proposals by a party other than ERP2 for a financing or strategic transaction on terms acceptable to the Company.

In October 2007, ERP2 acquired from Spescom Limited shares of the Company's Series F Convertible Preferred Stock and common stock representing majority voting control of the Company and certain secured demand notes.

In January 2008, the Company and ERP2 entered into a term sheet for a financing transaction, which was approved in advance by a committee of independent directors of the Company (the "Independent Committee"). In approving the term sheet, the Independent Committee considered factors including the risk of a liquidity crisis absent additional financing, the entitlement of ERP2 to call certain demand notes at any time, the risk of the Company receiving a going concern qualification with respect to its most recent annual financial statements the results of the Company's search for strategic alternatives.

In January 2008, the Company and ERP2 consummated certain transactions pursuant to the term sheet including the following:

The Company issued a secured promissory note in the principal amount of up to \$1,500,000. Disbursement of \$1,200,000 of such amount is subject to conditions including the completion of all actions of the Company required to effectuate a 1,000-to-1 reverse split of the our common stock and the deregistration of our common stock under the Exchange Act. If all such actions are not completed by April 30, 2008, an event of default with respect to our indebtedness to ERP2 could occur.



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The Company and ERP2 executed amendments to the existing demand notes held by ERP2 that provide for the extension of their maturity dates until January 31, 2010 and the

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agreement of ERP2 not to call such notes prior to September 30, 2008 upon an event of default prior to September 30, 2008.

See "Special Factors Background of the Reverse Split."

### Information About the ERP2 Filing Persons

A majority of the interests in ERP2 are held by Southpaw Credit Opportunity Master Fund LP, a Cayman Islands limited partnership (the "Fund") and a separate account managed by Southpaw Asset Management LP, a Delaware limited partnership ("Southpaw Management"). Southpaw Management serves as the investment manager of the Fund and of such account. Southpaw Holdings LLC, a Delaware limited liability company ("Southpaw Holdings"), is the general partner of Southpaw Management. Kevin Wyman is the Majority Manager of ERP2 and a principal of Southpaw Holdings. Howard Golden is a principal of Southpaw Holdings. ERP2, together with the Fund, Southpaw Management, Southpaw Holdings, Mr. Wyman and Mr. Golden are referred to collectively as the "ERP2 Filing Persons."

See "Information About the Company and the ERP2 Filing Persons Identity and Background of Certain Persons."

### Purposes of and Reasons for the Reverse Split

The Reverse Split is intended to reduce the number of our shareholders of record below 300, which will allow us to deregister our common stock under the Exchange Act and terminate our reporting and other obligations as an SEC reporting company. The purposes of the Company in effectuating the Reverse Split also include the following:

realization of estimated recurring annual cost savings of approximately \$1,030,000 as a result of the elimination of many of the expenses related to the Company's status as an SEC reporting company;

relief from the substantial burdens on the Company's management associated with preparation and review of our SEC filings and compliance with other requirements arising from our status as an SEC reporting Company and relief from the reduced operational flexibility associated with being an SEC reporting Company;

provision of liquidity for small shareholders, who may otherwise have been deterred from selling their shares because of the lack of an active trading market and the low market price of the Company's common stock; and

avoidance of an event of default with respect to our indebtedness to ERP2, which could occur if all actions of the Company required to effectuate the Reverse Split and deregistration of our common stock under the Exchange Act are not completed by April 30, 2008.

Because consummation of the Reverse Split is a precondition to our receipt from ERP2 of \$1,200,000 in loan proceeds as part of the financing transaction between the Company and ERP2, our purposes in effectuating the Reverse Split include the realization of certain benefits as a result of such transaction including satisfaction of our near-term working capital requirements, extension of the maturity dates of certain demand notes held by ERP2 until January 31, 2010, the agreement of ERP2 not to call such notes prior to September 30, 2008 upon an event of default prior to September 30, 2008, and avoidance of a going concern qualification with respect to our most recent audited financial statements.

See "Special Factors Purposes of and Reasons for the Reverse Split."

### **Effects of the Reverse Split**

The expected effects of the Reverse Split include the effects described under "The Reverse Split" above, the accomplishment of each of the purposes described under "Purposes and Reasons for the Reverse Split" above, as well as the following:

Following the deregistration of our common stock, we will cease to file SEC reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

The Reverse Split may result in a reduction in total market capitalization of the Company's common shares.

Following the Reverse Split, our common stock will no longer be eligible for trading on the OTC Bulletin Board. It is anticipated that our common stock will be quoted on the Pink Sheets, although such quotation cannot be assured and, in the absence of such quotation, there would be no public market for our common stock.

The Reverse Split, the termination of our SEC reporting and the cessation of quotation of our common stock on the OTC Bulletin Board may adversely affect the trading liquidity and market price of our common stock.

The Reverse Split may result in some shareholders owning less than 100 shares of our common stock and, as a result, being subject to higher transaction costs upon the sale of their shares.

In connection with the Reverse Split, the Company intends to withdraw its resale registration statement on Form S-1. As a result, the shares covered by the registration statement will not be transferable pursuant to the Registration Statement or any associated prospectus.

The Reverse Split and deregistration of our common stock under the Exchange Act are expected to have certain effects on M.A.G. Capital, LLC ("MAG") and its affiliates. In addition, the Company has received a letter from MAG setting forth certain claims relating to the Reverse Split and deregistration of our common stock under the Exchange Act.

See "Special Factors Effects of the Reverse Split."

### **Fairness of the Reverse Split**

The Independent Committee has determined that the Reverse Split is substantively and procedurally fair to the Company's unaffiliated shareholders. The Board of Directors and each of the ERP2 Filing Persons expressly adopted such determination and the factors that the Independent Committee considered in making it.

In making its determination regarding substantive fairness, the Independent Committee considered certain advantages and disadvantages to the Reverse Split, each of which is described above under "Effects of the Reverse Split" and various alternative methods for determining the price at which fractional shares will be cashed out in connection with the Reverse Split.

