

MAI SYSTEMS CORP  
Form DEF 14A  
August 25, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. 4)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**MAI SYSTEMS CORPORATION**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.  
(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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

(1) Amount Previously Paid:

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**MAI SYSTEMS CORPORATION**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**SEPTEMBER 22, 2004**

TO ALL STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2004 Annual Meeting of Stockholders of MAI Systems Corporation (the "Company" or "MAI"), a Delaware corporation, will be held at the Hollywood Roosevelt Hotel, 7000 Hollywood Boulevard, Hollywood, California, on September 22, 2004 at 10:00 a.m., for the following purposes:

1. To elect four (4) directors to serve for the ensuing year and until their successors are elected.
2. To approve the actions of senior management, including (i) the conversion of \$3,194,156 of Company indebtedness held by management into 31,941,560 shares of the common stock of the Company, and (ii) the investment of \$1,000,000 in the Company in exchange for 10,000,000 shares of MAI common stock (the "Management Equity/Conversion Transaction").
3. To approve an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of capital stock from 25,000,000 to 100,000,000, to allow for the conversion of indebtedness referenced in Proposal 2 above.
4. To approve an amendment to the 2001 MAI Systems Corporation Restricted Stock Plan (the "2001 Restricted Stock Plan") in order to increase the number of shares of Common Stock reserved for issuance thereunder from 1,250,000 shares to an aggregate of 5,500,000 shares.
5. To ratify the selection of BDO Seidman, LLP as the independent registered public accounting firm for the Company.
6. To transact such other business as may properly come before the meeting and any adjournment(s) thereof.

Only stockholders of record at the close of business on August 10, 2004 are entitled to notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the meeting in person. However, to ensure your representation at the meeting, you are urged to mark, sign and return the enclosed Proxy as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the meeting may vote in person, even though he or she has returned a Proxy.

W. Brian Kretzmer  
Secretary

Lake Forest, California  
August 27, 2004

**YOUR VOTE IS IMPORTANT**

**IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE.**

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## MAI SYSTEMS CORPORATION

## PROXY STATEMENT

## INFORMATION CONCERNING SOLICITATION AND VOTING

## General

The enclosed Proxy is solicited on behalf of MAI Systems Corporation ("MAI" or the "Company") for use at the 2004 Annual Meeting of Stockholders ("Annual Meeting") to be held September 22, 2004, at 10:00 a.m., local time, and at any adjournment(s) or postponement(s) thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Hollywood Roosevelt Hotel, 7000 Hollywood Boulevard, Hollywood, California. The Company's main telephone number is (949) 598-6000. These proxy solicitation materials were mailed on or about August 27, 2004, to all stockholders entitled to vote at the Annual Meeting.

**Share Ownership as of the Record Date and Assuming Completion of the Management Equity/Conversion Transaction (Proposal 2) Change in Control of the Company**

Stockholders of record at the close of business on August 10, 2004 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. The closing price on the Over-the-Counter Bulletin Board for the Company's \$0.01 par value Common Stock ("Common Stock") on the Record Date, as reported in The Wall Street Journal, was \$0.21 per share. Set forth below is a summary of the beneficial owners of more than 5% of the Company's Common Stock (1) as of the Record Date and (2) as of the Record Date assuming the Management Equity/Conversion Transaction was completed on that date. Assuming completion of the Management Equity/Conversion Transaction, the Investor Group (as defined in Proposal 2) as an entity, combined with individual members of the Investor Group, will own more than a majority of the outstanding MAI shares and, if acting together, will be able to control all matters requiring approval of MAI's shareholders, including the election of directors. The ownership position of senior management, including officers and directors, and other members of the Investor Group will increase from 6,124,108 shares, or 41.73% of the 14,675,752 outstanding shares, to 48,065,668 shares, or 84.90% of the outstanding shares. The increased share ownership by the Investor Group will result in majority control by the Investor Group and represents a 'change in control' of the Company.

Name and Address	As of the Record Date		After Completion of Management Equity/Conversion Transaction	
	Number of Shares	Percentage of Class(1)	Number of Shares	Percentage of Class(2)
Canyon Capital Advisors LLC group(3)	1,655,100	11.28%	1,655,100	2.92%
Richard S. Ressler(4)	3,341,308	22.77%	45,282,868	79.98%
W. Brian Kretzmer(5)	781,867	5.32%	781,867	1.37%
James W. Dolan(6)	345,833	2.36%	345,833	0.61%
Investor Group(7)		0.00%	44,374,893	78.38%

- (1) For each individual and group in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group, plus shares acquirable within 60 days of the Record Date by such person or group, by the sum of 14,675,752 shares of Common Stock outstanding on the Record Date, plus shares of Common Stock acquirable within 60 days of the Record Date by such person or group.

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- (2) For each individual and group in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person, plus shares acquirable within 60 days of the Record Date by such person or group, by the sum of 14,675,752 shares of Common Stock outstanding on the Record Date, plus 41,941,560 new shares issued in the Management Equity/Conversion Transaction, shares of Common Stock acquirable within 60 days of the Record Date by such person or group.
- (3) Canyon Capital Advisors LLC, The Value Realization Fund L.P., The Value Realization Fund B, L.P., C.P.I. Securities, L.P., The Canyon Value Realization Fund (Cayman), Ltd., GRS Partners II, Mitchell R. Julis, Joshua S. Friedman and R. Christian B. Evensen, as a group, beneficially own 1,655,100 shares of Common Stock. The address of all of the above-referenced entities is 9665 Wilshire Boulevard, Suite 200, Beverly Hills, California 90212.
- (4) Mr. Ressler's address is c/o Orchard Capital Corporation, 6922 Hollywood Boulevard, Suite 900, Hollywood, California 90028. As of the Record Date, includes 2,433,333 shares of Common Stock acquired by the Investor Group from CSA over which Mr. Ressler has voting and dispositive control. Also includes 25,000 shares of Common Stock issuable upon exercise of options held by Mr. Ressler and 225,000 shares of Common Stock issuable upon exercise of options held by Orchard Capital Corporation, of which Mr. Ressler is the sole stockholder, each of which are currently exercisable; and 9,375 shares of Common Stock issuable upon exercise of options held by Mr. Ressler which are exercisable within 60 days of the Record Date and 12,500 shares of restricted Common Stock held by Mr. Ressler which are due to become unrestricted within 60 days of the Record Date. Assuming completion of the Management Equity/Conversion Transaction, includes 41,941,560 new shares of Common Stock over which Mr. Ressler will have voting and dispositive control. See "Compensation Committee Interlocks and Insider Participation."
- (5) Includes 558,333 shares of Common Stock issuable upon exercise of options or warrants held by Mr. Kretzmer that are currently exercisable. Also includes 33,333 shares of Common Stock issuable upon exercise of options held by Mr. Kretzmer which are exercisable within 60 days of the Record Date and 62,500 shares of restricted Common Stock held by Mr. Kretzmer which are due to become unrestricted within 60 days of the Record Date.
- (6) Includes 216,666 shares of Common Stock issuable upon exercise of options held by Mr. Dolan which are currently exercisable. Also includes 16,666 shares of Common Stock issuable upon exercise of options held by Mr. Dolan which are exercisable within 60 days of the Record Date and 37,500 shares of restricted Common Stock held by Mr. Dolan which are due to become unrestricted within 60 days of the Record Date.
- (7) Includes 2,433,333 shares acquired from CSA and 41,941,560 new shares to be issued based upon the Management Equity/Conversion Transaction.

