MAI SYSTEMS CORP
Form 10-K
September 21, 2005

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, DC 20549**

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# 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**

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# MAI Systems Corporation

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **22-2554549**<br>**(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

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| | |
|---|---|
| **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**<br>**Preferred Stock, Par Value $0.01**<br>**(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)**

**PART I**

**ITEM 1. BUSINESS**

**THE COMPANY**

We provide total information technology solutions to the hospitality, resort and destination industry. The solutions provided by us typically include applications software, computer hardware, peripherals and wide and local area network design, implementation, installation and support. The software applications are generally our proprietary software, or software which is licensed to us on an exclusive basis. The hardware, peripherals and networking systems are generally third-party products, which we distribute. Directly and through arrangements with third parties, we provide on-site and off-site service and support to users of our solutions. We were incorporated under the laws of the State of Delaware on September 6, 1984. Our name was changed from MAI Basic Four, Inc. to MAI Systems Corporation on November 6, 1990. We commenced operations on January 29, 1985.

On April 9, 2004, an investor group, consisting of Canyon Capital Advisors ( Canyon ), our Chairman of the Board, Chief Executive Officer & President and Chief Financial & Operating Officer ( Investor Group ), acquired 2,433,333 shares of our common stock held by CSA Private Limited ( CSA ) and $3,133,344 of secured indebtedness owed to CSA for $1 million in cash. On September 22, 2004, we received approval from our shareholders for the Investor Group to convert the secured indebtedness acquired from CSA plus any accrued interest through the date of conversion for shares of the our common stock based upon a conversion price of $0.10 per share. Additionally, the shareholders also approved for the Investor Group to invest $1,000,000 of new cash proceeds into the company, which we received on September 24, 2004, in a private placement at $0.10 per share (the Management Equity/Conversion Transaction ). On November 1, 2004, we issued 10 million shares of its common stock to the Investor Group in exchange for the $1,000,000 of cash proceeds and the $3,133,344 secured note, together with $183,867 of accrued interest, was converted into 33,172,110 shares of our common stock. See Notes 2 and 8 of the Notes to the Consolidated Financial Statements, Item 15 of Part IV of this report, incorporated herein by reference.

**DESCRIPTION OF THE BUSINESS**

Our mission is to put in place long-term information technology systems for our customers by designing, installing and supporting industry-specific total information management solutions. Focusing on the hotel, motel, government and resort destinations industry, we design, sell, install and support enterprise information management solutions. We provide a wide array of products and services to our installed base of customers and continue to make direct sales of certain products and services which enhance, upgrade and extend the useful life and functionality of our installed systems.

We market our products and services primarily through a team selling approach, which utilizes our nationwide network of sales offices. This approach involves a coordinated effort between our field sales personnel, and our corporate office software development, marketing, contract administration and financial staff. All of our products and services are also available through a limited number of distributors, independent value-added resellers ( VARs ), authorized service representatives and independent software vendors ( ISVs ).

Our activities are conducted principally in the United States, the United Kingdom, Malaysia, Hong Kong and Singapore. We also operate offices in the People s Republic of China in Beijing and Shanghai.

We provide software support services (both procedural and technical support) to our hospitality customers from our offices in the United States, the United Kingdom, Kuala Lumpur, Singapore and Hong Kong. In some countries, we rely on certain foreign distributors of our products to provide software support services to customers located within the distributors territories.

**Products and Services**

We provide complete enterprise products and services to serve the needs of local and multinational chains, franchisees and independent operators of hotels, resorts and destination properties. Our products have been installed in over 4,100 properties, throughout 84 countries, and in properties with up to 5,000 rooms from limited service and business hotels to convention centers and five star luxury resorts or urban luxury hotels.

