MAI SYSTEMS CORP
Form 10-K/A
September 22, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Amendment No. 1
to

FORM 10-K

ý Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended December 31, 2004 or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from to .

Commission file number: 1-9158

MAI Systems Corporation

(Exact name of registrant as specified in its charter)

Delaware	**22-2554549**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

26110 Enterprise Way, Lake Forest, CA 92630

Address of principal executive offices

Registrant s telephone number including area code (949) 598-6000

Securities registered pursuant to Section 12(b) of the Act:	**None**
Securities registered pursuant to Section 12(g) of the Act:	**Common Stock, Par Value $0.01** **Preferred Stock, Par Value $0.01** **(Title of Class)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

The aggregate market value of the common stock held by non-affiliates of the registrant, based upon the last sale price of the Common Stock reported on the National Association of Securities Dealers Automated Quotation National Market System on June 27, 2003 was $1,403,684.

The number of shares of common stock outstanding as of July 18, 2005 was 57,847,862. The aggregate market value of the common stock held by non-affiliates of the registrant, based upon the last sale price of the Common Stock reported on the Over-the-counter Bulletin Board on September 16, 2005 was $510,669.

DOCUMENTS INCORPORATED BY REFERENCE

(To the Extent Indicated Herein)

EXPLANATORY NOTE

The amendment is due to the Goodwill allocation of purchase price that should be $6,372,000 and the total should be $13,819,000. Both figures were wrong on the original filing.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULE AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The consolidated financial statements of the Company, the notes thereto and the Report of the Independent Registered Public Accounting Firm are incorporated herein by reference to the Company s 2004 Annual Report.

2. Financial Statement Schedule

3. Exhibits:

Number	Exhibit
2.1	First Amended Joint Chapter II Plan of Reorganization of MAI Systems Corporation, Brooke Acquisition Corp. and CLS Software, Inc., as confirmed by the United States Bankruptcy Court for the District of Delaware, on November 13, 1993, filed as Exhibit 2.1 to the Registrant s Current Report on Form 8-K dated January 15, 1994.
2.2	Consent Order Modifying Confirmed Plan of Reorganization and Fixing Effective Date, as entered by the United States Bankruptcy Court for the district of Delaware on January 27, 1994, as filed as Exhibit 2.2 to the Registrant s Current Report on form 8-K dated February 9, 1994.
3.1	Amended and Restated Certificate of Incorporation of MAI Systems Corporation, filed as Exhibit 3.1 to the Company s 1996 Annual Report on Form 10-K.
3.2	Amendment No. 1 to the Amended and Restated Certificate of Incorporation of MAI Systems Corporation, filed as Exhibit 3.2 to the Company s 1996 Annual Report on Form 10-K.
3.3	By-laws of MAI Systems Corporation, filed as Exhibit 2(b) to the Registrant s Registration Statement on Form 8-A/A filed with the Securities and Exchange Commission on February 24, 1994.
3.4	Amendment No. 2 to the Amended and Restated Certificate of Incorporation of MAI Systems Corporation, filed as Exhibit 3.4 to the Company s 1998 Annual Report on Form 10-K.
3.5	Amendment No. 3 to the Amended and Restated Certificate of Incorporation of MAI Systems Corporation, filed on August 25, 2004 as Appendix B to the Company s Definitive Proxy Statement.
*10.1	Amended and Restated MAI Systems Corporation 1993 Stock Option Plan (previously filed).
*10.2	Amended and Restated 1995 Non-Employee Directors Stock Option Plan (previously filed).

10.3	Amended and Restated 2001 Restricted Stock Plan, filed on August 25, 2004 as Appendix C to the Company s Definitive Proxy Statement.
10.4	Coast Business Credit Loan and Security Agreement, dated April 23, 1998, filed as Exhibit 10.2 to the Company s 1998 Annual Report on Form 10-K.
10.5	Amendment Number One dated September 30, 1998 to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.2 to the Company s 1999 Annual Report on Form 10-K.
10.6	Amendment Number Two dated March 2, 1999 to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.3 to the Company s 1999 Annual Report on Form 10-K.

10.7 Amendment Number Three dated June 16, 1999 to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.4 to the Company s 1999 Annual Report on Form 10-K.

10.8 Amendment Number Four dated July 28, 1999 to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the period ending September 30, 1999.

10.9 Letter Agreement Amendment dated October 1, 1999 to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.6 to the Company s 1999 Annual Report on Form 10-K.

10.10 Amendment Number Five dated April 13, 2000, to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.20 to the Company s 1999 Annual Report on Form 10-K.

10.11 Amendment Number Six dated September 12, 2000, to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.31 to the Company s 2000 Annual Report on Form 10-K.

10.12 Amendment Number Seven dated September 13, 2001, to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998, filed as Exhibit 10.12 to the Company s 2001 Annual Report on Form 10-K.