### **Revocability of Proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Company before the Annual Meeting a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person.

### **Solicitation of Proxies**

The cost of soliciting proxies will be borne by the Company. The Company has retained the services of its transfer agent, Mellon Investor Services ("Mellon"), to aid in the solicitation of proxies from brokers, bank nominees and other institutional owners. The Company estimates that it will pay Mellon a fee not to exceed \$2,500 for its services and will reimburse Mellon and other third parties for

certain out-of-pocket expenses estimated to be not more than \$10,000. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Proxies may be solicited by certain of the Company's directors, officers and regular employees, without additional compensation, personally or by telephone or telegram.

**Deadline for Receipt of Stockholder Proposals**

Proposals of stockholders of the Company that are intended to be presented by such stockholders at the Company's 2005 Annual Meeting of Stockholders must be received by the Company no later than January 15, 2005, in order to be considered for possible inclusion in the proxy statement and form of proxy relating to that meeting.

If the Company is not notified of a stockholder proposal by March 5, 2005, then the management proxies may have the discretion to vote against such stockholder proposal, even though such proposal is not discussed in the proxy statement.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

**General**

A board of four (4) directors is to be elected at the Annual Meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's four nominees named below, all of whom are currently directors of the Company. In the event that any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting (neither of which events is expected), the proxies will be voted for such nominee as shall be designated by the current Board of Directors to fill the vacancy.

**Vote Required**

A quorum comprising the holders of the majority of the outstanding shares of Common Stock on the Record Date must be present or represented by proxy for the transaction of business at the Annual Meeting. Each share may vote for up to four director-nominees. Votes may not be cumulated. If a quorum is present, the four nominees receiving the highest number of votes will be elected to the Board of Directors, whether or not such number of votes for any individual represents a majority of the votes cast. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum. Abstentions and broker non-votes, however, will not be counted either in favor of or against the proposal.

The term of office of each person elected as a director will continue until the next Annual Meeting or until his successor has been elected and qualified.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE NOMINEES LISTED BELOW.**

**Nominees**

The names of the nominees, their ages at Record Date and certain other information about them are set forth below.

<b>Name of Nominee</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Richard S. Ressler	45	President, Orchard Capital Corporation	1995
Zohar Loshitzer	46	Executive Vice President, j2 Global Communications, Inc.	1998
Stephen Ross	55	Consultant, Warner Brothers	2001
Steven F. Mayer	44	Managing Director, Cerebus Capital Management, LLC	2001

There is no family relationship between any director and any executive officer of the Company.

**Richard S. Ressler** has been the Chairman of the Board and a director since 1995. He was our Chief Executive Officer from October 1994 until February 1997 and our President from October 1994 until May 1995. He has served in each of these capacities pursuant to a consulting agreement between the Company and Orchard Capital Corporation. Mr. Ressler is the founder and President of Orchard Capital, a firm that provides investment capital and advice to companies (including MAI) in which Orchard Capital or its affiliates invest. He has been a principal of Orchard Capital since 1994. Mr. Ressler is Chairman of CIM Group, Inc., which acts as an integrated real estate investment and management services firm for institutional investors. He has been a principal of CIM Group and its predecessor since 1994. Mr. Ressler has been Chairman of the Board and a director of j2 Global Communications, Inc., a leading unified messaging service provider, since 1997 and served as Chief Executive Officer of j2 Global from March 1997 until January 2000, serving in each of these capacities pursuant to a consulting agreement between j2 Global and Orchard Capital.

**Zohar Loshitzer** was appointed to our Board of Directors in January 1998. From July 1997 through December 31, 2000, he was Chief Information Officer, and in 2001 he became Executive Vice President, Corporate Strategy, for j2 Global Communications, Inc., a leading unified messaging services provider. From July 1997 through November 29, 2000, he also served as a member of the Board of Directors of j2 Global Communications, Inc. From August 2000 through December 31, 2001 he acted as a consultant with MAI Systems Corporation. Since 1995, he has also been a Managing Director of Orchard Telecom, a telecommunications consulting firm. From 1987 until 1995, he was the general manager and part owner of Life Alert, a nationwide emergency response service.

**Stephen Ross** was elected to our Board of Directors in May 2001. He is currently a consultant for Warner Brothers. From 1989 to 2001 he was employed by Warner Brothers as Executive Vice President, Special Projects. He also served from 1992 through 2001 as a director of the Sea World Property Trust (an Australian theme park company). From 1986 through 1989 he was employed by Lorimar Telepictures Corp. as Senior Vice President and General Counsel. From 1981 through 1986 he worked with Telepictures Corp. where he was Senior Vice President, General Counsel and a member of the board of directors. He is currently a consultant. He also serves as a director of Grill Concepts, Inc., a restaurant company.

**Steven F. Mayer** was elected to our Board of Directors in May 2001. Since December 2002, he has been Managing Director of Cerberus Capital Management, LLC, a private investment firm that manages funds and accounts with approximately \$12.5 billion in aggregate committed capital. Cerberus invests primarily in businesses exhibiting the potential for business improvement and manages holdings in the United States and worldwide. From February 2002 until November 2002, Mr. Mayer was Executive Managing Director of Gores Technology Group, LLC, a private investment and management firm. From November 1996 until September 2001, he was a Managing Director and co-head of Corporate Finance of U.S. Bancorp Libra, the leveraged finance investment banking unit of U.S. Bancorp, and its predecessor company. He was also a Managing Director of Libra Capital Partners, L.P., an affiliated private equity firm that sponsors and invests in management-led buyouts, later stage growth financings, leveraged recapitalizations, corporate divestitures, and acquisitions. From June 1994 until November 1996, Mr. Mayer was a managing director of Aries Capital Group, LLC, a private investment firm that he co-founded. From April 1992 until June 1994, when he left to co-found Aries Capital Group, Mr. Mayer was a principal with Apollo Advisors, L.P. and Lion Advisors, L.P., affiliated private investment firms. Prior to that time, Mr. Mayer was an attorney with Sullivan & Cromwell specializing in mergers, acquisitions, divestitures, leveraged buyouts and corporate finance. Mr. Mayer currently serves as a director of Acterna Corporation, a leading telecommunications test and measurement company and Airway Industries, Inc., a leading luggage and travel accessories company.

