

MEDICAL ADVISORY SYSTEMS INC

Form PRER14A

February 05, 2002

Table of Contents

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Amendment No. 1

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[X] Preliminary Proxy Statement [] Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))

[] Definitive Proxy Statement

[] Definitive Additional Materials

[] Soliciting Materials Pursuant to Rule 14a-11(c) or Rule 14a-12

MEDICAL ADVISORY SYSTEMS, INC.
(Name of Registrant as Specified in its Charter)

MEDICAL ADVISORY SYSTEMS, INC.
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

[] No fee required

[X] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

Title of Each Class of Securities to which Transaction Applies	Aggregate Number of Securities to Which Transaction Applies(1)	Per Unit Price Or Other Underlying Value of Transaction (1)	Proposed Maximum Aggregate Value of Transaction (1)	Amount of Filing Fee (1)(2)
Common Stock	18,750,000	\$5.28	\$99,000,000	\$19,800

(1) Estimated solely for the purpose of computing the amount of the filing fee pursuant to Rule 0-11 under the Securities Act of 1934, as amended.

(2) The fee was computed in accordance with Rule 0-11(c)(1)(i) based upon the market value of a share of common stock on December 10, 2001.

[X] 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:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

MEDICAL ADVISORY SYSTEMS, INC.

8050 Southern Maryland Boulevard
Owings, Maryland 20736

NOTICE OF SPECIAL MEETING TO BE HELD ON

, 2002

To the Stockholders of
Medical Advisory Systems, Inc.:

We will hold a special meeting of stockholders on _____, _____, 2002, _____:00 _____m., local time, at _____, for the following purposes:

1. to approve an Agreement and Plan of Merger, dated as of November 1, 2001, pursuant to which Digital Angel Acquisition Co., a Delaware corporation and our wholly-owned subsidiary, will merge with and into Digital Angel Corporation, a Delaware corporation;
2. to amend our certificate of incorporation to change our name to Digital Angel Corporation and to authorize 85,000,000 additional shares of common stock, par value \$0.005; and
3. to transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

The merger proposal is more fully described in the accompanying proxy statement and appendices that are part of this notice.

MAS's board of directors has fixed the close of business on January 31, 2002 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting. Only stockholders of record as of January 31, 2002 will be entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting. A list of stockholders of record as of January 31, 2002 will be available for inspection at our offices at 8050 Southern Maryland Boulevard, Owings, Maryland 20736 at least ten days prior to the special meeting.

MAS's board of directors and management welcome your attendance at the special meeting. Whether or not you plan to attend the special meeting, we request that you complete, sign, date and promptly return the enclosed proxy in the accompanying postage-paid envelope. Your proxy will not affect your right to vote in person if you attend the special meeting. You can revoke your proxy at the special meeting as described under THE SPECIAL MEETING Proxies; Proxy Solicitation on page _____ of the accompanying proxy statement. Simply attending the special meeting will not revoke your proxy. Failure to return a properly executed proxy card or to vote in person at the special meeting will have the same effect as a vote against the merger.

MAS'S BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE MERGER AND THE AMENDMENT TO THE CERTIFICATE OF INCORPORATION.

YOUR VOTE IS IMPORTANT.

**TO VOTE YOUR SHARES, PLEASE SIGN, DATE AND COMPLETE
THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE
ENCLOSED RETURN ENVELOPE.**

Sincerely,

/s/ ROBERT P. CRABB

Robert P. Crabb
Secretary

, 2002

Table of Contents

MEDICAL ADVISORY SYSTEMS, INC.

**8050 Southern Maryland Boulevard
Owings, Maryland 20736**

The board of directors of Medical Advisory Systems, Inc., has approved and adopted a merger agreement that provides for the merger of Digital Angel Acquisition Co., a wholly-owned subsidiary of MAS, with and into Digital Angel Corporation, pursuant to which the separate corporate existence of DA Acquisition will terminate and Digital Angel will become a wholly-owned subsidiary of MAS. Digital Angel is a wholly-owned subsidiary of Applied Digital Solutions, Inc. (ADS), a Missouri corporation, an affiliate of MAS and the beneficial owner of 16.6% of the issued and outstanding MAS common stock. As a result of the merger, MAS will acquire from ADS the Advanced Wireless Group, which consists of Digital Angel Corporation, Timely Technology Corp. and Signature Industries, Limited.

We are furnishing this proxy statement in connection with our solicitation of proxies for use at a special meeting of stockholders to be held on _____, 2002, _____:00 _____m., local time, at _____, and any adjournment or postponement of the special meeting. Delaware law requires MAS to obtain stockholder approval of the merger by an affirmative vote of two-thirds of the outstanding shares of MAS common stock entitled to vote on the merger, excluding the shares of MAS common stock beneficially owned by ADS. Stockholders also will be asked to consider and vote upon a related proposal to amend the MAS certificate of incorporation to change the name of MAS to Digital Angel Corporation and to authorize 85,000,000 additional shares of MAS common stock. Delaware law requires MAS to obtain stockholder approval of the amendment to the MAS certificate of incorporation by an affirmative vote of a majority of the outstanding shares of MAS common stock entitled to vote on the amendment. If the merger is not approved, the amendment to the MAS certificate of incorporation will not take effect, notwithstanding stockholder approval of the certificate amendment at the special meeting.