*10.13 Amendment Number Eight dated January 13, 2003, to the Loan and Security Agreement between Coast Business Credit and the Company dated April 23, 1998 (previously filed)

10.14 Pledge, Assignment and Security Agreement dated September 7, 2001 between Coast Business Credit, the Company, MAI Systems International and MAI Development Corporation, filed as Exhibit 10.13 to the Company s 2001 Annual Report on Form 10-K.

10.15 Collateral Release Agreement dated September 28, 2001 between Coast Business Credit and the Company filed as Exhibit 10.14 to the Company s 2001 Annual Report on Form 10-K.

10.17 Forebearance Agreement between MAI Systems Corporation and CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II dated October 28, 1999, filed as Exhibit 10.7 to the Company s Quarterly Report on Form 10-Q for the period ending September 30, 1999.

10.18 Amendment No. 1 dated February 14, 2000 to Forebearance Agreement between MAI Systems Corporation and CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II dated October 28, 1999, filed as Exhibit 10.18 to the Company s 1999 Annual Report on Form 10-K.

10.19 Amendment No. 2 dated April 13, 2000 to Forebearance Agreement between MAI Systems Corporation and CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II dated October 28, 1999, filed as Exhibit 10.19 to the Company s 1999 Annual Report on Form 10-K.

10.20 Supplement and Amendment dated January 31, 2001 to Forebearance Agreement between MAI Systems Corporation and CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II dated October 28, 1999, filed as Exhibit 10.32 to the Company s 2000 Annual Report on Form 10-K.

*10.21 Collateral Release Agreement dated September 28, 2001 between MAI Systems Corporation and CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II (previously filed).

*10.22 Amendment No. 3 dated January 13, 2003 to Note Purchase Agreement between MAI Systems Corporation and CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II dated October 28, 1999 (previously filed).

*10.23 Amendment No. One dated January 13, 2003 to Intercreditor and Subordination Agreement dated April 23, 1998 between MAI Systems Corporation and CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund, GRS Partners II and Coast Business Credit (previously filed).

*10.24 Warrant Agreement between CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II (previously filed).

*10.25 Registration Rights Agreement between CPI Securities LP, The Value Realization Fund, L.P., The Canyon Value Realization Fund and GRS Partners II (previously filed).

10.26	Settlement Agreement dated December 1, 2000 between CSA and MAI Systems Corporation, filed as Exhibit 10.27 to the Company s 2000 Annual Report on Form 10-K.
10.27	Security Agreement dated December 1, 2000 between CSA and MAI Systems Corporation, filed as Exhibit 10.28 to the Company s 2000 Annual Report on Form 10K.
10.28	Amendment to Subordinated Note Due 2003 dated as of April 18, 2002 between CSA Private Limited and MAI Systems Corporation, filed as an Exhibit to the Company s Quarterly Report on Form 10-Q for the period ending March 31, 2002.
10.29	Consulting Agreement dated as of August 15, 1994, as amended as of October 17, 1994, August 16, 1996, August 31, 1997, August 31, 1998, August 31, 1999, August 31, 2000, August 31, 2001, August 31, 2002 and August 31, 2003 by and between the Company and Orchard Capital Corporation, relating to the services of Richard S. Ressler, Chairman of the Board. The original agreement and the October 17, 1994 amendment are incorporated herein by reference to the Company s 1994 Annual Report on Form 10-K. The August 16, 1996 amendment is incorporated herein by reference to the Company s 1996 Annual Report on Form 10-K. The August 31, 1997 amendment is incorporated herein by reference to the Company s 1997 Annual Report on Form 10-K. The August 31, 1998 amendment is incorporated herein by reference to the Company s 1998 Annual Report on Form 10-K. The August 31, 1999 amendment is incorporated herein by reference to the Company s 1999 Annual Report on Form 10-K. The August 2000 amendment is incorporated herein by reference to the Company s 2000 Annual Report on Form 10-K. The August 2001 amendment is incorporated herein by reference to the Company s 2001 Annual Report on Form 10-K. The August 2002 amendment is incorporated herein by reference to the Company s 2002 Annual Report on Form 10-K. The August 2003 amendment is incorporated herein by reference to the Company s 2003 Annual Report on Form 10-K.
10.30	Stock Purchase Agreement dated March 31, 2004 between CSA Private Limited and HIS Holding, LLC; filed on April 20, 2004 as Exhibit 99.1 to the Schedule 13D filed by HIS Holding, LLC.
10.31	Stock Purchase Agreement between MAI Systems Corporation and HIS Holding, LLC for the acquisition of 10,000,000 shares of MAI Systems Corporation common stock by HIS Holding, LLC, filed on November 12, 2004 as Exhibit 99(a) to the Schedule 13D filed by HIS Holding, LLC;
10.32	Secured Subordinated Promissory Note dated March 31, 2004 which has been converted to 33,172,110 shares of MAI Systems Corporation common stock,. filed on November 12, 2004 as Exhibit 99(b) to the Schedule 13D filed by HIS Holding, LLC.
10.33	Limited Liability Company (Operating) Agreement for HIS Holding, LLC, filed on March 18, 2005 as Exhibit 99D to Amendment No. 2 to the Company s Schedule 13E-3.
*14.1	Code of Ethics (All Employees)
*14.2	Code of Ethics (Chief Executive and Chief Financial Officers and Other Senior Accounting Personnel)
*21.1	Subsidiaries of MAI Systems Corporation.
23.1	Report of Independent Registered Public Accounting Firm from BDO Seidman LLP.
23.2	Consent of BDO Seidman, LLP.
31.1	Certification of Chief Executive Officer as required by Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer as required by Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer as required by 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer as required by 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