## Executive Officers

The name, age and title of each executive officer of the Company, business experience for at least the past five years and certain other information concerning each such executive officer has been furnished by the executive officer and is set forth below. Executive officers are elected by the Board of Directors following the annual meeting of the Company's stockholders.

**W. Brian Kretzmer**, 50, has been our Chief Executive Officer since August 1999 and was appointed as our President on September 10, 2000. He also served as our Chief Financial Officer from August 1999 until March 2000. From August 1997 until July 1999 he was Executive Vice President and Chief Financial Officer for Segue Corporation, a California based private company focused on providing support services to computer manufacturers utilizing internet commerce. From July 1991 until July 1997 he held various positions with MAI Systems Corporation, including Vice President, Corporate Development, Controller, Vice President, Finance, Chief Financial Officer, and Chief Information Officer. From July 1995 until July 1996 he also served as the President and Chief Operating Officer of



Gaming Systems International, which was at that time a wholly-owned subsidiary of MAI Systems Corporation.

*James W. Dolan*, 45, has been our Chief Financial Officer since March 2000 and our Chief Operating Officer since March 2001. Previously, he served as our Vice President, Finance from September 1999 until March 2000. From 1985 to 1999, Mr. Dolan served in positions of increasing responsibility with the accounting firm of KPMG LLP. Most recently, he was senior manager, Los Angeles and Orange County, where he managed audit and consulting projects for companies ranging in size from start-up operations to large public multinational organizations. Mr. Dolan also served as KPMG's senior audit manager to MAI from 1994 through 1997.

#### **Board Meetings and Committees**

The Board of Directors held one (1) meeting during the year ended December 31, 2003 and conducted business by written consent. The Company expects all Board members to attend its Annual Meeting. The last annual meeting was attended by each Board member. The Board of Directors has an Executive Committee, an Audit Committee and a Compensation Committee.

The Company does not have a Nominating Committee. The view of the Company's Board of Directors is that it is appropriate for the Company not to have such a committee because each member of the Board participates in the consideration of director nominees. Of the four Board members two are "independent" under the existing standards of the American Stock Exchange and two are not independent. The Board will only consider director nominees that have the requisite industry or financial experience to be able to advise and direct senior management in the Company's operations. The Board generally relies on its network of industry and financial contacts in evaluating potential Board members. The Board members have determined not to currently consider proposed director recommendations from stockholders because of the present limited size of the Board and its view that additional candidates, if required, are available through the Board's own network of prospects.

Our Executive Committee was formed in November 1998. Mr. Loshitzer is presently the only member of this committee. This committee has all authority, consistent with the Delaware General Corporation Law, as may be granted to it by the Board of Directors. Presently, this committee's sole function is to coordinate management presentations to the Board of Directors. The Executive Committee held no formal meetings during 2003.

Our Audit Committee currently consists of Messrs. Ross and Mayer, with one vacancy, intended to be filled after the Annual Meeting of Shareholders. None of the members of the Audit Committee have been our officers or employees and each member qualifies as an independent director under the existing standards of the Securities and Exchange Commission, the Sarbanes-Oxley Act of 2002, and the rules of the American Stock Exchange. The Board of Directors has determined that no member of the Audit Committee is an audit committee financial expert. The Company believes that the level of financial experience of the current Audit Committee members is sufficient for the purpose of their oversight of the Company's financial statements and operations. The Board of Directors adopted a written charter for the Audit Committee on June 12, 2000, which was amended and restated on March 15, 2001, and then again on March 25, 2004. A copy of the current Audit Committee Charter is set forth in Appendix A.

The Audit Committee held three (3) meetings during 2003 and also took actions by unanimous written consent. The Audit Committee has the sole authority to appoint and, when deemed appropriate, replace our independent registered public accounting firm. The Audit Committee has the responsibility to evaluate the qualifications and independence of our independent registered public accounting firm; to review and approve the scope and results of the annual audit; to evaluate with the independent registered public accounting firm our financial staff and the adequacy and effectiveness of our systems and internal financial controls; to review and discuss with management and the

independent registered public accounting firm the content of our financial statements and clarity of our proposed communications with investors regarding our operating results and other financial matters; to review significant changes to our accounting practices; to establish procedures for receiving, retaining and investigating reports of illegal acts involving us and supervise the investigation of any such reports; and to provide sufficient opportunity for the independent registered public accounting firm to meet with the committee without management present.

Our Compensation Committee currently consists of Messrs. Loshitzer and Ressler, with one vacancy, intended to be filled after the Annual Meeting of Shareholders. The Compensation Committee held no meetings during 2003. The Compensation Committee reviews and approves the Company's executive compensation policies.

During 2003, each incumbent director attended at least 75% of the aggregate of the meetings of the Board of Directors held during his tenure and the meetings of committees of which such member was a member held during his tenure.

#### **Shareholder Communications with Board Members**

The Company encourages communications by its shareholders with Board members. Communications to Board members may be sent to the Company, to the attention of the Company's Chief Executive Officer, 26110 Enterprise Way, Lake Forest, California 92630, and such communications will be forwarded promptly to the Board member in question.

#### **Director Compensation**

We pay fees of \$3,000 per calendar-year quarter to each of our non-employee directors, and \$1,000 for each Board or Committee meeting which is attended in person or telephonically. Additionally, we reimburse directors for their reasonable travel expenses to attend meetings.

In 2001 our Company's Non-Employee Directors Stock Option Plan (the "Directors' Plan") was discontinued and our 2001 Restricted Stock Plan was implemented in lieu of the Director's Plan. Under the Director's Plan, each non-employee director was automatically granted a nonstatutory option to purchase 6,250 shares of Common Stock on the date of each annual meeting of stockholders at which each such non-employee director is reelected, provided that on such date, he or she has served on the Board of Directors for at least six months. Certain directors continue to hold options granted pursuant to the Directors' Plan.

No options were exercised pursuant to the Directors' Plan in 2003.

Our Company's Restricted Stock Plan provides for issuance to each director of 50,000 shares of Common Stock on the date of his or her appointment to the Board or his or her becoming eligible to participate in the Restricted Stock Plan. In 2001, the Board and shareholders confirmed grants of 50,000 shares of restricted Common Stock to the current directors of which one-half, or 25,000 shares, have vested as of the Record Date. An additional 12,500 shares will vest (i.e., become unrestricted) on May 21, 2004. The Restricted Stock Plan provides that upon a change of control all shares granted pursuant to the plan shall become immediately exercisable in full.

#### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee currently consists of Messrs. Loshitzer and Ressler. One of our former officers, Richard S. Ressler, but no current officer, serves on the Compensation Committee. Mr. Ressler provides, and Mr. Loshitzer has provided, consulting services to the Company pursuant to consulting agreements that are disclosed below.