At the effective time of the merger, each issued and outstanding share of Digital Angel common stock held by ADS will be converted into 0.9375 shares of MAS common stock, or 18,750,000 shares of MAS common stock in the aggregate and Digital Angel will become a wholly-owned subsidiary of MAS. There will be no change in the currently issued and outstanding shares of MAS common stock as a result of the merger. Also, pursuant to the merger agreement, in consideration and at the effective time of the merger, ADS will contribute all of its stock in Timely Technology, a wholly-owned subsidiary, and Signature Industries, an 85.0% owned subsidiary. As a result of this contribution by ADS, Timely Technology will become a wholly-owned subsidiary and Signature Industries will become a majority-owned subsidiary of MAS following the merger. As a result of the conversion of Digital Angel common stock, ADS will beneficially own approximately 82.1% of the issued and outstanding MAS common stock upon completion of the merger. It is anticipated that, in satisfaction of a condition to the consent to the merger of IBM Credit Corporation, a secured creditor of ADS, upon completion of the merger, ADS will transfer to the Digital Angel Share Trust, a Delaware statutory business trust controlled by an independent advisory board, all shares of the MAS common stock owned by ADS. As a result, the trust will be the beneficial owner of approximately 82.1% of the MAS common stock and will control MAS following the merger. Upon the request of IBM Credit Corporation, the trust will sell shares of MAS common stock owned by it for the benefit of IBM Credit Corporation in the event that ADS fails to make payments to IBM Credit Corporation beginning on December 31, 2002, or otherwise defaults, under the IBM credit agreement. As a result, the duration of the trust's control over MAS following the merger and the identity of any parties which may acquire control of MAS if and when such sales commence is uncertain.

After careful consideration, MAS's board of directors has determined that the merger is in your best interests and the board of directors recommends that you vote in favor of the merger and the certificate amendment.

This proxy statement provides you with detailed information about the proposed merger and the certificate amendment. You also can get information from publicly available documents filed by MAS with

Table of Contents

the Securities and Exchange Commission. We encourage you to read this entire document carefully, including the section entitled Risk Factors beginning on page .

YOUR VOTE IS IMPORTANT. PLEASE SIGN, DATE AND COMPLETE THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE.

This proxy statement is dated , 2002 and it is first being mailed to MAS stockholders on or about , 2002.

TABLE OF CONTENTS

QUESTIONS AND ANSWERS ABOUT THE MERGER

SUMMARY TERM SHEET

PROPOSAL ONE THE MERGER

Parties to the Merger (p.)

Merger Description (p.)

Recommendation of the Special Committee and Board of Directors (p.)

Special Meeting and Voting (p.)

Appraisal Rights (p.)

Regulatory Approval (p.)

Proxies (p.)

Interests of Certain Persons in the Merger (p.)

Effect on MAS Stockholders (p.)

Selected Merger Agreement Provisions (p.)

Financing, Accounting and Tax Matters (p.)

PROPOSAL TWO

Amendment to the MAS Certificate of Incorporation

WHERE YOU CAN FIND MORE INFORMATION

FORWARD-LOOKING STATEMENTS

RISK FACTORS

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

CHANGE IN CONTROL OF THE COMPANY

HISTORICAL, PRO FORMA AND EQUIVALENT PER SHARE DATA

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

THE SPECIAL MEETING

General

Matters to be Considered

Recommendations of the Special Committee and the Board of Directors

Record Date; Shares Entitled to be Voted; Quorum

Appraisal Rights

Proxies; Proxy Solicitation

Vote Required

Effect of Abstentions and Broker Non-Votes

PROPOSAL ONE THE MERGER

Background to the Merger

Special Committee of the MAS Board of Directors

Recommendation by the Special Committee; Reasons for the Merger

Opinion of Special Committee's Financial Advisor

Interests of Certain Persons in the Merger

Issuance of Common Stock and Contribution of ADS Subsidiaries

Effect on MAS Stockholders

Accounting

Regulatory Approval

Registration Rights Agreement

THE MERGER AGREEMENT

Terms of the Merger

Conversion of Digital Angel Stock and Contribution of ADS Subsidiaries

Representations and Warranties

Covenants

Conditions to the Merger

Termination and Abandonment

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

THE COMPANIES

MAS s Business

The Advanced Wireless Group s Business

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR MEDICAL ADVISORY SYSTEMS, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE ADVANCED WIRELESS GROUP

RESTRICTIONS ON REALES BY ADS

PROPOSAL TWO AMENDMENT TO THE MAS CERTIFICATE OF INCORPORATION

ADDITIONAL INFORMATION

Legal Matters

Independent Accountants

Stockholder Proposals for the 2002 Annual Meeting

Other Matters

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS UNAUDITED

PRO FORMA CONDENSED COMBINED BALANCE SHEET September 30, 2001

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

COMBINED STATEMENTS OF OPERATIONS

COMBINED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**TABLE OF CONTENTS**