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* previously filed

(b) Reports on Form 8-K

1. Filed April 5, 2004
2. Filed April 12, 2004
3. Filed June 3, 2004
4. Filed September 28, 2004
5. Filed October 1, 2004
6. Filed December 2, 2004
7. Filed December 8, 2004

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAI SYSTEMS CORPORATION

By: /s/ William B. Kretzmer

William B. Kretzmer

Chief Executive Officer and President

Dated: September 21, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on September 19, 2005.

Signatures	Title
/s/Richard S. Ressler Richard S. Ressler	Chairman, Director
/s/William B. Kretzmer William B. Kretzmer	Chief Executive Officer and President (Principal Executive Officer)
/s/James W. Dolan James W. Dolan	Chief Operating Officer and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/Zohar Loshitzer Zohar Loshitzer	Director
/s/Stephen Ross Stephen Ross	Director
/s/Steven F. Mayer Steven F. Mayer	Director

QUARTERLY DATA (Unaudited)

(in millions, except share data)

	1st Quarter 2003	2nd Quarter 2003	3rd Quarter 2003	4th Quarter 2003	1st Quarter 2004	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004(1)
Revenue	$ 5.2	$ 4.8	$ 4.8	$ 4.6	$ 5.2	$ 4.9	$ 4.9	$ 5.1
Gross profit	3.7	3.5	3.5	3.1	3.7	3.7	3.5	3.6
Income (loss) before income taxes	0.2	(0.1)	0.1	0.1	0.2	0.1	(0.1)	(1.3)
Net income (loss)	0.3	(0.1)	0.1	0.1	0.2	0.1	(0.1)	(1.3)
Income (loss) per share:								
Basic	$ 0.02	$ (0.01)	$ 0.01	$	$ 0.01	$ 0.01	$	$ (0.03)
Diluted	0.02	(0.01)	0.01		0.01	0.01		$ (0.03)
Weighted average common shares used in determining income (loss) per share (in thousands):								
Basic	14,426	14,426	14,575	14,575	14,575	14,676	14,676	43,458
Diluted	14,876	14,426	14,875	14,875	14,875	14,676	14,676	43,458

(1) The fourth quarter ended December 31, 2004 represents the combined pre- and post- recapitalization periods of January 1, 2004 through October 31, 2004 and November 1, 2004 through December 31, 2004, respectively, as a result of the Management Equity/Conversion Transaction. Additionally, in connection with the Management Equity/Conversion Transaction, in the fourth quarter of 2004, the company recorded a $995,000 debt modification charge and a $187,500 stock compensation charge (see note 2 to the consolidated financial statements).

Exhibit 13.1 **THE COMPANY S ANNUAL REPORT TO STOCKHOLDERS**

Sections of the Registrant s Annual Report to Stockholders Incorporated by Reference:

Exhibit 13.1.1 **SELECTED FINANCIAL INFORMATION**

The following table summarizes our selected financial data derived from our financials statements.

The financial data set forth below should be read in conjunction with, and is qualified in reference to, Management s Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and the related notes to those financial statements, included elsewhere in this report.

SELECTED FINANCIAL DATA

(in thousands, except per share data)

STATEMENT OF OPERATIONS DATA

	For the Years Ended December 31,				For the Periods	
	2000	**2001**	**2002**	**2003**	**Jan. 1, 2004 Oct. 31, 2004**	**Nov. 1, 2004 Dec. 31, 2004**
Revenue	$ 27,321	$ 23,768	$ 21,937	$ 19,346	$ 16,317	$ 3,754
Income (loss) from continuing operations	1,444	3,657	417	353	(1,158)	(37)
Income (loss) from discontinued operations	(627)	(1,525)	(1,767)			
Net income (loss)	817	2,132	(1,350)	353	(1,158)	(37)
Income (loss) per share from continuing operations:						
Basic income (loss) per share	$ 0.13	$ 0.28	$ 0.03	$ 0.02	$ (0.08)	$
Diluted income (loss) per share	$ 0.13	$ 0.28	$ 0.03	$ 0.02	$ (0.08)	$
Income (loss) per share from discontinued operations:						
Basic income (loss) per share	$ (0.06)	$ (0.12)	$ (0.13)	$	$	$
Diluted income (loss) per share	$ (0.06)	$ (0.12)	$ (0.13)	$	$	$
Net Income (loss) per share:						
Basic income (loss) per share	$ 0.07	$ 0.16	$ (0.10)	$ 0.02	$ (0.08)	$
	$ 0.07	$ 0.16	$ (0.10)	$ 0.02	$ (0.08)	$