Our HIS epitome™ solutions, including our established products (epitome for windows, formerly LodgingTouch, epitome for Unix, formerly CLS and epitome for i-series, formerly Paragon as well as our new internet native suite of products written in java (epitome™ Enterprise) which became available for general release in the first quarter of 2005), which represented all of our revenue during the three-year period ended December 31, 2004, enables hospitality enterprises to increase revenue, improve guest loyalty and reduce costs by centralizing and streamlining their operations while maximizing existing technology investments. A majority of our historical revenue relates to our property management systems applications associated with our established products. Our new internet native corporate application suite is a component-based architecture. The epitome™ Enterprise suite includes software, services and integration for Business Intelligence, Corporate Information, Channel Reservation, Channel Management and Property Management systems. The products are deployable on multiple platforms using intelligent transport and messaging technology.

Our epitome™ Enterprise services include systems integration, consulting, project management, implementation, training, documentation, online help, long-term support, maintenance and specialized engineering, with particular expertise in the implementation of local and wide-area networks for the hospitality industry.

Summarized below are the features of epitome™ Enterprise which has been general released in Q1 of 2005.

***The epitome Strategic Analysis Tools***

Our epitome multidimensional Business Intelligence ( BI ) provides a suite of sophisticated Multidimensional Online Analytical Processing ( MOLAP ) tools for strategic analysis and planning for the entire enterprise. Not only can hoteliers analyze and report on data consolidated from multiple sources, they can perform complex modeling against industry standard Key Performance Indicators ( KPIs ), including Revenue Per Available Room ( RevPAR ) and Revenue Per Available Customer ( RevPAC ). These tools include a relational data warehouse, subject-specific data marts, MOLAP tools and a library of standard analyses and reports. This combination results in a system that provides executives with just-in-time strategic intelligence to analyze operations and grow market share, revenue and occupancy.

***The epitome Corporate Management Tools***

Our epitome Central Information Systems ( CIS ) provides essential information and management tools to centralize operations at a corporate headquarters. With the increasing number of mergers, acquisitions and individual properties desiring to associate with an established chain or flag, centralizing the data for consolidated marketing, accounting and reporting tasks have become popular cost-savings tools. Additionally, hotel guests now expect their preferences and history to be available at local properties, corporate locations and online. To accomplish this, corporate systems must capture and share all guest information to provide quality service during the reservation process as well as comprehensive marketing and financial information to facilitate corporate marketing and finance strategies. Our HIS corporate tools consolidate information about each guest such as identity, spending patterns, preferred accommodations, amenity requests, billing details, commission accumulations and more.

Specialized functionality of the CIS includes centralized travel agency production statistics and transaction payments, more accurate and effective corporate Accounts Receivable invoicing and collections, and consistent guest spending patterns to better facilitate corporate affinity programs and more.

***The epitome Reservation and Channel Management Tools***

Our epitome Central Reservation Systems ( CRS ) provides chains and management companies with the functionality required to process reservations and availability from a centralized location. Over time, CRS products have evolved to provide the same features and functions as reservation modules in Property Management Systems. However, a CRS must be more efficient at guest preference requirements, multiple property itineraries, history retrievals, travel agent processing and general corporate billing and transaction processing. These products are perfectly suited for small and medium reservation call centers.

Hoteliers are reducing the cost of guest acquisition and improving guest loyalty through branded Internet booking engines. However, we understand that the explosion of Internet channels and travel procurement software has been difficult for hoteliers to manage effectively. Our epitome Channel Reservation and Channel Management Tools deliver more benefits than a simple branded booking engine or any one wholesale reservation portal. It allows hoteliers the tools to manage their rates, availability and guests through all their channels of distribution. The goal and foundation of the design are to provide a more cost-effective and efficient tool for the properties using the epitome enterprise suite of applications.

It also provides guests with the ability to search multiple (related) properties, to check availability of rooms and to maintain reservations for rooms, and allows the property the ability to use room allocation features already in the epitome PMS, to modify or customize its web reservations screens and to reduce transaction fees of costly intermediaries.

***The epitome Property Management Tools***

Our epitome Property Management Systems ( PMS ) provide a complete solution for the management of rates, availability and affinity programs for single and multi-property enterprises. These tools are specifically designed and optimized for comprehensive guest management, including modules for web and central reservations, room and revenue management and group and wholesaler management.