	Page
QUESTIONS AND ANSWERS ABOUT THE MERGER	6
SUMMARY TERM SHEET	12
PROPOSAL ONE; THE MERGER	12
Parties to the Merger	12
Merger Description	12
Recommendation of the Special Committee and Board of Directors	13
Special Meeting and Voting	14
Appraisal Rights	14
Regulatory Approval	14
Proxies	14
Interests of Certain Persons in the Merger	15
Effect on MAS Stockholders	15
Selected Merger Agreement Provisions	16
Financing, Accounting and Tax Matters	17
PROPOSAL TWO; AMENDMENT TO THE MAS CERTIFICATE OF INCORPORATION	18
WHERE YOU CAN FIND MORE INFORMATION	19
FORWARD-LOOKING STATEMENTS	20
RISK FACTORS	21
SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS	28
CHANGE IN CONTROL OF THE COMPANY	29
HISTORICAL, PRO FORMA AND EQUIVALENT PER SHARE DATA	30
PRICE RANGE OF COMMON STOCK AND DIVIDENDS	31
THE SPECIAL MEETING	32
General	32
Matters to be Considered	32
Recommendations of the Special Committee and the Board of Directors	32
Record Date; Shares Entitled to be Voted; Quorum	32
Appraisal Rights	32
Proxies; Proxy Solicitation	33
Vote Required	33
Effect of Abstentions and Broker Non-Votes	34
PROPOSAL ONE; THE MERGER	35
Background to the Merger	35
Special Committee of the MAS Board of Directors	38
Recommendations by the Special Committee; Reasons for the Merger	39
Opinion of Special Committee's Financial Advisor	41
Interests of Certain Persons in the Merger	45
Issuance of Common Stock and Contribution of ADS Subsidiaries	49
Management of MAS Following the Merger	50
Effect on MAS Stockholders	50
Accounting	51
Regulatory Approval	51
Registration Rights Agreement	51

Table of Contents

	Page
THE MERGER AGREEMENT	52
Terms of the Merger	52
Conversion of Digital Angel Stock and Contribution of ADS Subsidiaries	52
Representations and Warranties	52
Covenants	55
Conditions to the Merger	56
Termination and Abandonment	57
MATERIAL FEDERAL INCOME TAX CONSEQUENCES	59
THE COMPANIES	60
MAS's Business	60
The Advanced Wireless Group's Business	60
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR MEDICAL ADVISORY SYSTEMS, INC.	64
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE ADVANCED WIRELESS GROUP	69
RESTRICTIONS ON REALES BY ADS	87
PROPOSAL TWO; AMENDMENT TO THE MAS CERTIFICATE OF INCORPORATION	88
ADDITIONAL INFORMATION	89
Legal Matters	89
Independent Accountants	89
Stockholder Proposals for the 2002 Annual Meeting	89
Other Matters	89
FINANCIAL STATEMENTS	F-1

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q. WHAT AM I VOTING ON?

A. You are being asked to vote on the adoption of a merger agreement among MAS, DA Acquisition, Digital Angel and ADS, as a result of which Digital Angel will merge into DA Acquisition, the separate corporate existence of DA Acquisition will cease, Digital Angel will become a wholly-owned subsidiary of MAS and ADS will contribute to MAS all of its stock in Timely Technology, a wholly-owned subsidiary of ADS, and Signature Industries, an 85.0% owned subsidiary of ADS. A copy of the merger agreement is attached as Appendix A to this proxy statement. You are also being asked to approve an amendment to MAS's certificate of incorporation to change our name to Digital Angel Corporation and to authorize 85,000,000 additional shares of MAS common stock. ADS and Digital Angel are affiliates of MAS. At the effective time of the merger, shares of Digital Angel common stock beneficially owned by ADS will be converted to 18,750,000 shares of MAS common stock. It is anticipated that, in satisfaction of a condition to the consent to the merger of IBM Credit Corporation, a secured creditor of ADS, upon completion of the merger ADS will transfer to a Delaware business trust controlled by an independent advisory board all shares of the MAS common stock owned by ADS. As a result, the trust will be the beneficial owner of approximately 82.1% of the MAS common stock and will control MAS. See PROPOSAL ONE: THE MERGER (p.).

Q. WHAT IS THE ADVANCED WIRELESS GROUP?

A. The Advanced Wireless Group consists of Digital Angel and Timely Technology, which are wholly-owned subsidiaries of ADS, and Signature Industries, which is an 85.0% owned subsidiary of ADS. The Advanced Wireless Group is engaged in the development and commercialization of proprietary technologies used to identify, locate and monitor people, animals and objects. See THE COMPANIES The Advanced Wireless Group's Business (p.).

Q. WHAT WILL MAS RECEIVE IN THE MERGER?

A. Digital Angel and Timely Technology each will become a wholly-owned subsidiary of MAS and Signature Industries will become an 85.0% owned subsidiary of MAS. This means that, following the merger, MAS will own and control all the assets and business opportunities of Digital Angel, Timely Technology and Signature Industries. See THE MERGER AGREEMENT Conversion of Digital Angel Stock and Contribution of ADS Subsidiaries (p.).

Q. WHAT WILL MAS GIVE UP IN THE MERGER?

A. As consideration for the merger of Digital Angel into DA Acquisition and the contribution of ADS's stock ownership interests in Timely Technology and Signature Industries, at the effective time of the merger, each share of Digital Angel common stock beneficially owned by ADS will be converted into 0.9375 shares of MAS common stock or 18,750,000 shares of MAS common stock in the aggregate. It is anticipated that, in satisfaction of a condition to the consent to the merger of IBM Credit Corporation, upon completion of the merger ADS will transfer to the trust all shares of the MAS common stock owned by ADS. As a result, the trust will be the beneficial owner of approximately 82.1% of the MAS common stock and will control MAS. See PROPOSAL ONE; THE MERGER Issuance of Common Stock and Contribution of ADS Subsidiaries (p.).