Diluted income (loss) per share						
Weighted average common shares used in determining income (loss) per share:						
Basic	10,923	13,091	13,945	14,538	14,676	57,848
Diluted	11,206	13,263	13,945	14,838	14,676	57,848
BALANCE SHEET DATA						
Working capital deficiency	(10,811)	(3,787)	(8,649)	(10,399)	(7,311)(2)	(7,536)
Total assets	16,445	8,288	6,177	7,465	16,611(2)	15,921
Long-term debt	7,792	10,966	10,523	10,781	7,781(2)	7,652
Stockholders deficiency (1)	(12,110)	(12,992)	(14,782)	(14,586)	(1,086)(2)	(2,213)

(1) No cash dividends have been declared by the Company.

(2) Unaudited

Exhibit 13.1.2 **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the audited consolidated financial statements included elsewhere herein. Except for the historical information contained herein, the matters discussed in this Annual Report are forward-looking statements that involve a number of risks and uncertainties. There are certain important factors and risks, including the rapid change in hardware and software technology, market conditions, competitive factors, seasonality and other variations in the buying cycles of certain of our customers, the timing of product announcements, the release of new or enhanced products, the introduction of competitive products and services by existing or new competitors, the significant risks associated with the acquisition of new products, product rights, technologies or businesses, our ability to retain technical, managerial and other personnel, and the other risks detailed from time to time in our SEC reports, including reports on Form 10-K and Form 10-Q, that could cause results to differ materially from those anticipated by the statements made herein. Therefore, historical results and percentage relationships will not necessarily be indicative of the operating results of any future period. See Risk Factors elsewhere in this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect our reported assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable and intangible assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. This forms the basis of judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies and the related judgments and estimates affect the preparation of our consolidated financial statements:

Software Development Costs

All costs incurred to establish the technological feasibility of software products to be sold to others are expensed as research and development. Once technological feasibility has been established, all software production costs are capitalized. Amortization is computed on an individual product basis and is recognized over the greater of the remaining economic lives of each product or the ratio that current gross revenues for a product bear to the total of current and anticipated revenues for that product, commencing when the products become available for general release to customers. Software development costs are generally amortized over a three-year period. The Company continually assesses the recoverability of software development costs by comparing the carrying value of individual products to their net realizable value.

The Company capitalized $896,000 and $1,065,000 of software development costs during 2003 and 2004 respectively, relating to our new N-Tier, Internet-native corporate application suite of products written in java. The modules to this suite of applications became available for general release in the first quarter of 2005 at which time amortization of such costs shall commence. We believe that these new products will produce new sales adequate to recover amounts capitalized.

Revenue Recognition

The Company earns revenue from sales of hardware, software and professional services and from arrangements involving multiple elements of each of the above. Revenue for multiple element arrangements are recorded by allocating revenue to the various elements based on their respective fair values as evidenced by vendor specific objective evidence. The fair value in multi-element arrangements is determined based upon the price charged when sold separately. Revenue is not recognized until persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Sales of network and computer equipment are recorded when title and risk of loss transfers. Software revenues are recorded when application software programs are shipped to end users, resellers and distributors, provided the Company is not required to provide services essential to the functionality of the software or significantly modify, customize or produce the software. Professional services fees for software development, training and installation are recognized as the services are provided. Maintenance revenues are recorded evenly over the related contract period.

Accounts Receivable

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The amount of our reserves is based on historical experience and our analysis of the accounts receivable balances outstanding. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required which would result in an additional general and administrative expense in the period such determination was made. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Intangible and Long-Lived Assets

At December 31, 2003 and 2004, goodwill and other long-lived assets represented 49% and 80%, respectively, of the Company s total assets.

Goodwill must be tested at least annually for impairment at a level of reporting referred to as the reporting unit and more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. The Company did not record an impairment charge upon its annual impairment reviews at December 31, 2002, 2003 and 2004.