In making its determination regarding procedural fairness, the Independent Committee considered various factors, including:

The independence of the members of the Independent Committee, the Independent Committee's approval of the term sheet for the financing transaction with ERP2, and the Independent Committee's determination as to the substantive fairness of the Reverse Split to unaffiliated shareholders.

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The opportunity that shareholders will have to adjust their existing holdings prior to the effective date of the Reverse Split, so as to retain some or all of their shares of common stock, or to receive cash for some or all of their shares, as they see fit.

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Certain possible procedural protections that were not implemented in connection with the Reverse Split (including the procurement of a fairness opinion, the retention of a representative for unaffiliated shareholders, and a requirement that a majority of unaffiliated shareholders approve the Reverse Split).

See "Special Factors Determinations of the Independent Committee and Board of Directors Regarding Fairness of the Reverse Split" and "Special Factors Determinations of the ERP2 Filing Persons Regarding Fairness of the Reverse Split."

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

Generally, a U.S. stockholder who does not receive cash for a fractional share as a result of the Reverse Split will not recognize any gain or loss for U.S. federal income tax purposes. A U.S. stockholder who receives cash from us in exchange for shares of our common stock pursuant to the Reverse Split will have a taxable transaction for U.S. federal income tax purposes. Such cash will generally be treated for U.S. federal income tax purposes either as consideration received in respect of a sale or exchange of the shares of our common stock purchased by us or as a distribution from us in respect of shares of our common stock. See "Special Factors Material Federal Income Tax Consequences."

### **Shareholder Approval**

ERP2, which holds a sufficient number of shares of the Company's common stock and Series F Convertible Preferred Stock, has executed a written consent approving the Reverse Split. See "Special Factors Shareholder Approval."

### **Effectiveness of the Reverse Split**

The Reverse Split will become effective as of the date that we amend our articles of incorporation through the filing of a certificate of amendment to our articles of incorporation with the State of California to effectuate the Reverse Split. We intend to effect the Reverse Split on or about April 30, 2008, or as soon thereafter as is practicable. The Independent Committee or the Board of Directors, however, may determine not to implement the Reverse Split if it determines that the Reverse Split is not in the best interests of the Company and its shareholders. See "Special Factors Effective Date" and "Special Factors Abandonment of the Reverse Split."

### **Treatment of Beneficial Holders**

We expect that brokers, banks and other nominees that hold shares of our common stock in "street name" will be requested to effect the Reverse Split for their beneficial holders. The manner in which the Reverse Split is processed by these banks, brokers and other nominees, however, may have effects on their beneficial holders that would not apply to shareholders that hold all of their shares of record. See "Special Factors Effects of the Transaction."

### **No Appraisal or Dissenters Rights**

Under California law, our articles of incorporation and our bylaws, no appraisal or dissenters' rights are available to our shareholders in connection with the Reverse Split.

See "Special Factors No Appraisal or Dissenters Rights."

## SPECIAL FACTORS

### Background of the Reverse Split

The Reverse Split is expected to be consummated on or about April 30, 2008 or as soon thereafter as practicable in connection with a financing transaction that was entered into by the Company and ERP2 on January 31, 2008 pursuant to a term sheet executed by the parties on January 14, 2008.

This section sets forth certain information regarding the events leading up to the consummation of the financing transaction between the Company with ERP2 and other background information with respect to the Reverse Split. Specifically, set forth below is information regarding (i) the Company's search for financing and other strategic alternatives; (ii) the acquisition by ERP2 in October 2007 of the interests of Spescom Limited in the Company, including shares of the Company's Series F Convertible Preferred Stock and common stock representing majority voting control of the Company and certain demand notes; (iii) the entry into an agreement between the Company and ERP2 extending the demand notes until December 21, 2007 and the performance by ERP2 of due diligence review of the Company contemplated by that agreement in connection with the development of a financing proposal; (iv) the negotiation by the Company and ERP2 and the approval by a committee of independent directors of the Company of a term sheet with respect to the financing transaction between the parties; (v) the execution of definitive documents pursuant to that term sheet and the disbursement of certain loan proceeds by ERP2 to the Company; and (vi) certain actions of such committee of independent directors and of the Board of Directors regarding the Reverse Split.

### The Company's Search for Financing and Other Strategic Transactions

The Company experienced difficulties maintaining its liquidity over the course of the approximately five-year period before the Company entered into a term sheet for a financing transaction with ERP2 in January 2008. During that period, operations used substantially more cash than they generated. This deficit in operating cash flow was funded by periodic sales of common and preferred stock and warrants to purchase common stock. In addition, in 2006, in order to improve its working capital position, the Company sold to Aveva Solutions Limited a non-exclusive, royalty-free, worldwide, perpetual license to use the source code for the Company's software as it existed at that time, together with certain enhancements completed in March 2007, for aggregate consideration of \$2 million.

During such five-year period, the Company's debt structure included two demand notes secured by all of the Company's assets, which were held by a wholly owned subsidiary of the Company's majority shareholder, Spescom Limited (such subsidiary and Spescom Limited, together, "Spescom"), until their acquisition by ERP2 in October 2007 as further described below. The calling of those demand notes at any time during such five-year period would have resulted in a material adverse affect on the Company's financial condition and could have rendered it insolvent. For each of the Company's fiscal years ended September 30, 2003, 2004, 2005, 2006 and 2007, Spescom Limited agreed not to call such notes during the fiscal year. The Company was advised by its auditors with respect to each such fiscal year, except for the fiscal year ended September 30, 2004, that, absent sufficient financing to support the Company's obligations and operation, such as the payment, extension or refinancing of the notes or the agreement of Spescom not to call the notes during such fiscal year, the audit report pertaining to the Company's audited financials for such fiscal year would have included a "going concern" qualification to the effect that there is substantial doubt as to whether the Company could have continued to meet its obligations during the subsequent fiscal year.