Q. WHY IS MAS PROPOSING TO PURCHASE THE ADVANCED WIRELESS GROUP? HOW WILL I BENEFIT?

A. MAS's board of directors believes that the merger offers the MAS stockholders an opportunity to acquire the Advanced Wireless Group at a significant discount in a tax-free transaction and to participate in a combined organization that MAS believes will be a stronger competitor in its existing industry as well as in

Table of Contents

the electronic position identification industry. See PROPOSAL ONE; THE MERGER Recommendations by the Special Committee; Reasons for the Merger (p.).

Q. WHY IS THE BOARD OF DIRECTORS RECOMMENDING THAT I VOTE FOR THE PROPOSALS?

A. MAS's board of directors has determined, based in part on the unanimous approval and recommendation of a special committee consisting of three independent directors and other factors described in this proxy statement, that the merger agreement and the merger are advisable to, and in the best interests of, MAS and its stockholders. See THE SPECIAL MEETING Recommendations of the Special Committee and the Board of Directors (p.).

Q. WHAT DID THE BOARD OF DIRECTORS DO TO MAKE SURE THAT THE PRICE TO BE PAID FOR THE ADVANCED WIRELESS GROUP IS FAIR TO MAS AND ITS STOCKHOLDERS?

A. MAS's board of directors performed a comprehensive analysis of the proposed acquisition of the Advanced Wireless Group. As a result of this analysis, MAS's board of directors has determined that the merger provides an opportunity for MAS to acquire the Advanced Wireless Group at a significant discount based on the then current market value of the MAS common stock. MAS's board of directors appointed a special committee consisting of three independent directors, who are neither employed by or otherwise affiliated with MAS, to assist it in evaluating the fairness and negotiating the terms of the merger. The special committee retained Jesup & Lamont Capital Markets, Inc. to act as its financial advisor. After conducting a thorough analysis of the terms of the merger, due diligence concerning the Advanced Wireless Group and consideration of a report prepared by Jesup & Lamont, the special committee concluded that the merger is advisable and in the best interests of MAS. MAS's board of directors, based in part upon the unanimous recommendation of the special committee, unanimously approved the merger and the merger agreement as advisable and in the best interests of MAS and its stockholders and unanimously recommends that MAS stockholders vote FOR the merger. See PROPOSAL ONE; THE MERGER Recommendations by The Special Committee; Reasons for the Merger (p.).

Q. WAS A FAIRNESS OPINION RENDERED IN CONNECTION WITH THE MERGER?

A. Yes. The special committee has received, and the special committee and MAS's board of directors have relied upon, an opinion from Jesup & Lamont that, subject to and based on the considerations in the opinion, as of the date of the merger agreement, the terms of the merger are fair to MAS and its stockholders from a financial point of view. The full text of Jesup & Lamont's opinion, dated as of October 31, 2001, and its December 10, 2001 addendum to its fairness opinion, which set forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Jesup & Lamont, are attached as Appendix B to this proxy statement. We urge you to read the Jesup & Lamont opinion and the addendum to the opinion in their entirety. See PROPOSAL ONE; THE MERGER Opinion of Special Committee's Financial Advisor (p.).

Q. WHAT ARE THE FEDERAL TAX CONSEQUENCES OF THE MERGER?

A. There will be no tax consequences to MAS stockholders as a result of the merger. The merger will be tax-free to MAS, ADS and Digital Angel for federal income tax purposes. See MATERIAL FEDERAL INCOME TAX CONSEQUENCES (p.).

Q. ARE THERE ANY CONDITIONS TO CLOSING THE MERGER?

A. Yes. In addition to approval of the merger and the certificate amendment by MAS's stockholders, the merger is conditioned on the consent to the merger by IBM Credit Corporation, a secured lender to ADS, and on ADS's receipt of assurance that the MAS common stock will continue to be listed on the American Stock Exchange (AMEX) following the completion of the merger. It is anticipated that, in satisfaction of

Table of Contents

a condition to the consent to the merger of IBM Credit Corporation, upon completion of the merger, ADS will transfer to the trust all shares of the MAS common stock owned by ADS. As a result, the trust will be the beneficial owner of approximately 82.1% of the MAS common stock and will control MAS following the merger. The merger agreement also contains customary and other transaction-specific conditions to closing the merger. See THE MERGER AGREEMENT Conditions to the Merger (p.).

Q: WHY ARE ADS'S SHARES BEING PLACED IN A TRUST?

A: ADS is indebted to IBM Credit Corporation in the amount of approximately \$93.0 million. ADS's indebtedness to IBM Credit Corporation is secured by both ADS's stock in, and the assets of, the Advance Wireless Group. Under the terms of the IBM loan, ADS must obtain the consent of IBM Credit Corporation to the merger. In addition, under the terms of the merger agreement, IBM Credit Corporation must agree to release its lien on the assets and stock of the Advanced Wireless Group. IBM Credit Corporation has informed ADS that it will condition its consent to the merger upon ADS transferring all shares of MAS common stock owned by ADS upon completion of the merger to a Delaware business trust controlled by an independent advisory board. See Risk Factors ADS Has Incurred Significant Losses and Has Not Obtained Other Sources of Funding and It Is Unlikely That ADS Will Have Sufficient Funds to Make Payments Under the New Credit Agreement (p.).

