ISLAND PACIFIC INC
Form 10-Q/A
February 08, 2005

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

FORM 10-Q/A
(AMENDMENT NO. 2)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003
OR

[ ] 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 0-23049

ISLAND PACIFIC, INC.
(Formerly, SVI Solutions, Inc.)
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	33-0896617
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

19800 MACARTHUR BOULEVARD, 12TH FLOOR, IRVINE, CALIFORNIA	92612
(Address of principal executive offices)	(Zip Code)

(949) 476-2212
(Registrant's telephone number, including area code)

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 [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, $0.0001 Par Value - 47,472,554 shares as of November 10, 2003.

EXPLANATORY NOTE

This quarterly report on Form 10-Q/A is an amendment to the Form 10-Q filed by the Company on November 12, 2003 for the quarter ended September 30, 2003.

This quarterly report on Form 10-Q/A is being filed to reflect the restatement of the Company's Condensed Consolidated Financial Statements (the "Restatement"). The Restatement reflects the following:

1. Reversal of revenue recognized on an one-time sale of software technology rights,

2. Presentation of total revenues and cost of revenues as product and services revenues and corresponding costs of revenues,

3. Reclassification of amortization expense of software products from depreciation and amortization expense to cost of product revenue,

4. Capitalization and amortization of debt discount and beneficial conversion charges as interest expense over the term of the debt, and

5. Re-classification of a convertible note payable from equity to liabilities.

The Company will not file an amended Form 10-K/A for the year ended March 31, 2003 due to the immateriality of adjustments. However, certain disclosures that relate to and appear in Form 10-K/A for the year ended March 31, 2003 have been updated in the restated filings.

THIS REPORT DOES NOT OTHERWISE ATTEMPT TO UPDATE THE INFORMATION PROVIDED HEREIN BEYOND THE ORIGINAL FILING DATE.

TABLE OF CONTENTS

PART I. - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ISLAND PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	SEPTEMBER 30, 2003 (As restated - See Note 14)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,052
Accounts receivable, net of allowance for doubtful accounts of $203 and $372, respectively	4,614
Income tax refund receivable	846
Other receivables, including $0 and $3 from related parties, respectively	87
Inventories	84
Current portion of non-compete agreements	917
Net assets from discontinued operations	--
Prepaid expenses and other current assets	618
Total current assets	8,218
Note receivable	171
Property and equipment, net	370
Purchased and capitalized software, net	15,846
Goodwill, net	14,795
Non-compete agreements, net	209
Other assets	29
Total assets	$ 39,638
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Debt due to stockholders	$ --
Convertible note	500

Current portion of long-term debts	--
Accounts payable	483
Accrued expenses	2,896
Deferred revenue	1,686
Income tax payable	398
Total current liabilities	5,963
Convertible debentures, net of debt discount of $0 and $625, respectively	--
Convertible note	1,383
Other long-term liabilities	68
Total liabilities	7,414
Commitments and contingencies	
Stockholders' equity:	
Preferred Stock, $.0001 par value; 5,000,000 shares authorized; Series A Convertible Preferred, 7.2% cumulative 141,100 shares authorized and outstanding with a stated value of $100 per share, dividends in arrears of $1,439 and $1,269, respectively	14,100
Committed common stock - 2,500,000 shares	--
Common stock, $.0001 par value; 100,000,000 shares authorized; 43,987,176 and 42,199,632 shares issued; and 43,987,176 and 31,499,632 shares outstanding	4
Additional paid in capital	62,801
Accumulated deficit	(44,681)
Treasury stock, at cost; shares - 10,700,000	--
Total stockholders' equity	32,224
Total liabilities and stockholders' equity	$ 39,638

The accompanying notes are an integral part of these condensed consolidated financial state

ISLAND PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended September 30, 2003	2002	
	(As restated - See Note 14)		(As
Revenues:			
Product	$ 1,825	$ 1,975	$
Services	954	1,822	
Total revenues	2,779	3,797	
Cost of revenues:			
Product	1,177	1,185	
Services	476	1,157	