Specialized functionality offers flexible guest-focused features including guest service notification, availability and occupancy controls for long-term stay and gender-specific environments, sophisticated revenue and taxation capabilities, casino accounting and condominium management. Multi-property integration of availability, itinerary reservations and guest accounting is also available. Additional tools include modules for report writing, emulation, data extraction and transfer and more.

***The epitome Integration and Data Exchange Tools***

The HIS epitome Interfaces and Integrations provide multiple levels of data exchange and application integration, from simple send and receive interfaces to intelligent business application integration. The high-level of integration available between the HIS PMS, CRS, CIS and BI enables chains and management companies to deploy an enterprise solution with customizable functionality at each location, while consolidating critical controls, statistics and revenue analysis. Our HIS epitome Enterprise Solutions includes a library of over 400 device-type interfaces. Some examples include Call Accounting, Energy Management, In-room Facsimile, In-room Internet, Mini Bar, Point Of Sale, Telephone Management, Video Services and Voice Mail.

We also specialize in application-type integrations, which are typically more complex than device-type interfaces, requiring additional management and auditing of the data exchange. It often includes the exchange of guest and group information, availability, contractual room rates and more. Each product also adds complexity, as the platform, data and method of communication vary from product to product. It is very rare that any of these elements are similar to the platform, database and method of communication in the core business applications.

Our integration solutions offer integration of the core business applications (PMS, CRS and CIS) with other disparate business applications (Sales, Catering, Revenue Management and more). It allows for standardized communication processes, configuration controls and audit trails. The data mapping is accomplished through a series of application-specific and common industry Application Programming Interfaces ( APIs ). All communication and data exchange are actually handled through a central integration product, providing our core business applications and the third party products with a common ground for data exchange and consolidation.

From property transactions to corporate intelligence our HIS epitome Enterprise Solutions provides complete products and services for every level of the enterprise. With different platforms, applications, deployment methods and database management technologies, hoteliers can implement the epitome of technology for their enterprise.

**Marketing and Sales**

We market our products and services primarily through a team-selling approach, which utilizes our worldwide network of sales offices and our Irvine, California-based account representatives. We also market certain products and services through limited numbers of distributors, authorized service representatives and ISVs.

In the United States, our systems are marketed by a direct sales and marketing organization which included, 13 sales and marketing personnel located in the corporate headquarters and satellite offices. In addition, we market our systems internationally through our subsidiaries which operate in the United Kingdom, Hong Kong, Malaysia and Singapore, and through various distributors that are exclusive in their jurisdictions. Our international subsidiaries employed 19 sales and marketing personnel who are engaged in the marketing of MAI products from sales offices in the United Kingdom, Hong Kong, Singapore, Malaysia and the People s Republic of China.

During 2004, our aggregate revenue was derived from geographic areas as follows:

| | **Percentage of Total Revenue** |
|---|---|
| United States | 75.4% |
| Asia | 16.9% |
| United Kingdom | 7.7% |
| Total | 100.0% |

Our financial performance is affected by the fluctuation in value of the US dollar in relation to the local currencies of the countries in which we do business. In addition, our foreign operations are subject to the usual risks that may affect such operations, including possible expropriation or other governmental actions, taxes and political changes. However, as only 24.6% of our 2004 revenue was generated outside the United States, the risk associated with these foreign operations in relation to our overall financial performance is limited.

**Support and Maintenance**

The provision of around-the-clock customer service is a cornerstone of our business. As of December 31, 2004, we had support and maintenance agreements with approximately 1,738 customers. We employ approximately 56 technicians to provide support for our applications software products.

Telephonic support, which is primarily to assist licensees of our applications products, is provided from our response centers located in Lake Forest, California, Concord, California, Singapore, Hong Kong, Malaysia and the United Kingdom. We utilize current developments in telephony and call center technology to enable our support technicians to quickly identify and resolve customers software related computing problems.

Our maintenance services are generally provided pursuant to individual maintenance contracts with customers, although time and material services are provided in some areas. Such support and maintenance are of varying duration, provide prospective cancellation rights and require advance payment of fees to us. Substantially all of the revenue earned by maintenance operations is invoiced to customers in advance and recognized evenly over the related contract period.