Q: WHAT EFFECT WILL THE TRUST HAVE ON MAS?

A: Upon completion of the merger, the trust will own approximately 82.1% of the MAS common stock and will be able to control completely MAS's board of directors and decide all matters that are submitted to MAS stockholders for approval. The trust will be governed by an independent advisory board. The trustee will be responsible for the ongoing operations of the trust and shall act in accordance with the written instructions of the independent advisory board. The trustee and independent advisory board have not yet been selected and will be designated by ADS and IBM Credit Corporation in the trust agreement. It is anticipated that the trustee will be a financial institution or some other person engaged in the business of providing trust administration services. The members of the independent advisory board cannot be stockholders, employees, attorneys or affiliates of any of, or derive any revenue from activities with, MAS, ADS or IBM Credit Corporation, or a member of the immediate family of any such person. For as long as ADS remains indebted to IBM Credit Corporation under the credit agreement, the trust, acting through its advisory board, will exercise voting power over all shares of MAS common stock owned by ADS as of completion of the merger. At any time amounts are due to IBM Credit Corporation from ADS pursuant to the terms of the credit agreement beginning on December 31, 2002, or upon any other default by ADS under the credit agreement with IBM Credit Corporation, upon the request of IBM Credit Corporation, the trustee will promptly take action to sell an amount of the MAS common stock held in the trust necessary to generate cash sufficient, after payment of expenses, to make the required payment to IBM Credit Corporation. At such time, if any, as ADS repays its indebtedness to IBM Credit Corporation, any shares of MAS common stock remaining in the trust will revert to ADS. See Risk Factors ADS Has Incurred Significant Losses and Has Not Obtained Other Sources of Funding and It Is Unlikely That ADS Will Have Sufficient Funds to Make Payments Under the New Credit Agreement (p.).

In addition, it is anticipated that following the merger, the trust, through a written consent without a meeting of stockholders, will amend MAS's certificate of incorporation to provide that MAS shall not, without the consent of at least two-thirds of the issued and outstanding shares of MAS common stock:

File or consent to a bankruptcy petition or any petition seeking or consenting to reorganization or relief under any bankruptcy or insolvency law;

Consent to the filing of an involuntary petition in bankruptcy;

Consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator with respect to MAS or any substantial part of its property;

Make any assignment for the benefit of creditors;

Table of Contents

Admit in writing its inability to pay its debts generally;

Approve the issuance of MAS common stock, including options or warrants with respect thereto, for non-cash consideration or for less than fair market value.

Q. WHAT VOTE IS REQUIRED TO APPROVE THE MERGER AND THE AMENDMENT?

A. Under Delaware law, because the merger involves ADS, which is an affiliate owning in excess of 15.0% of the MAS common stock, a vote by the holders of a two-thirds of the outstanding shares of MAS common stock, excluding those shares beneficially owned by ADS, is required to approve the merger. A vote by the holders of a majority of the outstanding shares of MAS common stock is required to approve the certificate amendment. See THE SPECIAL MEETING Vote Required (p.).

Q. HOW DO I VOTE?

A. Complete and sign the enclosed proxy card and return it in the enclosed envelope or vote in person at the special meeting. We urge you to vote to assure the representation of your shares at the special meeting. See THE SPECIAL MEETING Proxies; Proxy Solicitation (p.).

Q. CAN I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A. Yes. You can change your vote prior to the taking of the vote at the special meeting by:

delivering to MAS's secretary a written revocation of a previously delivered proxy bearing a later date than the proxy;

executing, dating and delivering to MAS's secretary a subsequently dated proxy; or

attending the special meeting and voting in person.

Simply attending the special meeting will not revoke your proxy. For a more complete description of voting procedures, see THE SPECIAL MEETING Proxies; Proxy Solicitation (p.).

Q. IF MY SHARES ARE HELD IN STREET NAME BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A. No. Unless you provide instructions to your broker on how to vote, your broker will not vote your shares for you. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Failure to instruct your broker to vote in favor of the merger and the certificate amendment will have the effect of a vote against the merger and the certificate amendment. See THE SPECIAL MEETING Effect of Abstentions and Broker Non-Votes (p.).

Q. CAN I VOTE MY SHARES IN PERSON?

A. Yes. You may attend the special meeting and vote your shares in person, rather than signing and mailing your proxy card. See THE SPECIAL MEETING Proxies; Proxy Solicitations (p.).

Q. HOW WILL MY SHARES BE VOTED IF I RETURN A BLANK PROXY CARD?

A. If you sign and send in your proxy card and do not indicate how you want to vote, your shares will be voted in favor of the merger and the certificate amendment. See THE SPECIAL MEETING Proxies; Proxy Solicitation (p.).

Q. WHAT WILL HAPPEN IF I DO NOT VOTE?

A. If you do not return your proxy card or vote at the special meeting, it will have the same effect as if you voted against the merger and the certificate amendment. See THE SPECIAL MEETING Proxies; Proxy Solicitation (p.).

Table of Contents

Q. ARE THERE ANY RISKS IN THE MERGER THAT I SHOULD BE AWARE OF?

A. Yes. There are significant risks to MAS stockholders in connection with the merger. See RISK FACTORS (p.).

Q. WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A. We are working to complete the merger as quickly as possible. We hope to complete the merger during the first quarter of 2002.