Long-lived assets consist of property and equipment and other identifiable intangible assets. These assets are depreciated or amortized over their estimated useful life, and are subject to impairment reviews. The Company periodically reviews long-lived assets whenever adverse events or changes in circumstances indicate the carrying value of such assets may not be recoverable. In assessing recoverability, the Company must make assumptions regarding estimated future cash flows and other factors to determine if an impairment loss may exist, and, if so, estimate fair value. The Company also must estimate and make assumptions regarding the useful lives assigned to its long-lived assets. If these estimates, or their related assumptions, change in the future, the Company may be required to record impairment losses or change the useful life including accelerating depreciation or amortization for these assets.

Accrued Expenses

The Company reviews its contingent liabilities, which arise primarily from litigation and litigation defense costs, in accordance with Statement of Financial Accounting Standards No. 5 (SFAS 5), Accounting for Contingencies. Contingent liabilities are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Contingent liabilities are often resolved over long periods. Estimating probable losses requires judgments about both the amount of liability, which may or may not be readily determinable, and the likelihood of liability, which involves ranges of probability that can at times be broad and depend on the potential actions of third parties.

Provision for Income Taxes

Provision for income taxes is based upon the Company s estimate of taxable income or loss for each respective accounting period. An asset or liability is recognized for the deferred tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future periods when the reported amounts of assets are recovered or liabilities are settled. The Company regularly reviews its deferred tax assets to determine the amount that is more likely than not to be realized. When this amount is less than the deferred tax asset recorded, the Company records a valuation allowance to reduce the asset to its estimated realizable value. If the Company determined that it was not going to be able to fully realize its recorded deferred tax assets, it would make an adjustment to the valuation allowance. This would reduce net income in the period that the Company made its determination. Similarly, if the Company realized that it was going to be able to fully realize a deferred tax asset in excess of its net recorded value, net income would be increased in the period that the Company made its determination.

The Company also reviews its deferred tax liabilities on a regular basis to determine that the amount recorded is adequate to cover the expected reversal of temporary income tax liabilities. In the event that the amount recorded was less than adequate, the deferred tax liability would be increased to its estimated realizable value and net income would be decreased accordingly. In the event that the deferred tax liability was determined to be overstated, it would be reduced to its estimated realizable value and net income would increase accordingly.

The Company generally determines its effective tax rate by considering the statutory federal income tax rate, the statutory state and local tax rates (net of the federal income tax benefit) and any nondeductible expenses. This rate could also be affected by increases or decreases to deferred tax assets or liabilities as described above.

Liquidity and Capital Resources

At December 31, 2004, our working capital deficiency improved from a working capital deficiency of $10,399,000 at December 31, 2003 to a working capital deficiency of $7,536,000. Excluding unearned revenue of $3,456,000, working capital deficiency at December 31, 2004 was $4,080,000. Excluding unearned revenue of $3,209,000, the Company s working capital deficiency at December 31, 2003 would be $7,190,000. Excluding unearned revenue, the decrease in the working capital deficiency of $3,110,000 was primarily attributable to decreases in current portion of long term debt of $2,643,000, customer deposits of $1,088,000, accrued liabilities of $158,000 offset by an increase in accounts payable of $173,000 and decreases in cash of $469,000, accounts receivable of $77,000 and prepaids and other assets of $66,000. The decrease in the current portion of long term debt was mainly attributable to the conversion of approximately $3,317,000 indebtedness to common stock on November 1, 2004.

Net cash used in investing activities for the period ended December 31, 2004 totaled $1,260,000, which is comprised of capital expenditures of $195,000 and capitalized software of $1,065,000.

Net cash provided by financing activities for the period ended December 31, 2004 totaled $124,000, which represents $1,000,000 of new cash proceeds into the company from a private placement in September 2004 offset by $876,000 in repayments on long-term debt. On January 13, 2003, the Company converted its credit facility to a term loan which requires monthly principal and interest payments of $58,000 and matures on February 28, 2006. In addition, the Company amended its subordinated note to require monthly interest only payments of $52,000 through February 28, 2006, at which time it will convert to a term loan to be amortized over a three year period. The restructured debt, pursuant to the original intercreditor agreement between Canyon and Coast, which was sold to Wamco on May 15, 2003, contains various restrictions and covenants, including a minimum quick ratio of 0.20 to 1.00 and minimum debt service coverage ratio of .50 to l.00. In the event that we were not in compliance with the various restrictions and covenants and were unable to receive waivers for non-compliance, the term debt would be immediately due and payable. The Company was not in compliance with but received waivers for its covenants through December 31, 2004. There is no guaranty that the Company will meet its debt covenants in the future.

Stockholders deficiency decreased from $14,586,000 at December 31, 2003 to $2,213,000 at December 31, 2004, mainly as a result of the purchase accounting adjustments recorded in connection with the Management Equity/Conversion Transaction (see note 2 to the consolidated financial statements).