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Mr. Ressler's services as Chairman (and formerly as Chief Executive Officer) have been provided pursuant to a consulting agreement dated August 15, 1994 (amended as of August 16, 1997, August 24, 1997, August 24, 1998, August 24, 1999, August 24, 2000, August 24, 2001, August 24, 2002 and August 24, 2003) with Orchard Capital Corporation, Mr. Ressler's employer. Pursuant to that agreement, for Mr. Ressler's services Orchard was paid \$20,000 per month up through and including August 15, 1996, and was paid \$24,000 per month up until October 1, 2003, at which time Orchard voluntarily decreased its fee to \$12,000 per month.

In August, 1999, Orchard was granted options under the Company's 1993 Employee Stock Option Plan to purchase 225,000 shares of Common Stock at \$2.50 per share. All of these options are currently vested and they expire in August, 2009.

Commencing in 1999, Mr. Ressler became eligible to receive stock options under the Company's Non-Employee Director's Option Plan. He currently holds options to acquire 50,000 shares of Common Stock under the Plan. Additionally, Mr. Ressler participates in the Company's 2001 Restricted Stock Plan and has received a grant of 50,000 shares of restricted Common Stock, of which 25,000 shares are vested, and another 12,500 shares will become vested on May 21, 2004 and the balance on May 21, 2005.

The compensation paid to Orchard pursuant to the consulting agreement and the amendments thereto was determined by the Compensation Committee and the Board of Directors based upon various subjective factors such as Mr. Ressler's responsibilities, qualifications, years of experience, individual performance, and perceived contributions to the Company.

### SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth the beneficial ownership of Common Stock as of the Record Date, by each director, by each of the current executive officers named in the Summary Compensation Table, and by all directors and executive officers as a group.

Name(1)	Number of Shares Beneficially Owned	Approximate Percentage Owned(1)
Richard S. Ressler(2)	3,341,308	22.77%
W. Brian Kretzmer(3)	781,867	5.12%
James W. Dolan(4)	345,833	2.32%
Zohar Loshitzer(5)	93,750	*
Stephen Ross(6)	43,750	*
Steven F. Mayer(7)	43,750	*
All current directors and executive officers as a group (6 persons)(8)(9)	4,650,258	31.69%

(\*) Designates less than 1%

(1) The address for all executive officers and directors is c/o MAI Systems Corporation, 26110 Enterprise Way, Lake Forest, CA 92630. For each individual and group in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person, plus shares acquirable within 60 days of the Record Date by such person or group, by the sum of 14,675,752 shares of Common Stock outstanding on the Record Date, plus shares of Common Stock acquirable within 60 days of the Record Date by such person or group.

(2) Includes 2,433,333 shares of Common Stock acquired by the Investor Group from CSA over which Mr. Ressler has voting and dispositive control. Also includes 25,000 shares of Common Stock issuable upon exercise of options held by Mr. Ressler and 225,000 shares of Common Stock issuable upon exercise of options held by Orchard Capital Corporation, of which Mr. Ressler is the

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sole stockholder, each of which are currently exercisable; and 9,375 shares of Common Stock issuable upon exercise of options held by Mr. Ressler which are exercisable within 60 days of the Record Date and 12,500 shares of restricted Common Stock held by Mr. Ressler which are due to become unrestricted within 60 days of the Record Date.

- (3) Includes 558,333 shares of Common Stock issuable upon exercise of options or warrants held by Mr. Kretzmer which are currently exercisable. Also includes 33,333 shares of Common Stock issuable upon exercise of options held by Mr. Kretzmer which are exercisable within 60 days of the Record Date and 62,500 shares of restricted Common Stock held by Mr. Kretzmer which are due to become unrestricted within 60 days of the Record Date.
- (4) Includes 216,666 shares of Common Stock issuable upon exercise of options held by Mr. Dolan which are currently exercisable. Also includes 16,666 shares of Common Stock issuable upon exercise of options held by Mr. Dolan which are exercisable within 60 days of the Record Date and 37,500 shares of restricted Common Stock held by Mr. Dolan which are due to become unrestricted within 60 days of the Record Date.
- (5) Includes 56,251 shares issuable upon exercise of options held by Mr. Loshitzer which are currently exercisable or are due to become unrestricted within 60 days of the Record Date. Also includes 12,500 shares of restricted Common Stock held by Mr. Loshitzer which are due to become unrestricted within 60 days of the Record Date.
- (6) Includes 6,250 shares issuable upon exercise of options held by Mr. Ross which are currently exercisable and 12,500 shares of restricted Common Stock held by Mr. Ross which are due to become unrestricted within 60 days of the Record Date.
- (7) Includes 6,250 shares issuable upon exercise of options held by Mr. Mayer which are currently exercisable and 12,500 shares of restricted Common Stock held by Mr. Mayer which are due to become unrestricted within 60 days of the Record Date.
- (8) Includes 1,575,833 shares currently issuable upon exercise of options or warrants held by directors, executive officers and employees or issuable upon exercise of options or warrants within 60 days of the Record Date, and 150,000 shares of restricted Common Stock which are due to become unrestricted within 60 days of the Record Date.
- (9) After completion of the Management Equity/Conversion Transaction, the Investor Group (as defined in Proposal 2) as an entity, combined with individual members of the Investor Group, will own more than a majority of the outstanding MAI shares and, if acting together, will be able to control all matters requiring approval of MAI's shareholders, including the election of directors. The ownership position of senior management, including officers and directors, and other members of the Investor Group will increase from 6,124,108 shares, or 41.73% of the 14,675,752 outstanding shares, to 48,065,668 shares, or 84.90% of the outstanding shares. The increased share ownership by the Investor Group will result in majority control by the Investor Group and represents a 'change in control' of the Company.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table shows, as to our Chairman, our Chief Executive Officer, and one other executive officer who served during the last fiscal year, information concerning all compensation paid for services in all capacities during the last three fiscal years.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards	Securities Underlying Options (#)	All Other Comp. (\$)
Richard S. Ressler(1) Chairman	2003	\$ 252,000(2)	\$ 0	\$ 0	12,500(3)	6,250	\$ 0
	2002	288,000(2)	0	0	12,500	6,250	0
	2001	288,000	0	0	0		0
W. Brian Kretzmer(4) Chief Executive Officer & President	2003	\$ 240,000	\$ 55,000	0	62,500(5)	0	0
	2002	240,000	0	0	62,500	100,000	0
	2001	240,000	168,000	0	0	0	0
James W. Dolan(6) Chief Financial and Operating Officer	2003	\$ 200,000	\$ 40,000	0	37,500(7)	0	0
	2002	200,000	0	0	37,500	50,000	0
	2001	198,050	112,000	0	0	100,000	0

## Footnotes to Table:

- (1) Mr. Ressler is an employee of Orchard Capital Corporation, which provides his services to us through a consulting agreement.
- (2) A portion of Mr. Ressler's 2002 and 2003 compensation has been accrued and not yet paid.
- (3) Mr. Ressler presently holds 25,000 shares of vested restricted stock as of December 31, 2003.
- (4) Mr. Kretzmer was appointed to the position of Chief Executive Officer effective August 2, 1999 and he assumed the position of Chief Financial Officer effective August 17, 1999 (Mr. Kretzmer subsequently resigned as Chief Financial Officer on March 24, 2000 when Mr. Dolan was elected to this position). He assumed the position of President effective September 10, 2000.
- (5) Mr. Kretzmer presently holds 125,000 shares of vested restricted stock as of December 31, 2003.
- (6) Mr. Dolan was appointed to the position of Chief Financial Officer effective March 24, 2000 and to the position of Chief Operating Officer effective March 10, 2001. Previously, from September 1999 through March 2000 he served as our Vice President, Finance.
- (7) Mr. Dolan presently holds 75,000 shares of vested restricted stock as of December 31, 2003.