In view of the Company's weak financial condition, in early 2006, the Company determined to explore strategic alternatives, including the possibility of additional debt or equity financing or the sale of the Company. In addition, the Company's determination to explore such alternatives was influenced by its receipt of information that Spescom was interested in disposing of some or all of its holdings of common stock, Series F Convertible Preferred Stock and debt of the Company. The Company was also

motivated to explore such alternatives by the right of the holders of certain shares of its preferred stock to require the Company to redeem such shares if the Company did not enter into a binding agreement for a consolidation, merger or other corporate event meeting certain requirements on or before April 30, 2006.

In February 2006, the Company entered into a retainer agreement with an investment banking firm pursuant to which that firm, between the date of its engagement and December 2006, actively engaged in a search for parties that were potentially interested in providing financing to or acquiring the Company. The search conducted by that firm, which covered approximately 80 potentially interested parties, resulted in no proposals for a financing or strategic transaction except for the following, each of which was rejected by the Company or withdrawn:

In May 2006, the Company received a proposal from a private equity firm for the purchase of substantially all of the assets of the Company in exchange for \$5,000,000 in cash and the assumption of certain unspecified liabilities of the Company. The private equity firm reduced the proposed purchase price to \$3,800,000 in August 2006 following review of the Company's operating results for its fiscal quarter ended June 30, 2006. The proposal was rejected by the Company in September 2006 because it provided for a valuation of the Company less than that deemed adequate by the Board of Directors. Had the transactions contemplated by the proposal been consummated, the holders of the Company's common stock would not have been entitled to receive any distribution or other consideration in connection with such transactions.

In September 2006, the Company received a proposal from a software company to purchase all assets of the Company (except for cash and trade accounts receivable) and, in connection with the purchase, to assume deferred revenue liabilities and trade accounts payable. The proposal contemplated payment to the Company of cash in an amount equal to \$5,250,000 less the amount of the assumed deferred revenue liabilities, which this potential buyer estimated at \$1,250,000. The proposal also contemplated the payment of certain employee retention bonuses in shares of the buyer's stock. In November 2006, the proposal was revised to reduce the cash consideration to an amount equal to \$4,000,000 less \$514,000 of deferred revenue liabilities. In November 2006, the Board of Directors rejected the proposal based on a determination that the proposed consideration was inadequate. Had the transactions contemplated by the proposal been consummated, the holders of the Company's common stock would not have been entitled to receive any distribution or other consideration in connection with such transactions.

In August 2006, the Company received a proposal from a software company for the purchase of certain portions of the Company's business related to the utilities, engineering, procurement and construction, and oil and gas markets for \$5,000,000 in cash, which was subject to approval by the software company's executive board. In September 2006, prior to the Board of Directors completing its evaluation of the proposal, the software company withdrew its proposal, stating that it was in the process of effecting a going private transaction. Had the transactions contemplated by the proposal been consummated, the holders of the Company's common stock would not have been entitled to receive any distribution or other consideration in connection with such transactions.

As indicated above, the holders of the Company's common stock would not have been entitled to receive any distribution or other consideration in connection with the transactions contemplated by any of these proposals. In the event of the liquidation of any remaining assets of the Company and the winding up of the Company in connection with any of such transactions, no amounts would have been available for distribution to the holders of the Company's common stock. In the absence of such liquidation and winding up, the Company would have been prohibited by law from making any distribution to the holders of its common stock in connection with any of such transactions.

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Between April and September 2007, another investment banking firm, at the request of the Company and Spescom, engaged in a search for parties that would potentially be interested in participating in a financing transaction with, acquisition of or other strategic transaction involving the Company. That search resulted in the identification by such firm in August 2007 of Southpaw Master Opportunity Fund LP ("Southpaw"), a controlling affiliate of ERP2. As a result of the investment banking firm's identification of Southpaw, Spescom and ERP2 engaged in discussions regarding and ultimately consummated the sale by Spescom of its interests in the Company to ERP2, as discussed below under "Acquisition by ERP2 Holdings, LLC of the Interests in the Company of Spescom Limited." The search efforts carried out by that firm did not result in any other proposals for a financing or strategic transaction.

In September 2007, management of the Company contacted Union Bank, which is the bank at which the Company maintains its deposit accounts, to discuss the possible extension of a loan to the Company. Union Bank declined to enter into a lending arrangement with the Company.

### **Acquisition by ERP2 Holdings, LLC of the Interests in the Company of Spescom Limited**

Following the identification of Southpaw by Bank Street as discussed above, Southpaw and Spescom entered into negotiations regarding the sale by Spescom to ERP2 of Spescom's interests in the Company. The Company was not a party to those negotiations. As a result of the negotiations between Southpaw and Spescom, on September 30, 2007, ERP2 and Spescom entered into a Securities Purchase Agreement (the "Securities Purchase Agreement"), that provided, subject to certain conditions, for the sale by Spescom to ERP2, for aggregate consideration of \$2,500,000, of all shares of the capital stock of the Company held by Spescom, two demand notes payable by the Company to Spescom, and certain contract rights and other interests held by Spescom in connection with its ownership of such shares and notes. As reported in the Current Report on Form 8-K filed by the Company with the SEC on October 16, 2007, the sale contemplated by the Securities Purchase Agreement (the "Spescom Transaction") was consummated by ERP2 and Spescom on October 10, 2007.

The shares of capital stock sold to ERP2 in the Spescom Transaction consist of 15,650,471 shares of the Company's common stock and 5,291 shares of the Company's Series F Convertible Preferred Stock. As of October 10, 2007, 16,665,405 shares of the Company's common stock were issuable upon conversion of such 5,291 shares of Series F Convertible Preferred Stock at an adjusted conversion price of \$0.39 per share. Immediately following consummation of the Spescom Transaction, ERP2, by virtue of its ownership of the shares of the Company's common stock and Series F Convertible Preferred Stock acquired from Spescom, (i) was entitled to vote 32,315,876 or 59.7% of the total number of votes eligible to be cast on all matters submitted to the vote of the holders of common stock and, consequently, was entitled to elect a majority of the board of directors of the Company, and (ii) was the beneficial owner of the same number of shares and percentage of the common stock of the Company.