Q. ARE APPRAISAL RIGHTS AVAILABLE TO ME?

A. No. Under Delaware law appraisal rights are not available. See THE SPECIAL MEETING Appraisal Rights (p.).

Q. WHAT DO I NEED TO DO NOW?

A. Mail your completed and signed proxy card in the enclosed return envelope, as soon as possible, so that your vote concerning approval of the merger will be counted at the special meeting.

Q. WHAT OTHER MATTERS WILL BE VOTED ON AT THE SPECIAL MEETING?

A. MAS does not expect any other matters to be voted on at the special meeting.

Table of Contents

The following diagrams illustrate the current and post-merger ownership structure of ADS and its affiliates and MAS.

* The shares of MAS common stock held in the trust may be sold to satisfy obligations of ADS to IBM Credit Corporation and any shares remaining in the trust after such obligations are satisfied would be transferred to ADS. See Risk Factors (p.).

Table of Contents

SUMMARY TERM SHEET

This summary term sheet highlights selected information presented in this proxy statement and may not contain all of the information that is important to you. To understand more fully the proposals to be voted on at the special meeting, and for a more complete description of the legal terms of the merger and merger agreement, you should carefully read this entire proxy statement and the documents to which it refers, including the merger agreement, a copy of which is attached as Appendix A to this proxy statement.

PROPOSAL ONE

THE MERGER

Parties to the Merger (p.)

MAS

MAS, is a Delaware corporation that provides the following medical assistance and technical products and services:

24/7 Medical Response and Assistance Services;

Pharmaceutical Kits and Equipment;

ASP/ Web Hosting Services;

Interactive Medical Information Services; and

Outpatient health services, including primary care and laser treatment for hair and tattoo removal.

MAS's address and phone number are:

8050 Southern Maryland Boulevard
Owings, Maryland 20736
(301) 855-8070

The Advanced Wireless Group

The Advanced Wireless Group consists of Digital Angel and Timely Technology, wholly-owned subsidiaries of ADS, and Signature Industries, an 85.0% owned subsidiary of ADS. The Advanced Wireless Group is engaged in the development and commercialization of proprietary technologies used to identify, locate and monitor people, animals and objects. The Advanced Wireless Group is organized into four segments: Animal Tracking, Digital Angel Technology, Digital Angel Delivery System and Radio Communication and Other.

Digital Angel is the result of the merger in September 2000 of Destron Fearing Corporation and Digital Angel.net Inc. ADS purchased Timely Technology in April 2000 and Signature Industries in June 1998.

The address and telephone number of Digital Angel, Timely Technology and Signature Industries are:

490 Villaume Avenue
South St. Paul, MN 55075
(651) 455-1621

Merger Description (p.)

The merger agreement provides that DA Acquisition, a wholly-owned subsidiary of MAS, will be merged with and into Digital Angel, a wholly-owned subsidiary of ADS, which is an affiliate of MAS. The merger will become effective when a certificate of merger has been filed with, and accepted by, the Secretary of the State of Delaware in accordance with the Delaware General Corporation Law or at such

Edgar Filing: MEDICAL ADVISORY SYSTEMS INC - Form PRER14A

subsequent time as MAS and ADS may agree to and specify in the certificate of merger. At that time, DA Acquisition will be merged with and into Digital Angel. Digital Angel will be the surviving

Table of Contents

corporation in the merger, DA Acquisition will cease to exist as a separate entity and Digital Angel will become a wholly-owned subsidiary of MAS. MAS expects the merger to become effective as soon as practicable after the approval of the merger by MAS's stockholders and the satisfaction or waiver of all other conditions to the merger. See THE MERGER AGREEMENT (p.).

At the effective time of the merger, each issued and outstanding share of Digital Angel common stock will be converted into 0.9375 fully paid, non-assessable and newly issued shares of MAS common stock and each share of Digital Angel common stock issued and held in Digital Angel's treasury or by any Digital Angel subsidiary will be cancelled and retired. As consideration for the merger, ADS, as the sole stockholder of Digital Angel will receive 18,750,000 shares of MAS common stock in the aggregate, which will result in the beneficial ownership by ADS of approximately 82.1% of the issued and outstanding shares of MAS common stock following the merger.

It is anticipated that, in satisfaction of a condition to the consent to the merger of IBM Credit Corporation, upon completion of the merger, ADS will transfer to the trust all shares of the MAS common stock owned by ADS. As a result, the trust will be the beneficial owner of approximately 82.1% of the MAS common stock and will be able to control completely MAS's board of directors and decide all matters submitted to MAS stockholders for approval. Upon the request of IBM Credit Corporation, the trust will be obligated to sell the shares of MAS common stock owned by it for the benefit of IBM Credit Corporation in the event that ADS fails to make payments to IBM Credit Corporation beginning on December 31, 2002, or otherwise defaults, under its credit agreement with IBM Credit Corporation. As a result, the duration of the trust's control over MAS following the merger and the identity of any parties which subsequently may acquire control of MAS if and when such sales commence is uncertain. See Risk Factors (p.).

Immediately prior to or at the effective time of the merger and pursuant to the certificate amendment upon which, among other things, the merger is conditioned, MAS's name will be changed to Digital Angel Corporation and Digital Angel's name also will be changed.