**Options Granted in Last Fiscal Year**

The following table sets forth certain information regarding grants of stock options made during the fiscal year ended December 31, 2003 to the Company's chairman and executive officers named in the Summary Compensation Table:

Name	Number of Securities Underlying Options Granted(2)	% of Total Options Granted In Fiscal Year(3)	Exercise Price (\$/Share)(4)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
					5% (\$)	10% (\$)
Richard Ressler	N/A	N/A	N/A	N/A	N/A	N/A
W. Brian Kretzmer	N/A	N/A	N/A	N/A	N/A	N/A
James Dolan	N/A	N/A	N/A	N/A	N/A	N/A

- (1) Potential realizable value is based on the assumption that the Common Stock appreciates at the annual rate shown (compounded annually) from the date of grant until the expiration of the option term. These numbers are calculated based on the requirements promulgated by the Securities and Exchange Commission and do not represent an estimate by the Company of future stock price growth.
- (2) There were no stock options granted by us in 2003.
- (3) Options are granted at an exercise price equal to the market value of the Common Stock as listed on the OTC Bulletin Board.
- (4) The exercise price and tax withholding obligations may be paid in cash and, subject to certain conditions or restrictions, by delivery of already-owned shares or pursuant to a cashless exercise procedure under which the optionee provides irrevocable instructions to a brokerage firm to sell the purchased shares and to remit to the Company, out of the sale proceeds, an amount equal to the exercise price plus all applicable withholding taxes.

**Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values**

No options were exercised by any of the executive officers during the year ended December 31, 2003. The value of the options held at the end of the year are set forth in the following table:

**VALUE OF UNEXERCISED STOCK OPTIONS AT END OF YEAR**

Name	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options at Fiscal Year-End \$(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Richard S. Ressler	259,376(2)	15,626	\$ 0.00	\$ 0.00
W. Brian Kretzmer	558,333(3)	66,667	\$ 0.00	\$ 0.00
James W. Dolan	183,334	66,666	\$ 0.00	\$ 0.00

- (1)

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Market value of underlying securities at fiscal year end (\$0.14 per share), minus the exercise price.

(2)

Includes 225,000 options that were granted to Orchard Capital Corporation, Mr. Ressler's employer, at \$2.50 per share, which expire in August 2009.



- (3) Includes 225,000 warrants issued to Mr. Kretzmer in May 2000 which have a ten year term with an exercise price of \$0.56 per share. The exercise price of these warrants will increase with the fair market value of Common Stock when the fair market value exceeds \$2.81 per share.

**Employment Contracts and Change of Control Arrangements**

We currently have no employment contracts with any of our executive officers named in the Summary Compensation Table above (but we do have a consulting agreement with Orchard Capital Corporation which supplies the services of Richard S. Ressler, our Chairman). (See "Compensation Committee Interlocks and Investor Participation.") Our 1993 Employee Stock Option Plan and Non-Employee Directors' Stock Option Plan each provide that upon a change of control all options granted pursuant to the plans shall become immediately exercisable in full. There are similar provisions in effect for warrants and restricted stock granted to officers and directors.

**REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS ON  
EXECUTIVE COMPENSATION**

**General**

The policy of the Company regarding the compensation of its executive officers is to maintain a total compensation program which would retain the services of key executives and (a) assure the availability of their skills for the benefit of the Company, (b) secure to the Company freedom from competition by such persons within reasonable and lawful limits, and (c) provide appropriate base compensation, benefits, and financial incentives through bonus, severance and other employment-related programs. The Compensation Committee of the Board of Directors recommends, subject to the Board's approval, executive compensation, including the compensation of the Chairman and the Chief Executive Officer. The Compensation Committee or the Board of Directors determines and approves stock option grants for all employees, including the Chief Executive Officer. The Committee currently comprises two non-employee directors, one of whose services are provided pursuant to a consulting agreement between MAI and his employer.

**Compensation Philosophy**

The Company operates in the highly competitive and rapidly changing high technology industry. The goals of the Company's compensation program are to align compensation with the Company's overall business objectives and performance, to foster teamwork, and to enable the Company to attract, retain and reward employees who contribute to its long-term success. The Committee also seeks to establish compensation policies that allow the Company flexibility to respond to changes in its business environment.

**Compensation Components**

Compensation for the Company's executive officers generally consists of salary, annual incentive, and stock option and restricted stock awards. The Committee assesses past performance, anticipated future contributions and various subjective factors such as their responsibilities, qualifications, and years of experience in establishing the total amount and mix of each element of compensation.

**Salary.** The salaries of the executive officers are determined annually by the Compensation Committee based upon various subjective factors such as the executive's responsibilities, position, qualifications, years of experience, and individual performance. In no such case does the Committee undertake a formal survey of analysis of compensation paid by other companies.

**Annual Incentive.** The Committee annually reviews and approves an executive compensation plan. A target, expressed as a percentage of salary, is established for each corporate officer, based on the scope of his or her responsibility. Actual payment is computed as a percentage of that target based on the Company's performance in achieving specified objectives, and the individual performance of executives.

**Stock Options, Warrants and Restricted Stock.** Stock option, warrants and restricted stock awards are designed to align the interests of executives with the long-term interests of the stockholders. The Committee approves option, warrant and restricted stock grants subject to vesting periods (usually over a three or four-year period) to retain executives and encourage sustained contributions. The exercise price of options and warrants, or the issue price in relation to restricted stock, is the market price on the date of grant.

The Company is subject to Section 162(m) of the Internal Revenue Code, adopted in 1993, which limits the deductibility of certain compensation payments to its officers. The Company does not have a policy requiring the Committee to qualify all compensation for deductibility under this provision. The

Company does not currently have any non-deductible compensation plans. The Company believes that any compensation expense incurred in connection with the exercise of stock options granted under its 1993 Employee Stock Option Plan will continue to be deductible as performance-based compensation.

In awarding stock options to its corporate level executive officers, the Committee considers the executive's performance as well as options previously granted when determining additional option awards. The Committee does not currently have a targeted percentage of equity ownership for executives.