The two demand notes sold to ERP2 in the Spescom Transaction consist of the demand notes in the original principal amounts of \$400,000 and \$500,000 issued by the Company to Spescom as of March 15, 2002 and April 19, 2002, respectively, which bear interest at the rate of 10% per annum and are secured by all of the Company's assets. As of September 30, 2007, the aggregate amount of principal and interest outstanding under such notes was approximately \$676,000.

The contract rights sold to ERP2 in the Spescom Transaction include the rights of Spescom Limited under the Stock Purchase Agreement, dated as of January 14, 2000, between the Company and Spescom Limited. By virtue of the sale to ERP2 of such rights of Spescom Limited, the Company is obligated to include two nominees of ERP2 in management's slate of nominees to be elected to the Board of Directors and recommend to its shareholders the election of such nominees for as long as ERP2 or any of its affiliates holds at least 33% of the 16,242,381 shares of the Company's common stock sold to Spescom Limited pursuant to such agreement.



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The Securities Purchase Agreement provides that Spescom Limited, immediately prior to the closing of the Spescom Transaction, shall cause the resignation of the two directors of the Company that were nominated pursuant to the rights of Spescom Limited under the Stock Purchase Agreement referenced in the preceding paragraph. The two directors nominated by Spescom Limited were James P. Myers and Hilton Isaacman. As reported in the Current Report on Form 8-K filed by the Company with the SEC on October 16, 2007, Mr. Myers and Mr. Isaacman resigned from the Board of Directors effective October 10, 2007, and ERP2 proposed to the Board of Directors that it elect Richard Shorten and Kyong K. "Steve" Lee to fill the vacancies on the Board of Directors resulting from these resignations. As reported in the Current Report on Form 8-K filed by the Company with the SEC on October 26, 2007, effective October 22, 2007, the Board of Directors elected Mr. Shorten and Mr. Lee to fill such vacancies.

The source of funds used by ERP2 to consummate the Spescom Transaction was the working capital of ERP2, Southpaw Credit Opportunity Master Fund LP and one of the managed accounts of Southpaw Credit Opportunity Master Fund LP. The information in the preceding sentence was provided to the Company by the ERP2 Filing Persons.

During August 2007, certain of the ERP2 Filing Persons notified MAG that ERP2 was interested in a potential purchase of the shares of common stock and Series I Convertible Preferred Stock of the Company owned by MAG and its affiliates. MAG advised those ERP2 Filing Persons during August 2007 that it was not interested in a sale of such shares to ERP2. The information in this paragraph was provided to the Company by the ERP2 Filing Persons.

### **Extension of the Demand Notes Held by ERP2 and Performance by ERP2 of a Due Diligence Review of the Company**

On October 22, 2007, the Company and ERP2 entered into a letter agreement by which ERP2 agreed to forbear from seeking repayment prior to December 21, 2007 of the two demand notes issued by the Company and acquired by ERP2 from Spescom Limited. The Company, in exchange, agreed to (i) pay a forbearance fee of \$25,000 to ERP2 or its designees and (ii) reimburse ERP2 for expenses, including legal fees, incurred by it in connection with a due diligence process to be commenced immediately in an amount up to \$25,000. The letter agreement contemplates the preparation by ERP2, in connection with such due diligence process, of a proposal for providing financing to the Company. Entry into the letter agreement by the Company and ERP2 was reported in the Current Report on Form 8-K filed by the Company with the SEC on October 26, 2007.

During October and November of 2007, as contemplated by the letter agreement, ERP2 carried out a due diligence review of the Company aimed at facilitating preparation of a financing proposal.

### **Negotiation and Approval by an Independent Committee of the Board of Directors of a Term Sheet for a Financing Transaction Between ERP2 and the Company**

On December 20, 2007, ERP2 delivered to the Company a proposed term sheet for a financing transaction that provides, among other things, for the concurrent consummation of the following transactions: (i) the extension of the maturity dates of the demand notes acquired by ERP2 from Spescom to the second anniversary of the date of the closing of such transactions; and (ii) the issuance by the Company to ERP2 of additional promissory notes in the aggregate principal amount of \$1,500,000 with a maturity date concurrent with the second anniversary of the closing of such transactions. Under the proposed term sheet, disbursement of \$300,000 of such aggregate principal amount was subject to the execution and delivery of definitive transaction documents pursuant to the term sheet. Disbursement of the remaining \$1,200,000 of such amount, under the proposed term sheet, was subject to completion of all actions required to be completed by the Company in order to effectuate a 1,000-to-1 reverse split of the Company's common stock and the deregistration of the

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Company's common stock under the Exchange Act. The proposed term sheet also included, among other provisions, terms relating to the issuance by the Company to ERP2 of certain common stock warrants, the issuance by the Company to ERP2 of shares of common stock in payment of accrued dividends (together with interest) on the shares of the Company's Series F Convertible Preferred Stock held by ERP2, and the procurement by the Company from designees of ERP2, in exchange for certain fees, of consulting and other services.

On December 21, 2007, the Board of Directors convened a meeting for purposes of addressing matters including the proposed term sheet received from ERP2. During that meeting, the Board of Directors, among other things, discussed the proposed term sheet, discussed certain potential consequences for the Company and its shareholders of effecting the reverse split and deregistration of the Company's common stock as contemplated by the proposed term sheet, and received a briefing from the Company's outside counsel concerning "going private" transactions and related responsibilities of the Board of Directors. In addition, in order to provide greater assurances of the fairness of the proposed transaction to the Company and its shareholders in light of ERP2 being a substantial shareholder of the Company with representatives on the Board of Directors, the Board of Directors established the Independent Committee.