Although the Company has a net stockholders deficiency of $2,213,000 and a working capital deficit of $7,536,000 at December 31, 2004, the Company believes it will generate sufficient funds from operations or obtain additional financing to meet its operating and capital requirements for at least the next 12 months. The Company expects to generate positive cash flow from its continuing operations during 2005 from shipping out products and services from its current backlog as of December 31, 2004 as well as new orders. In the event that the Company cannot generate positive cash flow from its continuing operations during 2005, the Company can substantially reduce its research and development efforts to mitigate cash outflow to help sustain its operations. There can be no assurance that the Company will be able to sustain profitability generate positive cash flow from operations or obtain additional financing as necessary. These financial statements have been prepared assuming the Company will continue to operate as a going concern. If the Company is unsuccessful in the aforementioned efforts, the Company could be forced to liquidate certain of its assets, reorganize its capital structure and, if necessary, seek other remedies available to the Company.

Contractual Obligations and Commercial Commitments

The following table summarizes the Company s obligations and commitments as of December 31, 2004:

		Payments Due by Period (in thousands)			
Contractual Cash Obligations	**Total**	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Long-Term Debt	$ 7,652	$ 1,003	$ 3,496	$ 2,570	$ 583
Operating Leases	3,160	594	885	804	877
Consulting Agreements	96	96			
	$ 10,908	$ 1,693	$ 4,381	$ 3,374	$ 1,460

Factors Affecting Future Operating Results

Demand for the Company s Products and Operating Efficiencies

The Company s future operating results will depend, in large part, upon the Company s ability to achieve and maintain a significant market demand and presence for its products and to operate profitably and efficiently. The Company s ability to accomplish these objectives will depend on a number of factors, including the following:

Market demand for information technology in the hospitality industry in general;

Completion of development, launch and market success and acceptance of our software solutions;

Price, performance, quality and other characteristics of the Company s products and of competing and substitute products rumored, announced or introduced by other vendors;

Emergence of any competing solutions as industry standards;

Success of the Company in meeting targeted availability dates for new and enhanced products;

Success of the Company s efforts to provide and maintain customer service and satisfaction;

Public perception of the Company and its products, including statements made by industry analysts or consumers and adverse publicity resulting from such statements or from litigation filed against the Company;

Worldwide economic conditions, including overall market demand for information technology and other products with which the Company s products can be used;

Ability of the Company to profitably and efficiently manage its development of products and key components, and to avoid disruptions in the development thereof;

Ability of the Company to maintain profitable relationships with distributors and other resellers of the Company s products;

The Company s ability to attract and retain competent, motivated employees;

Ability of the Company to comply with applicable laws, regulations, ordinances and other legal requirements in the numerous countries in which it does business;

Ability of the Company to successfully manage litigation, including enforcing its rights, protecting its interests and defending itself from claims made against it and;

Ability of the Company to successfully implement its restructuring of debt, to achieve and maintain an appropriate cost structure and to minimize unforeseen and extraordinary expenses.

The Company cannot provide any assurance that it will be able to successfully manage, satisfy or influence any of these factors.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2004.

(dollars in thousands)	December 31, 2003	Percentage of Revenue	December 31, 2004(1)	Percentage of Revenue
Revenue	19,346	100.0%	20,071	100.0%
Gross profit	13,826	71.5%	14,487	72.2%
Selling, general and administrative expenses	9,596	49.6%	9,427	47.0%
Research and development costs	2,828	14.6%	3,708	18.5%
Amortization of intangibles			96	0.5%
Stock compensation expense			188	0.9%
Other operating expense	62	0.3%	92	0.5%
Interest expense, net	1,217	6.3%	2,112	10.5%
Other non-operating expense	81	0.4%	28	0.1%
Income tax (benefit) expense	(311)	(1.6)%	31	0.2%
Net income (loss)	353	1.8%	(1,195)	(6.0)%

(1) The year ended December 31, 2004 represents the combined pre- and post- recapitalization periods of January 1, 2004 through October 31, 2004 and November 1, 2004 through December 31, 2004, respectively, as a result of the Management Equity/Conversion Transaction (see note 2 to the consolidated financial statements).

The increase in revenue in 2004 was mainly attributable to an increase in service volume and rates as the general health of the hospitality industry continues to improve from the detrimental effects of 9/11 that severely affected the hospitality and travel industries, which resulted in an increase of approximately $726,000. Revenue for 2004 was $20,071,000 compared to $19,346,000 in 2003 or a 3.8% increase. The increase was mainly a result of increased professional and software support services driven by an increase in the number of customers combined with slight price increases. Our continuing hospitality business is expected to generate sufficient cash from operations to adequately fund its ongoing operating activities.

Gross profit for 2004 increased to $14,487,000 from $13,826,000 in 2003. The increase in gross profit is mainly due to the increase in professional and support services revenues.