#### **Compensation of Chairman**

Richard Ressler's services as Chairman (and formerly as Chief Executive Officer) have been provided pursuant to a consulting agreement dated August 15, 1994 (amended as of August 16, 1997, August 24, 1997, August 24, 1998, August 24, 1999, August 24, 2000, August 24, 2001, August 24, 2002 and August 24, 2003) with Orchard Capital Corporation, Mr. Ressler's employer. Pursuant to that agreement, Orchard was paid \$24,000 per month up through and including September 30, 2003, at which time this amount was voluntarily reduced to \$12,000 per month, for the balance of the term through August 31, 2004.

In August 1994, Orchard was granted warrants to purchase up to 625,000 shares of the Company's Common Stock at \$1.90 per share (which Orchard immediately transferred to Mr. Ressler). Mr. Ressler exercised 157,895 of these warrants in September 1997. The remainder of the \$1.90 warrants expired on August 14, 2003 (these warrants were originally scheduled to expire on August 14, 1999, but the Committee approved two extensions). In March 1997, Orchard was issued warrants to purchase up to 50,000 shares of Common Stock at \$7.50 per share (which it immediately transferred to Mr. Ressler). In order for the Company to raise equity capital, the exercise price of these warrants was adjusted to \$3.04 on September 12, 1997 and the warrants were subsequently exercised. In August, 1999, Orchard was granted options under the Company's 1993 Employee Stock Option Plan to purchase 225,000 shares of Common Stock at \$2.50 per share. One-third of these options became exercisable on each of the first three anniversaries of the grant, and the options expire in August, 2009.

Commencing in 1999, Mr. Ressler became eligible to receive stock options under the Company's Non-Employee Director's Option Plan. He currently holds options to acquire 50,000 shares of Common Stock under the Plan. Additionally, Mr. Ressler participates in the Company's 2001 Restrictive Stock Plan and has received a grant of 50,000 shares of restricted Common Stock, of which 25,000 shares have vested.

#### **Compensation of Chief Executive Officer**

The Company considers that the compensation level of the Chief Executive Officer should be comparable to those companies in the computer software and services peer group (including certain peer companies that are included in the S&P Application Software composite index). Based upon these factors, the Committee determined that Brian Kretzmer should receive a base salary of \$240,000. For fiscal 2003, a range of between 24% to 70% of Mr. Kretzmer's salary could be earned as a bonus for achieving from 85% to over 120% of the EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) objective. Because these goals were not achieved no incentive compensation was paid with respect to Mr. Kretzmer pursuant to the plan based on 2003 performance. However, the Board, based upon the Committee's recommendation, awarded a special bonus of \$90,000 in the aggregate to Mr. Kretzmer and the Company's Chief Financial and Operating Officer, James W. Dolan, for other achievements during 2003. Additionally, Mr. Kretzmer participates in the Company's 2001 Restrictive

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Stock Plan and has received a grant of 250,000 shares of restricted Common Stock, of which 125,000 shares have vested.

Respectfully submitted,

Zohar Loshitzer, Chairman  
Richard S. Ressler

Date: March 25, 2004

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The role of the Audit Committee is to assist the Board of Directors in its oversight of the Company's financial reporting process. The Board of Directors, in its business judgment, has determined that all current members of the Committee are "independent", as required by the listing standards of the American Stock Exchange.

The Committee operates pursuant to a Charter that was adopted by the Board on June 12, 2000, and amended and restated on March 15, 2001 and again on March 25, 2004. As set forth in the Charter, management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, the Company's accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

In the performance of its oversight function, the Committee has considered and discussed the audited financial statements with management and the independent registered public accounting firm. The Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as currently in effect. Finally, the Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as currently in effect.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not experts in the fields of accounting or auditing, including in respect of auditor independence. Members of the Committee rely without independent verification on the information provided to them and on the representations made by management and the independent registered public accounting firm. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal control and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company's auditors are in fact "independent".

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to above and in the Charter, the Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 to be filed with the Securities and Exchange Commission.

Date: March 25, 2004

Respectfully submitted,

Steven F. Mayer  
Stephen Ross

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**PERFORMANCE GRAPH**

Set forth below is a line graph comparing the annual percentage change in the cumulative return to the stockholders of the Company's Common Stock with the cumulative return of the S&P 500 Index and the S&P Computer Systems Index for the period commencing January 1, 1999 and ending December 31, 2003. The information contained in the performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 as amended (the "Securities Act") or Exchange Act, except to the extent that the Company specifically incorporates it by reference into such filing. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
AMONG MAI SYSTEMS CORPORATION, THE S & P 500 INDEX  
AND THE S & P APPLICATION SOFTWARE INDEX

\*

\$100 invested on 12/31/98 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

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[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)

**PROPOSAL 2**  
**TO APPROVE THE MANAGEMENT EQUITY/CONVERSION TRANSACTION**

*Overview of Management Led Equity Investment and Investor Group Debt Conversion (the "Management Equity/Conversion Transaction")*

CSA was the holder of 2,433,333 shares of the Company's common stock and \$3,694,156 of Company indebtedness. The Company shares held of record by CSA were beneficially owned by Computer Sciences Corporation (NYSE: CSC). The persons who exercised voting and/or dispositive powers over the shares beneficially owned by Computer Sciences Corporation reside within its management. CSA has no relationship with MAI other than as subordinated lender and shareholder. On April 9, 2004, an investor group, consisting of certain members of senior management (Mr. Ressler, Mr. Dolan and Mr. Kretzmer) and certain third parties ("Investor Group"), acquired CSA's equity position and most of the aforementioned Company indebtedness from CSA for a total purchase price of \$1,000,000. The purchase price was negotiated based upon arm's length discussions between members of the Investor Group and senior management of CSA's parent company, CSC. CSA will retain \$500,000 of Company indebtedness after the closing of the transaction. Subject to shareholder approval, and after execution of definitive agreements with CSA, the Investor Group will convert the Company indebtedness of \$3,194,156 acquired from CSA for 31,941,560 shares of the Company's common stock based upon a conversion price of \$0.10 per share, and will invest \$1,000,000 of new cash proceeds into the Company in a private placement at \$0.10 per share and receive 10,000,000 shares of the Company's common stock. CSA was given an opportunity to convert their outstanding debt and all accrued interest to the Company's common stock and infuse cash into the Company on similar terms to the Investor Group and declined. The conversion/purchase price of \$0.10 per share was determined by the one Company lender included in the Investor Group, Canyon Capital Advisors LLC, as the maximum price this entity was willing to pay to participate in the transaction. The Company's common stock to be issued in the Management Equity/Conversion Transaction is subject to certain terms and conditions, including the fact that it will initially be 'restricted' stock, not available for re-sale, absent registration with the Securities and Exchange Commission or an exemption therefrom. The composition of the Investor Group is set forth in the table below under "Interests of Certain Persons in the Management Equity/Conversion Transaction Change of Control."