Total cost of revenues	1,653	2,342	
Gross profit	1,126	1,455	
Expenses:			
Application development	585	1,343	
Depreciation and amortization	280	315	
Selling, general and administrative	3,001	1,890	
Total expenses	3,866	3,548	
Loss from operations	(2,740)	(2,093)	
Other income (expense):			
Interest income	(17)	--	
Other income (expense)	(167)	3	
Interest expense	(1,504)	(985)	
Total other expenses	(1,688)	(982)	
Loss before provision for income taxes	(4,428)	(3,075)	
Provision for income taxes (benefits)	67	1	
Loss before cumulative effect of a change in accounting principle	(4,495)	(3,076)	
Cumulative effect of changing accounting principle - goodwill valuation under SFAS 142	--	--	
Loss from continuing operations	(4,495)	(3,076)	
Income from discontinued operations of the SVI Training Products Inc, subsidiary, net of applicable income taxes	--	109	
Net loss	(4,495)	(2,967)	
Cumulative preferred dividends	(282)	(254)	
Net loss available to common stockholders	$ (4,777)	$ (3,221)	$
Basic and diluted earnings (loss) per share:			
Loss before cumulative effect of a change in accounting principle	$ (0.13)	$ (0.10)	$
Cumulative effect of a change in accounting principle - goodwill valuation under SFAS 142	--	--	
Loss from continuing operations	(0.13)	(0.10)	
Income from discontinued operations	--	--	
Cumulative preferred dividends	(0.01)	(0.01)	
Net loss available to common stockholders	$ (0.14)	$ (0.11)	$
Basid and diluted weighted-average common shares outstanding:	34,417	28,855	

The accompanying notes are an integral part of these condensed consolidated financial

ISLAND PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	SIX MONTHS END 2003 (As restated
Cash flows from operating activities:	
Net loss	$(4,191)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	1,766
Cumulative effect of a change in accounting principle - goodwill valuation under SFAS 142	--
Gain on disposal of furniture and equipment	169
Amortization of debt discount and conversion option	1,542
Stock-based compensation	126
Common stock issued for services rendered	25
Changes in assets and liabilities net of effects from acquisitions:	
Accounts receivable and other receivables	(630)
Income tax refund receivable	(846)
Inventories	7
Prepaid expenses and other assets	(363)
Accounts payable and accrued expenses	(3,880)
Income tax payable	398
Accrued interest on stockholders' loans, convertible notes and term loan	187
Deferred revenue	125
Net cash used for operating activities	(5,565)
Cash flows from investing activities:	
Payment received from note receivable	9
Purchases of furniture and equipment	(264)
Capitalized software development costs	(2,243)
Net cash used for investing activities	(2,498)
Cash flows from financing activities:	
Sale of common stock, net of offering costs	7,232
Decrease in amount due to stockholders, net	--
Proceeds from committed stock	700
Payments on term loan and debentures	(135)
Proceeds from short-term loan from related party	--
Payments on short-term loan from related party	--
Net cash provided by financing activities	7,797
Effect of exchange rate changes on cash	(1)
Net decrease in cash and cash equivalents	(267)
Cash and cash equivalents, beginning of period	1,319
Cash and cash equivalents, end of period	$ 1,052

	========
Supplemental disclosure of cash flow information:	
Interest paid	$ 134
Supplemental schedule of non-cash investing and financing activities:	
Issued 4,103,161 shares of common stock upon conversion of the 9% debentures	$ 4,200
Issued 2,287,653 shares of common stock upon conversion of the note due to stockholders	$ 1,374
Issued 500,000 shares of common stock as payment for dividend on preferred stock	$ 421
Retired 10,700,000 shares of treasury stock	$(8,906)
Issued 100,000 shares of common stock for services in connection with an equity financing in December 2000	--
Issued 140,000 shares of common stock to pay for penalty for late effectiveness of the registration statement	--
Received 262,500 shares of common stock related to early termination of a service contract	--
Issued 84,849 and 568,380 shares of common stock as payments for bonuses and services rendered in prior periods	$ 83

The accompanying notes are an integral part of these condensed consolidated financial state

ISLAND PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PREPARATION

The accompanying unaudited condensed consolidated financial statements (as restated) have been prepared in accordance with generally accepted accounting principles applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at September 30, 2003 and for all the periods presented have been made.

Certain amounts in the prior periods have been reclassified to conform to the presentation for the three and six months ended September 30, 2003. The financial information included in this quarterly report should be read in conjunction with the consolidated financial statements and related notes thereto in our Form 10-K/A for the year ended March 31, 2003.