**Production and Procurement**

In response to market demand for standardized hardware and software products, all of our current systems offerings utilize open systems architecture, which means that they will operate on a wide variety of third-party hardware equipment. At present, we have relationships with a number of suppliers including Microsoft, Cognos, BEA, Compaq Computer, Data General, Hewlett Packard, Seagull Software, Visual Legacy, IBM, Southern Datacom and distributors such as MicroAge and Ingram Micro. Management believes that these relationships have enabled us to reduce product costs, permit earlier availability of new technology and offer customer s products with superior performance at competitive prices. We no longer manufacture proprietary hardware products.

Delay or failure in the delivery of products or components purchased from third parties could adversely affect our shipments and our ability to conclude sales. We have purchased many products and components from single sources of supply. Because our current products are industry standard, or are comprised of industry-standard components, management believes that alternative sources of supply of similar products would be available to us in the event of any interruption of delivery of a single source supplier.

**Order, Shipment and Backlog**

We record and enter into backlog a purchase order for equipment and software when we receive a customer s written order requesting delivery within twelve months, and systems configuration and contract provisions are verified. Orders that are canceled by the customer and orders that are not shipped within one year are removed from backlog. Orders that are removed from backlog for non-shipment are restored if they are reinstated by the customer. We include in backlog signed government contracts which have not yet been fully funded that are expected to commence delivery within the next twelve months. As of December 31, 2004, we have approximately $9.7 million included in backlog relating to the United States Air Force, of which $1.2 million is expected to be shipped within fiscal 2005 and the balance of the contract shipped by December 31, 2008.

Set forth below is certain information concerning orders, shipments and backlog for 2003 and 2004:

| | (dollars in millions) 2003 | 2004 |
|---|---|---|
| Orders received (net of cancellations) | $ 2.9 | $ 17.9 |
| Shipments | 4.3 | 7.5 |
| Backlog (at year end) | 1.8 | 12.2 |

Our backlog is not necessarily indicative of future revenues.

**Research and Development**

Our research and development activities are focused on the development of products for the hospitality, resort and destination industry.

As of December 31, 2004, we employed 62 engineers, programmers and other technical personnel in research and development activities. During 2002, 2003, and 2004, we incurred $3,307,000 (net of capitalized software of $861,000), $2,828,000 (net of capitalized software of $896,000) and $3,708,000 (net of capitalized software of $1,065,000) respectively, for research and development activities.  Our research and development expenditures related to the support and extension of existing software products and the development of new products.

**Customers**

Our customers in hospitality are both chain and independent hotels and resorts. During 2002 and 2003, Joint Armed Services (JAS) was the only customer accounting for ten percent or more of our revenues. Total revenue from JAS for 2002 and 2003 was $2,880,000 and $3,535,000 respectively. There were no customers accounting for ten percent or more of our revenues for 2004.

**Competition**

Competition is vigorous in all sectors of the worldwide market for computer-based applications systems, networked solutions and the maintenance and support of the software and hardware, which comprise those systems.  We have numerous competitors (and potential competitors) varying widely in their size, capabilities, market segment and geographic area, most of which are larger and have financial resources far greater than ours.

Within our targeted application markets, we have positioned ourselves to sell complete enterprise solutions to our customers.  Within this marketplace, competition comes primarily from vendors of competing information technology in the markets in which we compete.  There are several providers of information technology to the hotel, resort and destination industry against which we regularly compete.  We have several primary competitors, which are substantially larger than us, and provide application software that is similar to ours in quality but have the ability to aggressively compete on price.

**Trademarks, Copyrights and Licenses**

We are the owner or licensee of certain trademarks, copyrights and other property rights associated with our businesses, including rights associated with our proprietary application software. We own or have licensing rights, generally with terms of three years, to the principal application software products marketed by us. Such licensing rights are generally renewable. Although there is some risk that independent vendors who own such products may elect not to renew their licensing agreements with us and enter into exclusive arrangements with, or elect to install their software on systems sold by competitors of ours, such vendors generally tend to continue to support our marketing efforts so long as our systems provide a good opportunity for them to market their products. These independent vendors do not represent a significant part of our revenues.