*Interests of Certain Persons in the Management Equity/Conversion Transaction Change of Control*

After the closing of the Management Equity/Conversion Transaction, the Company's outstanding shares of common stock will be increased from 14,675,752 to 56,617,312. As a companion proposal, Proposal 3 herein, subject to shareholder approval, the Company's authorized capital stock will be increased by 75,000,000 shares to accommodate the Management Equity/Conversion Transaction, among other reasons.

In considering the Management Equity/Conversion Transaction and the fairness of the consideration to be received in the Management Equity/Conversion Transaction, you should be aware that certain of our executive officers and directors have interests in the Management Equity/Conversion Transaction which are described below and which may present them with certain actual or potential conflicts of interest. As of July 15, 2004, the directors and executive officers participating in the Investor Group beneficially owned 4,469,008 MAI shares, or approximately 30.45% of the outstanding shares of Common Stock, which includes 1,093,750 shares issuable upon exercise of outstanding stock options and warrants that are or will be exercisable by August 24, 2004. Assuming completion of the Management Equity/Conversion Transaction, the Investor Group together will own more than a majority of the outstanding MAI shares and, if acting together, will be able to control all matters requiring approval of MAI's shareholders, including the election of directors. The ownership position of senior management, including officers and directors, and other members of the Investor Group will increase from 6,124,108 shares, or 41.73% of the 14,675,752 outstanding shares, to 48,065,668 shares, or

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84.90% of the outstanding shares. The increased share ownership by the Investor Group will result in majority control by the Investor Group and represents a 'change in control' of the Company.

The following table sets forth the beneficial ownership of Common Stock after the closing of the Management Equity/Conversion Transaction, by each participating director, executive officer and the other participating party, and by the Investor Group as a whole:

Name	Number of Shares Beneficially Owned	Approximate Percentage Owned(1)
<b><i>Investor Group Individual Ownership:</i></b>		
Canyon Capital Advisors LLC group	1,655,100	2.92%
Richard S. Ressler(2)	45,282,868	79.98%
W. Brian Kretzmer	781,867	1.37%
James W. Dolan	345,833	0.61%
Sub-total of Investor Group Individual Ownership	48,065,668	84.90%
<b><i>Investor Group Group Ownership(3):</i></b>	44,374,893	78.38%
Totals:	48,065,668	84.90%

- (1) The source of funds for the Investor Group's participation in the Management Equity/Conversion Transaction is personal funds. For each individual and group in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person, plus shares acquirable on the Record Date by such person or group, by the sum of 14,675,752 shares of Common Stock outstanding on the Record Date, plus shares of Common Stock acquirable on the Record Date by such person or group, plus the 41,941,560 new shares to be issued subject to approval of the Management Equity/Conversion Transaction. In addition, individual beneficial ownership will be increased by each individual's proportional interest in the Investor Group. At this time, such proportional interest is not yet finalized, but for the three named individuals this is anticipated to be no less than 62.5% in the aggregate.
- (2) Includes 2,433,333 shares of Common Stock acquired by the Investor Group from CSA and 41,941,560 new shares to be issued subject to approval of the Management Equity/Conversion Transaction. These 44,374,893 shares will be held by the Investor Group through HIS Holding, LLC ("HIS Holding"), the Delaware limited liability company of which the Investor Group are all members. Orchard Capital Corporation ("Orchard") is the managing member of. HIS Holding. Orchard is beneficially owned by Richard S. Ressler, and as a result, Mr. Ressler has sole voting and dispositive control over Investor Group decisions.
- (3) Canyon Capital Advisors LLC is the third party member of the Investor Group and has had a prior relationship with MAI as subordinated lender and shareholder. Of this amount, 41,941,560 shares will be restricted shares.

### *Rationale for Management Equity/Conversion Transaction*

The Company has immediate and substantial working capital needs. Consolidated cash balance was \$664,000 as of December 31, 2003 and \$243,000 as of February 29, 2004. Consolidated monthly payroll alone approximates \$1 million. The conversion will reduce the current portion of the Company's long-term indebtedness by approximately \$2.8 million.

The Company has made repeated attempts over a significant period of time to raise capital from a variety of other sources and has been unsuccessful in its attempts to date to do so on





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acceptable terms. The reasons for its inability to secure additional funding have been related to the risk associated with the Company's debt structure and questions surrounding the ability of the Company to re-pay existing indebtedness.

The Company previously negotiated with CSA for an arrangement similar to that offered to the Investor Group. CSA declined to infuse cash into the Company or to convert the Company debt it held into equity. CSA did, however, accept a Company proposal for a discounted buy-out of the MAI indebtedness held by CSA. The original proposal called for MAI to pay \$1,000,000 by December 31, 2002 with a final payment of \$400,000 by February 28, 2003. MAI was not able to complete this transaction because it did not have the necessary financial resources on the specified dates to make the required payments.

Currently, the Company is not in compliance with several of its material debt covenants, and, to date, has received waivers of compliance with such covenants, but has no guarantee from its lenders that they will waive such covenants in the future, or if waived, whether such lenders will, as a condition to such waivers, make demands upon the Company which it may be forced to accept. The Company needs to restructure its long term debt to avoid possible foreclosure by CSA on Company assets securing its obligation to CSA as the Company had not made any payments to CSA since September 2002.

Conversion will strengthen the balance sheet, reduce debt service costs and help alleviate some of the concerns held by current and prospective clients regarding the Company's long term viability.

Strengthening of the balance sheet will also serve to mitigate the liquidity concerns of the Company's auditors as set forth in the Company's audited financial statements.

Once the financing is in place, management can again focus on enhancing the Company's profitability.

### *Special Committee of the Board of Directors and Fairness Opinion*

In view of the possible conflicts of interest involved in this type of transaction, our Board of Directors unanimously decided that it would be advisable to form a special committee of independent members of the Board consisting of Messrs. Mayer and Ross, with Mr. Ross as the Chairman of the Special Committee, to evaluate such proposal and to assess whether the proposal is in the best interests of the Company's shareholders. Neither of these directors are employed by or affiliated with MAI or the Investor Group or any of their affiliates (except in the capacity as a director of MAI). However, Mr. Ross' son is an employee (but not an executive officer) of CIM Group, an affiliate of the Company. The Board determined that it would be prudent for the Special Committee to retain an independent financial advisor and independent legal counsel to assist in reviewing any proposal by the Investor Group.

Through a unanimous written consent adopted on August 6, 2003, the Board formally authorized and empowered the Special Committee to consider and negotiate the Management Equity/Conversion Transaction, and determine if such transaction would be fair to and in the best interest of the Company's shareholders. The Board further authorized the Special Committee to retain an independent financial advisor and independent legal counsel to assist it in its review of such transaction.