Following the effective time of the merger, each outstanding option and warrant to purchase shares of Digital Angel common stock will be assumed by MAS or converted to an option or warrant to purchase 0.9375 shares of MAS common stock, or 6,296,719 shares of MAS common stock in the aggregate.

Following the effective time of the merger, ADS will contribute to MAS all of its stock in its wholly-owned subsidiary, Timely Technology and its majority-owned subsidiary Signature Industries. Timely Technology and Signature Industries, together with Digital Angel, comprise ADS's Advanced Wireless Group.

Recommendation of the Special Committee and Board of Directors (p.)

MAS's board of directors, based in part on the unanimous recommendation of the special committee of three independent directors, unanimously approved the merger, the merger agreement and the certificate amendment on which, among other things, the merger is conditioned, determining them to be advisable and in the best interests of MAS and its stockholders. MAS's board of directors unanimously recommends that you vote FOR the merger and FOR the certificate amendment.

In making the determination to approve the merger, MAS's board of directors considered various factors and alternatives to the merger, including those described under the heading THE SPECIAL MEETING Recommendation of the Special Committee and the Board of Directors (p.).

In connection with the merger, the special committee received an opinion from Jesup & Lamont, its financial advisor, which also was relied upon by MAS's board of directors, that, as of the date of the merger agreement, the merger consideration to be paid by MAS was fair to MAS's stockholders from a financial point of view. Jesup & Lamont's written opinion, dated as of October 31, 2001 and its December 10, 2001 addendum to its fairness opinion are attached to this proxy statement as Appendix B. We encourage you to read carefully this opinion and addendum in their entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the

Table of Contents

review undertaken by Jesup & Lamont in providing its opinion. See THE MERGER Opinion of MAS's Financial Advisor (p.).

Special Meeting and Voting (p.)

The special meeting of MAS stockholders will be held on , , 2002 at :00 .m. at . At the special meeting, stockholders will be asked to consider and vote to approve the merger and the certificate amendment.

MAS's board of directors has fixed the close of business on January 31, 2002 as the record date for determining stockholders entitled to notice of, and to vote at, the special meeting. As of the record date, 5,121,230 shares of MAS common stock were outstanding and held by approximately stockholders of record. MAS has no other class of voting securities outstanding. Stockholders of record on the record date will be entitled to one vote for each share of MAS common stock held by them on the proposal to approve the merger, the certificate amendment and any other matter that may properly come before the meeting and any adjournment or postponement of the meeting.

MAS's bylaws require the presence, in person or by duly executed proxy, of shares representing at least a majority of the votes entitled to be cast at the special meeting in order to constitute a quorum. Delaware law requires the affirmative vote of shares representing two-thirds of the outstanding shares entitled to be voted at the special meeting, excluding the shares beneficially owned by ADS, to approve the merger and the affirmative vote of shares representing a majority of the outstanding shares entitled to be voted at the special meeting to approve the certificate amendment. Shares of MAS common stock beneficially owned by ADS are entitled to vote on the certificate amendment. Failure to return your proxy or direct your broker or nominee how to vote your proxy will have the same effect as a vote against the merger and the certificate amendment.

Appraisal Rights (p.)

The right to a judicial appraisal of your shares of MAS common stock is not available under Delaware law.

Regulatory Approval (p.)

MAS is not aware of any material approval or other action by any federal, state or foreign governmental agency that is required for the completion of the merger.

Proxies (p.)

Shares represented at the special meeting by properly executed proxies received prior to or at the special meeting and not revoked will be voted at the special meeting, and at any adjournment or postponement of the special meeting, in accordance with the instructions on the proxies. If a proxy is duly executed and submitted without instructions, except for broker non-votes, the shares represented by that proxy will be voted FOR the approval of the merger and the amendment to the MAS certificate of incorporation. Proxies are being solicited on behalf of MAS's board of directors.

A proxy may be revoked by the person who executed it at or before the taking of the vote at the special meeting by:

delivering to MAS's secretary a written revocation of a previously delivered proxy bearing a later date than the proxy;

executing, dating and delivering to MAS's secretary a subsequently dated proxy; or

attending the special meeting and voting in person.

Attendance at the special meeting will not, by itself, constitute revocation of a proxy.

Table of Contents

MAS will bear the cost of solicitation of proxies and reimburse brokerage firms, fiduciaries, nominees and others for out-of-pocket expenses in forwarding proxy materials to beneficial owners of MAS common stock held in their names.

Shares held in the name of your broker or a nominee, or in street name, will not be voted by your broker or nominee unless you provide instructions on how to vote. Your broker or nominee will provide directions regarding how to instruct your broker or nominee to vote your shares. Without your instructions, your shares will not be voted, which will have the same effect as a vote against the merger and the certificate amendment.

If you hold your shares in a brokerage account, your brokerage firm may also provide you with the ability to vote electronically, including voting by internet and/or telephone. Instructions for these voting methods, if they are being made available to you, are included on the ballot that accompanies this proxy statement.

Interests of Certain Persons in the Merger (p.)