The Independent Committee is comprised of directors Michael Silverman, D. Ross Hamilton and Larry D. Unruh. Each member of the Independent Committee is an independent director within the meaning of the NASDAQ listing standards, and no member of the Independent Committee is affiliated with ERP2. The Board of Directors established the Independent Committee to consider and evaluate, and to direct the negotiation of the terms of a financing transaction between the Company and ERP2, and delegated to the Independent Committee authority to approve the terms of such a financing transaction. The period of service of the Independent Committee commenced upon its appointment on December 21, 2007 and is continuing.

As described in greater detail below, the Independent Committee held five meetings between December 21, 2007 and January 14, 2008 during which matters relating to the proposed transaction between ERP2 and the Company were discussed and considered. Between the dates of the first and last of such meetings, the Company and its outside counsel negotiated with ERP2 and its outside counsel regarding the provisions of the term sheet for the proposed transaction. The Independent Committee directed the Company's officers and outside counsel with respect to the positions taken in such negotiations.

On December 21, 2007, following the meeting of the Board of Directors on such date, the Independent Committee held its first meeting, which was attended by all members of the Independent Committee and the Company's outside counsel. During the meeting, the Independent Committee discussed and considered the terms of the proposed transaction, the current business needs and financial condition of the Company, the risk faced by the Company of experiencing a liquidity crisis in the absence of additional financing, and certain consequences of the proposed transaction, including the proposed reverse split and deregistration of the Company's common stock, with respect to the Company and its shareholders. In addition, the Company's outside counsel briefed the Independent Committee regarding its legal duties in connection with the proposed transaction.

On December 31, 2007, the Independent Committee held another meeting, which was attended by all members of the Independent Committee and the Company's outside counsel. During the meeting, the Independent Committee discussed and considered the terms of the proposed transaction, the reasonableness of such terms in relation to the terms of the financing transactions previously completed by the Company and prevailing market conditions, the Company's recent attempts to secure financing from or arrange a strategic transaction with parties other than ERP2, and the fairness of the proposed terms to the Company's shareholders. The Independent Committee also discussed and considered certain implications of the proposed transaction with respect to MAG and its affiliates.

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At the instruction of the Independent Committee, on January 4, 2008, the Company notified MAG that it was seeking additional financing and offered to discuss ERP2's financing proposal with MAG. MAG was considered by the Company to be a potential source for financing because MAG, together with certain of its affiliates, had previously provided financing to the Company through private placements of convertible preferred stock and common stock warrants of the Company conducted between 2004 and 2006. MAG, however, advised the Company on January 5, 2008 that it was not interested in pursuing a present financing arrangement with the Company.

On January 8, 2008, the Independent Committee held another meeting, which was attended by all members of the Independent Committee and the Company's outside counsel. During the meeting, the Independent Committee discussed and considered the communications between the Company and MAG described in the preceding paragraph, the terms of the proposed transaction, and the legal duties of the Independent Committee in connection with the proposed transaction.

On January 10, 2008, the Independent Committee held another meeting, which was attended by all members of the Independent Committee and the Company's outside counsel. During the meeting, the Independent Committee discussed and considered the risk faced by the Company of receiving a going concern qualification with respect to its most recent annual financial statements and the negotiation of language in the term sheet for the proposed transaction providing for the agreement of ERP2 not to call the demand notes it held prior to September 30, 2008 upon an event of default prior to September 30, 2008.

On January 14, 2008, the Independent Committee held another meeting, which was attended by all members of the Independent Committee and the Company's outside counsel. During the meeting, the Independent Committee discussed and considered, and unanimously approved the form of the term sheet presented for its review at that meeting.

The decision of the Independent Committee to approve the term sheet reflected the discussion and consideration over the course of its meetings of numerous factors, including the following:

Absent the receipt of additional financing in the near term, the Company was at risk of a liquidity crisis. Consistent with the Company's operating history in recent years, the Company was dependent for capital liquidity on obtaining new customer orders and timely renewals of annual maintenance contracts. A failure to obtain such orders and renewals at the level anticipated by the Company's management could have resulted in the Company having inadequate working capital to sustain its operations.

ERP2 was entitled to call the demand notes it held at any time. ERP2's right to call the demand notes was confirmed by ERP2 in a letter delivered to the Company on December 26, 2007. That letter stated that the notes matured and were callable as of December 22 (the day following the last day of the forbearance period contemplated by the letter agreement entered into by the Company and ERP2 on October 22, 2007) and that ERP2 reserved the right to call the notes and foreclose on the related collateral at any time. Given the Company's financial condition at the time the Independent Committee rendered its approval of the term sheet, the calling of the notes would have caused the Company to become insolvent.

The Company was facing an immediate risk of receiving a going concern qualification in the auditors' report with respect to its most recent annual financial statements, which management of the Company anticipated would have a material adverse effect on the Company's operations. Specifically, the Company had been advised by its auditors that, absent sufficient financing to support the Company's obligations and operation, such as the refinancing, extension or payment of the demand notes held by ERP2, the auditors would include a going concern qualification in their report with respect to the Company's audited financial statements required to be included with the Company's Annual Report on Form 10-K for its fiscal year ended September 30, 2007.

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Officers of the Company advised the Independent Committee that a going concern qualification in the auditors' report would likely result in immediate and severe adverse effects on the Company's ability to continue to make and sell its products. Because the proposed term sheet included a two year extension of the demand notes with the agreement of ERP2 not to call the demand notes prior to September 30, 2008 upon an event of default prior to September 30, 2008, entry into the term sheet by ERP2 and the Company would, in the view of the Company's auditors, adequately demonstrate that the Company could support its obligations and operations in the immediate future and, consequently, would avoid the need for a going concern qualification. The deadline for filing the Company's Annual Report was January 15, 2008. That deadline reflected an extension of the original filing deadline as the result of the filing by the Company of a Notification for Late Filing on Form 12b-25 and was not subject to further extension.