Between August 6, 2003 and September 2, 2003, the Special Committee interviewed several financial advisors. On September 2, 2003, the Special Committee formally retained Marshall & Stevens to provide a fairness opinion pertaining to the Management Equity/Conversion Transaction. During the subsequent weeks, the Special Committee commenced the process of retaining independent legal counsel and interviewed several possible legal advisors. On October 15, 2003, the Special Committee of

MAI's Board of Directors resolved to accept the Investor Group offer at a conversion/purchase price of \$0.10 per share, subject to receipt of the fairness opinion. On October 15, 2003, MAI's opening trading price was \$0.09 per share and closing price was \$0.10 per share. The Special Committee interviewed Rutan & Tucker, LLP, Costa Mesa, California, on February 27, 2004 and retained this firm on March 1, 2004. The only role that Rutan & Tucker played in the Management Equity/Conversion Transaction was as legal counsel to the Special Committee. Other than its representation of the Special Committee, Rutan & Tucker has no relationship (legal or otherwise) with any of the independent directors that constitute the Special Committee. On March 1, 2004, the Special Committee and its financial and legal advisors commenced discussions concerning the various aspects of the Management Equity/Conversion Transaction. The Special Committee and representatives of Marshall & Stevens met with management of MAI to obtain and discuss financial and other information concerning the Company and the proposed Management Equity/Conversion Transaction. On March 5, 2004, the Special Committee and its independent legal counsel met with representatives in the Los Angeles office of Marshall & Stevens and discussed the status of Marshall & Stevens' evaluation of MAI. They discussed Marshall & Stevens' preliminary report on the progress of its due diligence review to date and preliminary views concerning the various aspects of the proposed Management Equity/Conversion Transaction. During the course of the presentation, the Special Committee raised numerous questions and requested additional information and analysis, each of which was responded to by Marshall & Stevens and legal counsel.

During a subsequent meeting of the Special Committee on March 19, 2004, Marshall & Stevens conducted a detailed presentation of its analysis performed in preparing its fairness opinion and also submitted for review by the Committee a draft form of its fairness opinion. Following a lengthy discussion and after reviewing various factors that had been discussed over the past several weeks, the Special Committee voted unanimously to approve the Management Equity/Conversion Transaction, subject to the receipt of the final fairness opinion from Marshall & Stevens in form and content acceptable to the Special Committee.

On March 23, 2004, the Special Committee made a presentation to the full Board. The Board reviewed Marshall & Stevens's presentation to the Special Committee and the draft form of its fairness opinion. The Board asked questions and received answers regarding the Management Equity/Conversion Transaction from the Special Committee and representatives of MAI. The Special Committee advised the Board that it had approved the Management Equity/Conversion Transaction, subject to the receipt of the final fairness opinion from Marshall & Stevens in form and content acceptable to the Special Committee, and recommended to the Board that the Board approve the Management Equity/Conversion Transaction. After extensive consideration and discussion, the Board (with Richard S. Ressler recusing himself), subject to the receipt of the final fairness opinion from Marshall & Stevens in form and content acceptable to the Special Committee, unanimously adopted the Special Committee's resolutions authorizing the Management Equity/Conversion Transaction based on the Special Committee's determination that the Management Equity/Conversion Transaction was fair and in the best interests of MAI's shareholders.

The factors which the Special Committee considered as supporting its decision to recommend the Management Equity/Conversion Transaction to the Company's Board of Directors included the following: (i) the conversion of the CSA debt purchased by the Investor Group would reduce the current portion of the Company's long-term indebtedness by approximately \$2.8 million; (ii) the Company had made repeated attempts over a significant period of time to raise capital from a variety of other sources and had been unsuccessful in its attempts to date to do so on acceptable terms; (iii) the Company had previously negotiated with CSA for a cash infusion and debt conversion arrangement similar to that offered to the Investor Group but CSA declined to participate in the offered transaction; (iv) the Company was unable to make the required payments under an alternative plan with CSA for a discounted buy-out of the MAI indebtedness held by CSA; (v) the Company was in default under several of its material debt covenants, including its obligations to CSA under its \$2,800,000 subordinated note dated December 1, 2000, which defaults would be cured through

implementation of the Management Equity/Conversion Transaction; (vi) the proposed debt conversion will strengthen the balance sheet, reduce debt service costs and help alleviate some of the concerns held by current and prospective customers regarding the Company's long-term viability; and (vii) receipt of a fairness opinion from Marshall & Stevens and the related financial analyses performed by Marshall & Stevens (discussed below) confirmed that the Management Equity/Conversion Transaction was 'fair' to the Company's shareholders under each standard applied by that firm.

As part of its overall evaluation, the Special Committee recognized that the effect of shareholder approval of Proposal 2 will be to make it difficult to remove the current senior management team, change the director composition of the Company's Board of Directors, or implement business strategies not favored by the Investor Group. In their overall review of the transaction, however, the Committee believed that this possible 'negative' factor was outweighed by the aforementioned positive factors, and specifically, the Company's need to restructure its long term debt to avoid possible foreclosure by CSA on Company assets securing its obligation to CSA as the Company had not made any payments to CSA since September 2002.

*Summary of Factors Reviewed to Determine \$0.10 Per Share Purchase/Conversion Price*

The conversion/purchase price of \$0.10 per share was determined by the one Company lender included in the Investor Group, Canyon Capital Advisors LLC, as the maximum price this entity was willing to pay to participate in the transaction and waive its right to accelerate its \$5.7 million of debt upon change of control. MAI's belief that \$0.10 was the maximum price Canyon Capital Advisors was willing to pay to participate in the transaction was based upon written and oral communications with this lender.

The conversion/purchase price of \$0.10 per share was determined for accounting purposes to be the maximum price that the Investor Group could pay to achieve favorable 'purchase accounting' treatment for the Management Equity/Conversion Transaction.

The conversion/purchase price of \$0.10 per share was based upon negotiations with members of the Company's Special Committee of its board of directors (comprised of independent, disinterested directors, and specifically established for review and oversight of the subject transaction) and the Investor Group members. Based upon the various risks associated with the transaction, the Company and the underlying Common Stock, the Investor Group determined that \$0.10 per share was the maximum price this entity was willing to pay to participate in the transaction.

The Special Committee negotiated with the Investor Group to determine the \$0.10 conversion/purchase price. The Special Committee and MAI's Board of Directors accepted this price pursuant to a Special Committee meeting on October 15, 2003, at which date MAI's opening trading price was \$0.09 per share and closing price was \$0.10 per share. The Special Committee had engaged Marshall & Stevens to evaluate the fairness of the transaction and subsequently received their report stating that the transaction is fair to the shareholders. The Special Committee also considered other factors as set forth in this proxy statement that required that the Company take action to prevent a default under its debt with CSA and other strategic business reasons.

The Special Committee and MAI's Board considered the consequences of accepting a conversion/purchase price that may ultimately be below the Company's trading price as of the date of the conversion/purchase and the impact on current shareholders, as well as the related impact on the accounting treatment for this transaction. The Company's closing price on July 23, 2004 was \$0.15 per share. Although the conversion/purchase price may ultimately be below the closing price of the Company's common stock, the Special Committee believes that the Investor Group's conversion/purchase price is fair given all the factors as set forth in this section as well