Certain members of MAS's board of directors and management may be deemed to have certain interests in the merger that are in addition to the interests of MAS and its stockholders, which include:

the execution of amendments to employment agreements with each of Ronald W. Pickett, the chairman of the board of directors of MAS and Dr. Thomas M. Hall, the Chief Executive Officer and a director of MAS, which reflect both certain prior oral amendments to the respective employment agreements as well as further amendments. The amendments confirm the extension of the term of each of Mr. Pickett's and Dr. Hall's employment agreement through October 31, 2006 and establish that Mr. Pickett shall receive an annual salary of not less than \$180,000, and Dr. Hall an annual salary of not less than \$260,000, throughout the term of their employment agreements; and that upon their termination or resignation following the merger each of them shall receive a \$250,000 bonus and an amount equal to all salary and other benefits, which otherwise would have been paid pursuant to the employment agreements for the remainder of the term had no termination or resignation occurred;

immediate vesting of outstanding but unvested options to purchase 861,000 shares of MAS common stock held by officers and directors of MAS at the effective time of the merger;

the issuance to officers, directors and employees of ADS and its affiliates of options to acquire in the aggregate 5,132,813 shares of MAS common stock at an average exercise price of \$0.433 per share; and

indemnification of the present and former directors and officers of MAS, to the extent it currently exists, shall continue for at least six years following the effective time of the merger.

MAS's board of directors was aware of these interests and considered them in approving the merger agreement and the transactions contemplated by the merger agreement.

Effect on MAS Stockholders (p.)

MAS has agreed to issue an additional 18,750,000 shares of MAS common stock to ADS in exchange for the issued and outstanding common stock of Digital Angel held by ADS. Upon issuance of these shares, existing stockholders will experience an immediate dilution of their percentage ownership interest of MAS common stock. This dilution may result in decreased earnings per share and could, in the short term, negatively affect the price of MAS common stock. Following the effective time of the merger, ADS will own approximately 82.1% of the issued and outstanding shares of MAS common stock. It is anticipated that, in satisfaction of a condition to the consent to the merger of IBM Credit Corporation, upon completion of the merger, ADS will transfer to the trust all shares of the MAS common stock owned by ADS. As a result, the trust will be the beneficial owner of approximately 82.1% of the MAS common stock and will be able to control completely MAS's board of directors and decide all matters submitted to stockholders for approval. Upon the request of IBM Credit Corporation, the trust will be obligated to sell the shares of MAS common

Table of Contents

stock owned by it for the benefit of IBM Credit Corporation in the event that ADS fails to make payments to IBM Credit Corporation beginning on December 31, 2002, or otherwise defaults, under its credit agreement with IBM Credit Corporation. As a result, the duration of the trust's control over MAS following the merger and the identity of any party which subsequently may acquire control of MAS if and when such sales commence is uncertain. See Risk Factors (p.).

Although the trustee is obligated to endeavor to sell shares in a manner that would not disrupt an orderly market or be reasonably likely to have an adverse impact on the market value realized upon sale, the sale of a significant amount of the shares of MAS common stock owned by the trust in a single transaction or a series of transactions over a short period of time could result in a significant decline in the market value of MAS common stock. See Risk Factors Sales of MAS Common Stock by the Trust May Cause a Reduction in the Value of MAS's Common Stock.

Selected Merger Agreement Provisions (p.)

Conditions to the Merger. Each party's obligation to complete the merger depends upon the satisfaction or waiver of certain conditions, including:

approval of the merger and certificate amendment by MAS's stockholders; and

receipt of all required consents of any person, including IBM Credit Corporation, a secured lender to ADS, to the merger or the transactions contemplated by the merger agreement.

MAS's obligation to complete the merger also depends upon the satisfaction or waiver of a number of additional conditions, including:

the material correctness of the representations and warranties of ADS set forth in the merger agreement;

the performance by ADS and Digital Angel, as applicable, of all obligations required to be performed by them under the merger agreement;

the absence of any event that would be deemed to have a material adverse effect on the Advanced Wireless Group;

the delivery of all certificates and resolutions required to be delivered to MAS pursuant to the merger agreement; and

that Jessup & Lamont shall not have withdrawn, modified or revised its fairness opinion.

ADS's obligation to complete the merger also depends upon the satisfaction or waiver of a number of additional conditions, including:

the material correctness of representations and warranties of MAS set forth in the merger agreement;

the performance by MAS and its subsidiaries of all obligations required to be performed by them under the merger agreement;

the absence of an event that would be deemed to have a material adverse effect on MAS or its subsidiaries;

the delivery of all certificates and resolutions required to be delivered to ADS pursuant to the merger agreement;

the execution by MAS of a registration rights agreement; and

the receipt by ADS of assurance from the American Stock Exchange (AMEX) that, following consummation of the merger, the MAS common stock will continue to be listed for trading on AMEX.

Table of Contents

Termination of the Merger Agreement. MAS and ADS may, by mutual written consent, terminate the merger agreement without completing the merger. The merger agreement may also be terminated:

By either MAS or ADS:

if any final, nonappealable order of any governmental entity or court is in effect that prevents the completion of the merger;

if the merger is not completed by April 30, 2002;

if the merger agreement and the certificate amendment are not approved by MAS's stockholders;

concurrently with the acceptance by the terminating party of a superior proposal (as defined in the merger agreement); and

if the board of directors of the non-terminating party has withdrawn, modified or changed in an adverse way its approval or recommendation of the merger.

By MAS:

if it is not in material breach of its obligations under the merger agreement and if any of the representations and warranties of ADS or Digital Angel are materially untrue or inaccurate or ADS or Digital Angel has breached any of its covenants or agreement