We are party to license agreements with Microsoft, Cognos, BEA, Compaq Computer, Data General, Hewlett Packard, Seagull Software, Visual Legacy, IBM and Southern Datacom, Novell and with a number of other suppliers of software products. These licenses are terminable at our option and certain of the licenses require us to make royalty payments.

**Employees**

As of December 31, 2004, we had 226 employees, of which 129 were employed in the United States, 12 in the United Kingdom and 85 in Asia (Hong Kong, Singapore, Malaysia and the People s Republic of China). We have not experienced any work stoppages and consider our relationship with our employees to be good.

## RISK FACTORS

*The following discussion should be read in conjunction with the audited consolidated financial statements contained herein. In addition to the factors set forth herein, there may be other factors, or factors that arise in the future which may affect our future performance.*

**Effects of Terrorism, War in Iraq and Other Events**

Our operating results for the twelve months ended December 31, 2004 were negatively affected by continuing threat of worldwide terrorism, war in Iraq and other world events.  Weakness in the hospitality and tourism industries as a result of terrorist attacks and armed conflicts arising there from have caused the Company to experience cancellations, delays and reductions in certain purchases by its hospitality customers. There can be no guarantee that this slow-down will be only short-term. Many of our hospitality customers experienced severe declines in occupancy and room rates at most of their hotels in the weeks following the attacks.  We are operating our business under the assumption that the weakness in the hospitality industry will be short-term.  It is not possible, however, to predict the magnitude or duration of the declines or the potential impact on our results of operations, financial condition or cash flow, if the existing political and economic risks continue unabated, or if there is future major terrorist activity.

**We Have Issued A Substantial Number of Shares to a Shareholder Who Can Exercise Significant Influence**

On April 9, 2004, an investor group, consisting of our Chairman of the Board, Chief Executive Officer & President, Chief Financial & Operating Officer and our principal lender, Canyon Capital Advisors ( Investor Group ), acquired 2,433,333 shares of the Company s common stock held by CSA and approximately $3.2 million of our secured indebtedness to CSA for $1 million in cash.

On September 22, 2004, the Company received approval from its shareholders for the Investor Group to convert the indebtedness the Investor Group acquired from CSA plus any accrued interest through the date of conversion for shares of the our common stock based upon a conversion price of $0.10 per share. Additionally, the shareholders also approved for the Investor Group to invest $1,000,000 of new cash proceeds into the Company, which we received on September 24, 2004, in a private placement at $0.10 per share (the Management Equity/Conversion Transaction ). On November 1, 2004, the Company converted $3,317,211 of its indebtedness to the Investor Group on such date, at $0.10 per share, and issued 33,172,110 shares of its common stock together with 10,000,000 shares of its common stock relating to the $1,000,000 private placement to the Investor Group. Such stock is subject to certain terms and conditions, including the fact that it will initially be restricted stock, not available for sale. If this Investor Group decides not sell its shares of Common Stock or sells the shares in a block to a third party, either this shareholder or the party or parties it sells to in any block sale may be able to exert significant influence over our affairs because they have approximately 85% of the voting control on any matter that may be submitted for a shareholder vote.

Our Board of Directors and the Investor Group are in the process of furnishing an information statement to all holders of record of the issued and outstanding shares of our common stock, $0.01 par value, in connection with a proposed Amendment to our Amended and Restated Certificate of Incorporation ( Amendment ) to effectuate a 1-for-150 reverse stock split. If consummated, the reverse stock split would enable us to terminate our periodic reporting obligations under Sections 13 and 15(d) of the Securities Exchange Act of 1934, as amended ( Exchange Act ), the registration of our common stock under Section 12(g) of the Exchange Act and the quotation of our common stock on the OTC Bulletin Board and we will become a private company.

This concentration of ownership could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us. Additionally, the consummation of the going private transaction could have a material and adverse effect on the market price of our common stock.