For a period of approximately two years, the Company had engaged in an extensive search for parties interested in providing financing to, acquiring or otherwise engaging in a strategic transaction with the Company, which yielded no proposals by a party other than ERP2 for a financing or strategic transaction on terms acceptable to the Company.

### **Execution of the Term Sheet by the Company and ERP2 and Consummation of Certain Transactions Contemplated Thereby**

On January 14, 2008, after the meeting of the Independent Committee at which it approved the term sheet for the proposed transaction, the Company and ERP2 entered into that term sheet. In consideration for ERP2's execution of the term sheet, the Company issued to ERP2 on January 14, 2008 a warrant exercisable for 17,175,971 shares of the Company's common stock, which warrant has a per share exercise price of \$0.08 and a 10-year term and contains certain "cashless exercise" and anti-dilution provisions. In addition, in accordance with the term sheet, the Board of Directors, at a meeting held on January 14, 2008, declared a dividend, payable to ERP2 in shares of common stock in satisfaction of the entire amount of accrued and unpaid dividends (together with interest) on the shares of Series F Convertible Preferred Stock held by ERP2, which amount was \$1,301,000. On January 21, 2008, the Company issued 20,832,498 shares of its common stock to ERP2 in payment and satisfaction of such dividend.

Following execution of the term sheet on January 14, 2008 and concluding on January 31, 2008, the Company and its outside counsel negotiated definitive transaction documents under the term sheet with ERP2 and its outside counsel. As described in greater detail below and as reported in the Current Report on Form 8-K filed by the Company with the SEC on February 6, 2008, at a closing on January 31, 2008 (the "Closing"), the Company and ERP2 executed and delivered definitive transaction documents and ERP2 disbursed \$300,000 in loan proceeds to the Company. The transactions contemplated by the term sheet and by such definitive transaction documents are referred to herein collectively as the "ERP2 Transaction."

Upon the Closing, the Company issued to ERP2 a secured promissory note (the "New Note") in the principal amount of up to \$1,500,000 with a maturity date of January 31, 2010. The disbursement of \$300,000 of such principal amount occurred upon the Closing. Disbursement of the remaining \$1,200,000 of such amount is conditioned upon completion of all actions required to be completed by the Company in order to effectuate a 1,000-to-1 reverse split of the Company's common stock and the deregistration of the Company's common stock under the Exchange Act. Events of default under the New Note include, among others, any failure of the Company to complete such actions by April 30, 2008. The New Note bears interest at 10% per annum (plus, upon the occurrence and continuation of an event of default, an additional 3% per annum), payable quarterly in arrears in cash, or, at the Company's option, in kind, capitalized as additional principal. The New Note contains certain affirmative and negative covenants, including a covenant that the Company's consolidated EBITDA (as

defined in the New Note) for each of certain periods of four consecutive fiscal quarters will meet or exceed the applicable minimum amount set forth in the New Note.

In addition, upon the Closing, the Company and ERP2 executed amendments to the two existing secured demand notes in the original principal amounts of \$400,000 and \$500,000 held by ERP2 (the "Old Notes") that provide, among other things, for (i) the extension of the maturity dates of such notes until January 31, 2010 and (ii) a right of ERP2 to accelerate the indebtedness represented by such notes upon an event of default under the New Notes, provided that no such acceleration may occur prior to September 30, 2008 upon an event of default prior to September 30, 2008. The Old Notes, as amended, bear interest at 10% per annum, payable upon maturity, provided that, in the event any payment due under either of such notes is not made within 15 days of its due date, the interest on such overdue amount will increase to 13% per annum.

The New Notes and the Old Notes, as amended, are secured by all of the Company's assets pursuant to amendments and restatements executed by the Company and ERP2 upon the Closing of the security agreement and pledge agreement by which the Company's obligations under the Old Notes were secured immediately prior to the Closing. Such amended and restated security agreement, among other things, (i) provides for a security interest in favor of ERP2 in respect of all personal property of the Company and (ii) obligates the Company to deliver the source code of its software products into escrow pursuant to an escrow agreement reasonably satisfactory to ERP2 within 30 days after January 31, 2008 and, subject to certain conditions, to effect one or more updates to the source code so escrowed. Such amended and restated pledge agreement, among other things, provides for a security interest in favor of ERP2 in respect of the Company's interest in its United Kingdom subsidiaries, Enterprise Informatics International Ltd. and Enterprise Informatics Ltd.

The Company is obligated under the New Note, on or prior to the date of the above-referenced \$1,200,000 disbursement, to issue to ERP2 warrants for the purchase of the number of shares of common stock equal to the greater of (i) 26,735,508 shares of common stock and (ii) 20% of the fully diluted outstanding common stock as of the date of such issuance. Such warrants will have a per share exercise price of \$0.08 and a 10-year term, and contain certain "cashless exercise" and anti-dilution provisions.

The New Note provides for entry by the Company and ERP2 into one or more agreements pursuant to which designees of ERP2 will provide management consulting, strategic and financial advisory services to the Company during the period that any indebtedness is outstanding under the New Note or the Old Notes, in exchange for fees paid by the Company of up to \$60,000 per quarter. In addition, the Company is obligated to pay (i) a \$75,000 closing fee, which includes up to \$25,000 of fees and expenses that the Company is required to reimburse to ERP2 pursuant to the letter agreement between the Company and ERP2 dated October 22, 2007 and (ii) certain fees and expenses incurred by ERP2 in connection with the transactions described above.