Selling, general and administrative expenses (SG&A) decreased from $9,596,000 in 2003 to $9,427,000 in 2004. The decrease is mainly due to the closing of the Company s Mexico office in January, 2004 and the ongoing effects of the management cost control program resulting in reduced, building rent and consulting services.

Research and development costs increased from $2,828,000 in 2003 to $3,708,000 in 2004. The company capitalized $896,000 and $1,065,000 of software development costs in 2003 and 2004, respectively. The increase is mainly due to the Company continued efforts to invest in product development of its new internet native suite of applications as well as our core product offerings. The increase was primarily the result of the addition of approximately 15 engineers and quality assurance personnel in the Company s Malaysia operations, including associated overhead costs as well as engineering consulting services contracted in the United States.

Amortization of intangibles was $96,000 in 2004 as a result of the Company recording approximately $10.1 million of intangible assets in connection with the Management Equity/Conversion Transaction on November 1, 2004, of which approximately $7,684,000 related to identifiable intangible assets which commenced amortization in November 2004 over their estimated useful lives of seven to fifteen years.

The Company incurred a charge of $187,500 of non-cash compensation expense relating to the private placement of $1 million into the Company by the Investor Group at a below market price. There was no such transaction during 2003.

Net interest expense was $1,217,000 in 2003 compared to $2,112,000 in 2004. The increase was due to a $995,000 debt modification charge relating to the conversion of approximately $3.3 million of indebtedness by the Investor Group to the Company s common stock at a below market price recorded to interest expense during 2004. There was no such transaction during 2003. This charge was offset by lower balances of interest bearing debt during 2004 as compared to 2003 mainly due to the conversion of approximately $3.3 million of indebtedness by the Investor Group to the Company s common stock on November 1, 2004.

The income tax benefit in 2003 is due to the Company recording a domestic income tax receivable during the period to recover taxes previously paid. There were no such receivables recorded in 2004.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2003.

(dollars in thousands)	December 31, 2002	Percentage of Revenue	December 31, 2003	Percentage of Revenue
Revenue	21,937	100.0%	19,346	100.0%
Gross profit	15,017	68.5%	13,826	71.5%
Selling, general and administrative expenses	9,363	42.7%	9,596	49.6%
Research and development costs	3,307	15.1%	2,828	14.6%
Amortization of intangibles	134	0.6%		
Other operating expense	212	1.0%	62	(0.3)%
Interest expense, net	1,490	6.8%	1,217	6.3%
Other non-operating expense	64	0.3%	81	0.4%
Income tax expense (benefit)	30	0.1%	(311)	(1.6)%
Income from continuing operations	417	1.9%	353	1.8%
Loss on disposal of discontinued operations	(1,021)	(4.7)%		
Loss from discontinued operations	(746)	(3.4)%		
Net income (loss)	(1,350)	(6.2)%	353	1.8%

Revenue for 2003 was $19,346,000 compared to $21,937,000 in 2002 or a 12.0% decrease. Revenue decreased $2,591,000 in 2003, as a result of decreased professional services and maintenance services mainly due to decreased capital spending on information technology in 2003 due to the effects of a downturn and post 9/11 economy on the hospitality industry.

The decrease in revenue in 2003 was mainly attributable to a decrease in service volume and rates as many hotels have reduced their operating costs by canceling or reducing contracted services, including support, as well as reduced volume of product purchases, in a post 9/11 economy, which resulted in a decrease of approximately $1.1 million in the volume of revenue from professional services and a decrease of approximately $1.2 million in software and hardware revenue from 2002 to 2003. Many hotels have requested that their suppliers reduce the cost of service or delay any price increases while they are experiencing reduced guest occupancy and lower average daily rates on their inventory of rooms. Certain hotels have also established their own help desks to further reduce costs. As a result, the Company postponed increasing its support prices until the first quarter of 2003 and agreed, with certain of its clients, to provide, at reduced rates, a second line of support versus a first line of support that was previously provided to such clients, which resulted in a decrease in support revenues of approximately $285,000 from 2002 to 2003. Our continuing hospitality business is expected to generate sufficient cash from operations to adequately fund its ongoing operating activities.

Gross profit for 2003 decreased to $13,826,000 (71.5%) from $15,017,000 (68.5%) in 2002. The decrease in gross profit is mainly due to the decrease in software and maintenance services revenues, which was offset by the Company s cost reductions during the period.

Selling, general and administrative expenses (SG&A) increased from $9,363,000 in 2002 to $9,596,000 in 2003. The increase is mainly due to an increase in marketing expenses for trade shows, advertisement and travel as the Company continues to actively and aggressively market its enterprise suite of applications and services which are scheduled for general release in the first quarter of 2005.

Research and development costs decreased from $3,307,000 in 2002 to $2,828,000 in 2003. The decrease is due to the capitalization of $861,000 and $896,000 of software development costs in 2002 and 2003, respectively, associated with the Company s product development of its new internet native suite of applications. The decrease is also due to a decrease in headcount associated with the Company s focus on reducing costs.