**The Price of Our Common Stock May Decline Due to Sales by Certain Shareholders**

Approximately 85% of our issued and outstanding Common Stock is held by the Investor Group and the personal holdings of the members of the Investor Group. Sales by these shareholders of a part or substantially all of their shares of our Common Stock in the market or the perception that sales may occur could cause the market price of our Common Stock to drop.

As defined under Rule 144 under the Securities Act of 1933, the shares held by the Investor Group are restricted securities . These shares may be sold pursuant to registration under the Securities Act, or to the extent permitted by Rule 144 or another exemption under the Securities Act.

**Our Agreements with our Primary Lender and Two Other Substantial Creditors Require Substantial On-Going Payments**

We have agreements with Wamco 32, Ltd. ( Wamco ), previously Coast Business Credit ( Coast ) whose loan was sold to Wamco on May 15, 2003, and two other creditors that require substantial on-going payments and affect the availability of our cash flow to be used for other material company operations. On January 13, 2003 and again on March 31, 2004, we restructured our debt with Wamco and Canyon. We also restructured our subordinated debt with CSA on March 31, 2004. Currently, these obligations are follows:

A balance due to Wamco of approximately $774,000 under a term loan with a current monthly principal and interest payment obligation of approximately $58,000, maturing in February 28, 2006;

A balance due under our 11% subordinated notes payable to an investment fund managed by Canyon Capital Management LP ( Canyon ) of approximately $5,660,000, with a current monthly interest payment obligation of $52,000;

A balance due under a 12.5% secured promissory note due to CSA in the amount of $500,000, with monthly principal and interest payments of $10,000.

As of December 31, 2004 we were current on our payment obligations to Wamco and Canyon. In connection with the restructuring of the Wamco and Canyon debt, the covenants were revised and were effective commencing with the quarter ended March 31, 2003, to include a minimum quick ratio of 0.20 to 1.00 and minimum debt service coverage ratio of 0.50 to l.00. We are currently not in compliance with but received waivers for these covenants through December 31, 2004. We are currently in default with our payment obligations to CSA and have not made any payments on the $500,000 secured promissory note. In the event that we are unable to meet the required payments to our primary secured lenders, they are entitled to exercise certain rights under the respective agreements we have with them, including but not limited to, foreclosing on all of our tangible and intangible assets. Such action would have a substantial adverse effect on our ability to continue as a going concern.

**Our Period of Losses May Continue**

We incurred a net loss for the years ended December 31, 2002 and 2004. We cannot assure you that we will attain profitability on a consistent basis or avoid losses on a quarterly or annual basis in the future.

**Our Operating Results In One or More Future Periods Are Likely to Fluctuate Significantly and May Negatively Impact Our Stock Price**

Our annual and quarterly operating results may fluctuate significantly in the future as a result of numerous factors, including:

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.

Typically, the orders we receive in one quarter are delivered and installed by the following quarter. However, many of our sales involve lengthy sales cycles. Consequently, it is not possible to predict with any reliability the periods within which a sale may close or when we will recognize revenue. As a result, our operating results may be materially affected if a single large transaction is earlier or later than expected. It is likely that in some future periods our operating results will be below the expectations of securities analysts and investors. If this happens, the trading price of our Common Stock would likely be materially adversely affected.

**We May Need and Be Unable to Obtain Additional Funding on Satisfactory Terms, Which Could Dilute Our Stockholders or Impose Burdensome Financial Restrictions on Our Business**

As stated above, the Company has successfully restructured the terms of certain secured debt, including extending the maturity dates. The restructured debt, pursuant to the original inter-creditor agreement between Canyon Capital and Coast, which was sold to Wamco on May 15, 2003, contains various restrictions and covenants, including a minimum quick ratio of .20 to 1.00 and a minimum debt service coverage ratio of .50 to l.00. In the event that the Company 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. Any additional debt financing or other financing of securities senior to Common Stock will likely include financial and other covenants that will restrict our flexibility. At a minimum, we expect these covenants to include restrictions on our ability to pay dividends on our Common Stock. Any failure to comply with these covenants or to repay such indebtedness when due would have a material adverse effect on our business, prospects, financial condition and results of operation.