As of March 31, 2008, the aggregate amount of principal and interest outstanding under the Old Notes was \$705,000 and the aggregate amount of principal and interest outstanding under the New Note was \$302,000. In addition, as of April 7, 2008, ERP2 (i) by virtue of its ownership of shares of the common stock and Series F Convertible Preferred Stock of the Company, was entitled to 52,240,833 or 70.2% of the total number of votes eligible to be cast on all matters submitted to the vote of the holders of common stock and, consequently, was entitled to elect a majority of the Board and (ii) by virtue of its ownership of such shares and of the above-referenced warrant to purchase 17,175,971 shares of common stock, was the beneficial owner of 69,416,804 shares or 75.8% of the common stock of the Company.

**Certain Actions of the Independent Committee and the Board of Directors Regarding the Reverse Split**

On March 11, 2008, the Independent Committee held a meeting at which, among other things, it (i) after considering various alternative methods for determining the price per pre-split common share that will be paid in cash in lieu of fractional shares in connection with the Reverse Split, determined that such price will be \$0.05, which equals the average of the closing price of our common stock as quoted on the OTC Bulletin Board for the 10 trading days prior to March 11, 2008; (ii) made certain determinations regarding the substantive and procedural fairness of the Reverse Split to unaffiliated shareholders; and (iii) approved and recommended that the Board of Directors approve the Reverse Split and an amendment of the articles of incorporation of the Company in substantially the form attached to this information statement as *Annex A* to effectuate the Reverse Split and the associated reduction in the number of authorized shares of common stock by a factor of 1,000 from 200,000,000 to 200,000 (the "Reverse Split Amendment"). Each such action by the Independent Committee was unanimous, except that Mr. Hamilton, as described below under "Special Factors Determinations of the Independent Committee Regarding the Price to Be Paid for Fractional Shares" abstained from the determination of the price per pre-split common share that will be paid in cash in lieu of fractional shares in connection with the Reverse Split. Additional information regarding such actions of the Independent Committee is provided below under "Special Factors Determinations of the Independent Committee Regarding the Price to Be Paid for Fractional Shares" and "Special Factors Determinations of the Independent Committee and Board of Directors Regarding Fairness of the Reverse Split."

On March 11, 2008, the Board of Directors held a meeting at which, among other things, it (i) adopted the determination of the Independent Committee regarding the price per share in cash that will be paid in lieu of fractional shares in connection with the Reverse Split; (ii) made certain determinations regarding the substantive and procedural fairness of the Reverse Split to unaffiliated shareholders; (iii) approved the Reverse Split and the Reverse Split Amendment; and (iv) fixed April 10, 2008 as the record date for the determination of shareholders entitled to receive this information statement. Each such action was unanimous, except that Mr. Shorten was not present at the meeting and Mr. Lee abstained due to his affiliation with ERP2 and the interest of ERP2 in the ERP2 Transaction, in connection with which the Reverse Split is anticipated to be consummated. Additional information regarding the determinations of the Board of Directors regarding the substantive and procedural fairness of the Reverse Split to unaffiliated shareholders is provided below under "Special Factors Determinations of the Independent Committee and Board of Directors Regarding Fairness of the Reverse Split."

None of the Company, the Board of Directors, the Independent Committee or the Company's management has recommended or is recommending that any shareholder of the Company take any action, including any increase, division, or other adjustment of any shareholder's existing holdings of our common stock, that would increase or decrease the amount of any cash payment in lieu of fractional shares or the number of any post-split common shares that any shareholder may become entitled to receive as a result of the Reverse Split. We recognize that the individual circumstances of our shareholders vary, and we urge you to consult with your financial and tax advisors prior to taking any such action.

**Purposes of and Reasons for the Reverse Split**

**The Purposes and Reasons of the Company for the Reverse Split**

**Summary**

The purposes of the Company in effectuating the Reverse Split include the realization of certain benefits arising from the anticipated deregistration of the Company's common stock under the

Exchange Act following completion of the Reverse Split and the resulting cessation of the Company's reporting and other obligations as an SEC reporting company. Those benefits include (i) significant cost savings to the Company resulting from the elimination of many of the expenses related to the Company's status as an SEC reporting company, including expenses relating to the reporting and other requirements of the Exchange Act, the Sarbanes-Oxley Act and other federal securities laws and (ii) relief for the Company from the administrative burdens and reduced operational flexibility associated with being an SEC reporting company. Other purposes of the Company in effectuating the Reverse Split are (i) the provision of liquidity for small shareholders, who may otherwise have been deterred from selling their shares because of the lack of an active trading market and because of brokerage costs that are disproportionately high in relation to the market price per share of the Company's common stock and (ii) the avoidance of an event of default with respect to its indebtedness to ERP2, which could occur if all actions required to be completed by the Company to effectuate the Reverse Split and the deregistration of the Company's common stock under the Exchange Act are not completed by April 30, 2008.

In addition, because consummation of the Reverse Split is a precondition to the Company's receipt from ERP2 of \$1,200,000 in loan proceeds as part of the ERP2 Transaction, the purposes of the Company in effectuating the Reverse Split include the realization of certain benefits to the Company that have resulted or are intended to result from the ERP2 Transaction. Those benefits include (i) satisfaction of the Company's need for financing to fund its working capital requirements in the near term, (ii) extension of the maturity dates of certain demand notes held by ERP2 until January 31, 2010 and the agreement of ERP2 not to call the notes prior to September 30, 2008 upon an event of default prior to September 30, 2008, and (iii) avoidance of a going concern qualification with respect to the Company's most recent audited financial statements.

### **Reduced Costs and Expenses**

We incur both direct and indirect costs to comply with the reporting and other requirements imposed on us as a result of being an SEC reporting company. Professional fees of lawyers and accountants, and printing, mailing and other costs incurred by us in complying with SEC reporting and other requirements are substantial. We also incur direct and indirect costs in complying with the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act, which will become effective, in part, at the end of our current fiscal year ending on September 30, 2008, would require that (i) our management evaluate and prepare an assessment of the effectiveness of our internal control over financial reporting as of the end of each fiscal year beginning with our fiscal year ending September 30, 2008 and that (ii) our external auditors provide an attestation report regarding our internal control over financial reporting as of the end of each fiscal year beginning with our fiscal year ending September 30, 2009. Compliance with these requirements would require significant additional expenditures, including fees to third parties for compliance planning, assessment, documentation and testing. Consummation of the Reverse Split and deregistration of the Company's common stock under the Exchange Act would result in the cessation of our obligations as an SEC reporting company and, consequently, in significant cost savings to the Company.