Other operating expense was $212,000 in 2002 and $62,000 in 2003. Other operating expense in 2003 was offset due to receipt of approximately $46,000 of cash resulting from a legal settlement.

The decrease in amortization of intangibles in 2003 versus the comparable period of 2002 is due to the fact that the Company amortized $134,000 of software development costs in 2002 relating to costs capitalized in 1999. These costs were fully amortized during 2002.

Net interest expense was $1,490,000 in 2002 compared to $1,217,000 in 2003. The decrease is due to lower balances of interest bearing debt during 2003 as compared to 2002.

Other non-operating expense increased from $64,000 in 2002 to $81,000 in 2003. Non-operating expense relates to pension expense under a defined benefit plan for former employees.

The income tax benefit in 2003 is due to a settlement agreement on a tax claim with the United States Internal Revenue Service that resulted in a one-time gain of $262,000 (see note 8 to the consolidated financial statements), as well as the Company recording a domestic income tax receivable during the period to recover taxes previously paid.

During 2002, loss from discontinued operations was $746,000. In the fourth quarter of 2002, the Company sold all the assets and liabilities of its Process Manufacturing and Canadian subsidiaries to third parties, resulting in a loss on disposal of discontinued operations of $1,021,000.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123r, Share-Based Payment (SFAS 123r). SFAS 123r provides accounting guidance for stock-based payments to employees. SFAS 123r revises SFAS 123 by eliminating the choice of using the recognition and measurement provisions of APB No. 25 and requiring all companies to use the fair value method of measuring stock compensation expense. SFAS 123r clarifies and expands SFAS 123 s guidance in several areas, including measuring fair value, classifying an award as equity or a liability, attributing compensation cost to reporting periods as well as adding several new disclosure requirements. SFAS 123r also changes the accounting for the tax effects of options, including the presentation of the tax effects on the consolidated statements of cash flows. SFAS 123r is effective for public companies with the first interim or annual period that begins after June 15, 2005. As discussed above, the Company is currently accounting for all of its stock-based compensation under the intrinsic value method as outlined in APB 25 and will adopt SFAS 123r beginning in the first quarter of 2006. The Company still needs to evaluate the impacts of SFAS 123r.

In December 2004, the FASB issued SFAS No. 153 (SFAS 153), *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions.* SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for periods beginning after June 15, 2005. We do not expect that adoption of SFAS 153 will have a material effect on our consolidated financial position, consolidated results of operations, or liquidity.

Exhibit 13.1.3

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

MAI Systems Corporation

Lake Forest, California

We have audited the accompanying consolidated balance sheets of MAI Systems Corporation and subsidiaries as of December 31, 2003 and 2004 and the related consolidated statements of operations, stockholders deficiency and comprehensive income (loss) and cash flows for each of the years in the two-year period ended December 31, 2003 and for the period from January 1, 2004 to October 31, 2004 and for the period from November 1, 2004 to December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MAI Systems Corporation and subsidiaries as of December 31, 2003 and 2004 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2003 and for the period from January 1, 2004 to October 31, 2004 and for the period from November 1, 2004 to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

Costa Mesa, California

April 25, 2005

Exhibit 13.1.4 **Consolidated Balance Sheets**

MAI SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS

	As of December 31, (in thousands, except share data) 2003	2004
ASSETS		
Current assets:		
Cash	$ 664	$ 195
Receivables, less allowance for doubtful accounts of $335 in 2003 and $321 in 2004	2,248	2,171
Inventories, net	47	71
Prepaids and other assets	814	748
Total current assets	3,773	3,185
Furniture, fixtures and equipment, net	758	629
Intangibles, net	1,755	7,470
Goodwill	1,121	4,622
Other assets	58	15
Total assets	$ 7,465	$ 15,921
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current liabilities:		
Current portion of long-term debt	$ 3,646	$ 1,003
Accounts payable	904	1,077
Customer deposits	3,269	2,181
Accrued liabilities	3,059	2,901
Income taxes payable	85	103
Unearned revenue	3,209	3,456
Total current liabilities	14,172	10,721
Long-term debt	7,135	6,649
Other liabilities	744	764
Total liabilities	22,051	18,134
Stockholders deficiency:		
Preferred Stock, par value $0.01 per share; 1,000,000 shares authorized, none issued or outstanding		
Common Stock, par value $0.01 per share; authorized 99,000,000 shares; 14,675,752 and 57,847,862 shares issued and outstanding at December 31, 2003 and 2004, respectively	152	584
Additional paid-in capital	218,112	47,856
Accumulated other comprehensive loss:		
Minimum pension liability	(1,005)	(1,250)
Foreign currency translation	(2)	(69)

Unearned compensation	(53)
Accumulated deficit	(231,790)