The results of operations for the three and six months ended September 30, 2003 and 2002 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - DISCONTINUED OPERATIONS

Effective April 1, 2003, we sold our wholly-owned subsidiary, SVI Training Products, Inc. ("Training Products"), to its former president, for the sale price of $180,000 plus earn-out payments equal to 20% of the total gross revenues of Training Products in each of its next two fiscal years, to the extent the revenues in each of those years exceed certain target. We received a promissory note for the amount of $180,000 and the earn-out payments, if any, will be made in quarterly installments following each fiscal year, bearing an annual interest rate of 5%. The note has a balance of $171,000 at September 30, 2003.

The sale of the Training Products subsidiary resulted in a loss of $129,000, net of estimated income taxes, which was accrued for at March 31, 2003. Accordingly, the operating results of the Training Products subsidiary for the three and six months ended September 30, 2002 were restated as discontinued operations.

NOTE 3 - INVENTORIES

Inventories consist of finished goods and are stated at the lower of cost or market, on a first-in, first-out basis.

NOTE 4 - CONVERTIBLE DEBTS

CONVERTIBLE NOTES DUE TO STOCKHOLDERS

During the quarter ended June 30, 2001, we entered into subscription agreements with a limited number of accredited investors related to existing stockholders for gross proceeds of $1.3 million. Each unit consisted of a convertible promissory note to purchase 250 shares of our common stock for each $1,000 borrowed by us. The holders of the notes had the option to convert the unpaid principal and interest to common stock at any time at a conversion price of $0.60 per share. The notes matured on September 30, 2003 and earned interest at 8% per annum, increasing to 13% in the event of a default in payment of principal or interest, to be paid at maturity. We did not have a right to prepay the notes. In September 2003, these investors converted all outstanding balances of principal and accrued interest totaling $1.4 million into 2,287,653 shares of our common stock.

We also issued to these investors warrants to purchase an aggregate of 1,600,000 shares at $0.60 per share, expiring July 19, 2007. The warrants are not callable by us. No warrants have currently been exercised.

We filed a registration statement for the resale of all shares held by or obtainable by these and other investors. The registration statement was declared effective on July 18, 2003.

6

CONVERTIBLE NOTE DUE TO UNION BANK OF CALIFORNIA

Pursuant to the Discounted Loan Payoff Agreement dated March 31, 2003, we issued to Union Bank of California a $500,000 unsecured, non-interest bearing convertible note payable in either cash or shares of common stock, at our option. If we elect to pay the principal amount or any portion thereof in shares of common stock, the shares will be computed on a price per share of 80% of the average share closing price of our common stock for the ten trading day period immediately preceding the payoff date. The maturity date is March 31, 2004. As of September 30, 2003, the bank had assigned the note to an unrelated party.

CONVERTIBLE NOTE DUE TO TOYS "R" US, INC. (RESTATED)

In May 2002, Toys "R" Us, Inc. ("Toys"), our major customer, agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 shares of common stock. In connection with this transaction, Toys signed a two-year software development and services agreement (the "Development Agreement") that expires in February 2004. The note is non-interest bearing, and the face amount is either convertible into shares of our common stock valued at $0.553 per share or payable in cash at our option, at the end of the term. The note is due May 29, 2009, or if earlier than that date, three years after the completion of the development project contemplated in the Development Agreement. We do not have the right to prepay the convertible note before the due date. The face amount of the note is 16% of the $1.3 million purchase price as of May 29, 2002, and increases by 4% of the $1.3 million purchase price on the last day of each succeeding month, until February 28, 2004, when the face amount is the full $1.3 million purchase price. The face amount will cease to increase if Toys terminates the Development Agreement for a reason other than the Company's breach. The face amount will be zero if we terminate the Development Agreement due to an uncured breach by Toys of the Development Agreement.

The warrant entitles Toys to purchase up to 2,500,000 of the shares of our common stock at $0.553 per share. The warrant is initially vested as to 400,000 shares as of May 29, 2002, and vests at the rate of 100,000 shares per month until February 28, 2004. The warrant will cease to vest if Toys terminates the Development Agreement for a reason other than the Company's breach. The warrant will become entirely non-exercisable if the Company terminates the Development Agreement due to an uncured breach by Toys of the Development Agreement. Toys may elect a "cashless exercise" where a portion of the warrant is surrendered to pay the exercise price.

The note conversion price and the warrant exercise price are each subject to a 10% reduction in the event of an uncured breach by us of certain covenants to Toys. These covenants do not include financial covenants. Conversion of the note and exercise of the warrant each require 75 days advance notice. We also granted Toys certain registration rights for the shares of our common stock into which the note is convertible and the warrant is exercisable.