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Our estimated costs of remaining an SEC reporting company are described in greater detail below:

Costs	Actual Fiscal 2007 Expenses	Projected Fiscal 2008 Expenses	Projected Fiscal 2009 Expenses with Auditor Attestation	Projected Fiscal 2009 Expenses with No Auditor Attestation
Audit of Annual Financials and Review of Quarterly Financials	\$ 232,000	\$ 255,000	\$ 280,000	\$ 280,000
Sarbanes-Oxley Initial Write-Up on Internal Controls		100,000 <sup>(1)</sup>		
Sarbanes-Oxley Act Documentation and Testing		100,000	110,000	110,000
Sarbanes-Oxley Act Auditor Attestation Report Regarding Internal Control			300,000 <sup>(2)</sup>	(2)
SEC Counsel	167,000	200,000	250,000	250,000
Directors Fees	98,000	125,000	150,000	150,000
Director and Officer Insurance	37,000	50,000	60,000	60,000
Proxy and Annual Report Printing and Mailing, Electronic Filing Costs, DTC Fees, Transfer Agent Fees, Public Relations and Shareholder Communications and Other Miscellaneous Costs	70,000	80,000	100,000	100,000
<b>Total</b>	<b>\$ 604,000</b>	<b>\$ 910,000</b>	<b>\$ 1,250,000</b>	<b>\$ 950,000</b>

(1) This is a one-time cost projected to be spent in fiscal 2008 related to Sarbanes-Oxley Act compliance.

(2) We understand that the SEC may consider, but has not yet formally adopted, a proposal to delay for one year auditors' attestations on internal control for non-accelerated filers (companies with a public float of less than \$75,000,000), which would include the Company.

We ultimately expect to realize recurring annual cost savings of approximately \$1,030,000 as a result of the Reverse Split and deregistration of our common stock under the Exchange Act. These estimated savings are based on projections for our fiscal year ending September 30, 2009 and reflect the assumption that the current requirement that our external auditors provide an attestation report regarding our internal control over financial reporting with respect to such fiscal year will remain in effect (see note 2 to the table above). Our estimate of recurring annual cost savings primarily reflects, among other things:

a reduction in fees paid to our registered independent public accounting firm of approximately \$200,000 for audits and reviews of the financial statements contained in our SEC periodic reports, and related expenses;

the elimination of approximately \$110,000 paid to consultants and outside firms in connection with documentation and testing for ongoing compliance with the Sarbanes-Oxley Act;

the elimination of approximately \$300,000 of anticipated costs related to the attestation report of our auditors with respect to our internal control over financial reporting that is required for compliance with the Sarbanes-Oxley Act;

a reduction in legal fees associated with securities law compliance of approximately \$250,000;

a reduction of approximately \$30,000 in directors fees due to the elimination of quarterly audit committee meetings and the retention of an "audit committee financial expert" on the Board of Directors;

a reduction in director and officer insurance of \$40,000; and



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the elimination of approximately \$100,000 of costs and expenses consisting of (i) costs relating to the printing and mailing of annual reports to shareholders and proxy statements (ii) fees and expenses associated with the conversion of our periodic and current reports and other filed documents, such as proxy statements and Section 16 filings, into form suitable for electronic

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filing on the SEC's EDGAR database, (iii) fees payable to Depository Trust Company, (iii) transfer agent fees, (iv) public relations and shareholder communications costs and (iv) other miscellaneous costs.

We believe the projected fiscal 2009 costs set forth above are indicative of our annual costs going forward were we to remain an SEC reporting company. Please note, however, that the projected annual costs set forth above are only estimates and the actual costs we realize may be higher or lower than such estimates. Likewise, our projected annual cost savings are only estimates, and those cost savings could be higher or lower than the amounts set forth above. As noted, cost information for fiscal 2007 reflects actual costs incurred, but our estimates of costs in fiscal 2008 and 2009 and, accordingly, our estimated cost savings, are based only in part on historical costs. For example, if the Reverse Split and deregistration of the Company's common stock are effected, there will be an elimination of Sarbanes-Oxley Act documentation and testing fees that the Company has not incurred in the past. In some instances, estimates of cost savings were based on verifiable assumptions. For example, if the Company ceases to be an SEC reporting company, the costs incurred in the auditor review of the quarterly reports will be eliminated. Additionally, there will be no need for SEC counsel if the Company no longer files reports with the SEC. Other estimates were more subjective, such as savings in fees of our transfer agent because of a reduction in the number of shareholder accounts to be handled by it, and a reduction in printing, mailing and other related costs of distributions to shareholders.

### **Management Time and Expense; Operational Flexibility**

The costs described above do not include the overall time expended by our management on the preparation and review of our SEC filings and compliance with other requirements arising from our status as an SEC reporting company. The time required to be devoted to such tasks, absent our ceasing to be an SEC reporting company, will likely increase, particularly for our chief executive officer and our chief financial officer who, pursuant to the Sarbanes-Oxley Act, must evaluate and prepare an assessment of the effectiveness of our internal control over financial reporting as of the end of each fiscal year beginning with our fiscal year ending September 30, 2008. We believe that this time could more effectively be devoted to other purposes, such as operating our business and undertaking new initiatives that may result in greater long-term growth. Additionally, due to the public market's focus on quarterly results, smaller public companies such as ours are required to focus on short-term goals, such as quarterly financial results, often at the expense of longer-term objectives. As a non-SEC reporting company, we believe management would have greater flexibility to make operational decisions based primarily on the Company's long term goals.

### **Liquidity for Small Stockholdings**