**The Market In Which We Operate is Highly Competitive, and We May Face Increased Competition From New Entrants and Established Industry Competitors With Significantly Greater Financial Resources**

**We face significant competition in all sectors of the market for computer-based solutions and support and maintenance services that we offer. We have numerous competitors, which vary widely in their size, capabilities, market segments and geographical areas, many of which are larger and have financial resources far greater than what we have. Within our market, competition comes primarily from competing software applications vendors and from local value-added resellers and independent software vendors, who usually resell hardware or networking products of larger original equipment manufacturers. Many of our services are provided by our customers in-house information services departments. There can be no assurance that we can effectively compete with any or all of our competitors in our business line. Our competitors may be able to adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily and devote greater resources to the marketing and sale of their products and services than we can. There can be no assurance that additional competitors will not enter markets that we plan to serve or that we will be able to compete effectively.**

**The Software Industry for Hospitality Management is Undergoing Rapid Technological Changes and New Software Introduced by Third Parties May Be Superior to the Software That We Own or License**

The software industry for hospitality management is subject to rapid and significant technological change. We cannot predict the effect of technological changes on our business. We expect that new products and services will emerge in the markets in which we compete. These new products and services may be superior to the products and services that we use or these products and services may render our products and services obsolete. Our failure to anticipate or respond adequately to the changes in technology and customer preferences, or to develop and introduce new products in a timely fashion, could materially adversely affect our business and operating results.

**Trading in Our Common Stock is Limited**

The recent trading volume for our Common Stock has been small, and the market for our common stock has been less liquid than that of many other publicly traded companies. During the twelve months ended December 31, 2004, the average daily trading volume has been approximately 15,000 shares, whereas the average daily trading volume for an American Stock Exchange listed stock is substantially higher. There can be no assurance that a stockholder who desires to sell shares of Common Stock can sell all of the shares that the stockholder desires to sell, either at all or at the desired times or prices.

**Our International Operations Are Subject to Additional Risks**

Approximately 25% of our revenues in the year ended December 31, 2004 were derived from foreign operations and approximately 43% of our work force is based outside the United States. Our financial performance is affected to some extent by the fluctuation in value of the US dollar in relation to the local currencies of the countries in which we do business. In addition, our foreign operations are subject to the usual risks that may affect such operations, including import and export restrictions, possible expropriation or other governmental actions, taxes and political changes. International sales are subject to inherent risks, including:

recessions in economies outside the United States,

limited protection of intellectual property rights in some countries,

political instability,

terrorism,

unexpected changes in regulatory requirements and tariffs,

difficulties in staffing and managing foreign operations,

the possibility of subsidization of our competitors and the nationalization of business,

longer payment cycles,

greater difficulty in accounts receivable collection, and

potentially adverse tax consequences.

**We May Be Unable to Enforce or Defend Our Ownership and Use of Proprietary Technology**

Our success depends to a significant degree upon our proprietary technology upon and our licensing rights to the principal application software products that we market. We rely on a combination of trademark, trade secret and copyright law and contractual restrictions to protect our proprietary technology. However, these measures provide only limited protection, and we may not be able to detect unauthorized use or take appropriate steps to enforce our intellectual property rights, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Any litigation to enforce our intellectual property rights would be expensive and time-consuming, would divert management resources and may not be adequate to protect our business.

We could be subject to claims that we have infringed the intellectual property rights of others. In addition, we may be required to indemnify our resellers and users for similar claims made against them. Any claims against us could require us to spend significant time and money in litigation, pay damages, develop new intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available at all or on acceptable terms. As a result, intellectual property claims against us could have a material adverse effect on our business, prospects, financial condition and results of operations.

**American Stock Exchange Market De-listing**

In June 2003, we were de-listed from the American Stock Exchange ( AMEX ) and our stock began trading on the Over-the-counter Bulletin Board. Thus, investors may find it more difficult to trade in our Common Stock or obtain accurate, current information concerning market prices. This may have had a negative impact on the trading prices and the liquidity of the market for our Common Stock. In addition, there may be a more negative perception of our company by investors, customers and third parties doing busin