In November 2002, the Board decided that this note will be converted solely for equity and will not be repaid in cash. The note had therefore been classified as equity at March 31, 2003. However, in order to comply with SFAS 150, "Accounting for Certain Financial Instruments Uncertainties of Both Liabilities and Equity", we have re-classified this note from equity to liabilities at September 30, 2003. Subsequent to September 30, 2003, the note was repaid by offsetting against outstanding receivables from Toys as opposed to the issuance of common stock.

In accordance with generally accepted accounting principles, the difference between the conversion price of the note of $0.553 and our stock price on the date of issuance of the notes amounted to $473,000 and being amortized over the term of the note. A total of 151,000 had been amortized during the period of the date of issuance to the date the note was classified as equity. At September 30, 2002 when the note was classified as equity, the remaining balance of $322,000 was expensed.

We have also allocated the proceeds received from debt or convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The amount allocated to the warrants was $406,000 and being amortized over the term of the note. A total of $19,000 had been amortized during the period from the date of issuance to the date the note was classified as equity. At September 30, 2002 when the note was classified as equity, the remaining balance of $387,000 was expensed.

CONVERTIBLE DEBENTURES (RESTATED)

In March 2003, we entered into a Securities Purchase Agreement for the sale of convertible debentures to a group of investors (the "March '03 Debenture Investors"). The debentures were convertible into shares of our common stock at a conversion price of $1.02 per share, for the total proceeds of $3.5 million. The debentures would have matured in May 2005 and bore an interest rate of 9% per annum. Interest was payable on a quarterly basis commencing on June 1, 2003, in cash or shares of common stock, at our option. If certain conditions were met, we had the right, but not the obligation, to redeem the debentures at 110% of their face value, plus accrued interest. Commencing in February 2004, we would have been obligated to redeem $219,000 per month of the debentures. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded $1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised our option to cause the investors to convert their debentures into common stock. As a result, the investors converted all of their debentures into an aggregate of 3,419,304 shares of our common stock in the quarter ended September 30, 2003.

We filed a registration statement covering 130% of the common stock issuable upon the conversion of the debentures and warrants. The registration statement was declared effective on July 18, 2003.

Additional debentures, aggregating up to $2 million, will be sold to these investors in a second closing, if within one year after the date of first sale of debentures there occurs a period of 15 consecutive trading days during which the daily volume weighted average closing price of our common stock is maintained at a price at or above $1.75 per share, subject to certain conditions. The shares of common stock underlying these debentures and warrants were not included in the registration statement declared effective in July 2003. Neither the investors nor we have executed the second closing as of September 30, 2003.

In accordance with generally accepted accounting principles, the difference between the conversion price of $1.02 and our stock price on the date of issuance of the debentures amounted to $715,000 and was being amortized over the term of the debentures. A total of $165,000 had been amortized during the period from the date of issuance to the date of conversion into common stock. Upon conversion of the debentures into common stock, the remaining balance of $550,000 was expensed.

The March '03 Debenture Investors also received warrants to purchase up to, in the aggregate, 1,572,858 shares of common stock with an exercise price equal to $1.02 per share. The warrants expire five years from the date of issuance. We allocated the proceeds received from debt or convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The amount allocated to the warrants was $625,000 and was being amortized over the term of the convertible debentures. A total of $144,000 had been amortized during the period from the date of issuance to the date of conversion into common stock. Upon conversion of the debentures into common stock, the remaining balance of $481,000 was expensed.

In April 2003, we entered into a Securities Purchase Agreement with an investor (the "April '03 Debenture Investor") for the sale of a 9% debenture, convertible to shares of our common stock at a conversion price of $1.02, for the gross proceeds of $400,000. Interest was due on a quarterly basis commencing on June 1, 2003, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, we would have been obligated to redeem $20,000 per month of the debenture. The debenture would have matured in October 2005. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded $1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause this investor to convert its debenture into common stock. As a result, the April '03 Debenture Investor converted its debenture into 390,777 shares of our common stock in the quarter ended September 30, 2003.

The April '03 Debenture Investor was also granted registration rights under a registration rights agreement, and certain other rights similar to those granted to the March '03 Debenture Investors.

In accordance with generally accepted accounting principles, the difference between the conversion price of $1.02 and our stock price on the date of issuance of the debentures amounted to $69,000 and was being amortized over the term of the debenture. A total of $16,000 had been amortized during the period from the date of issuance to the date of conversion into common stock. Upon conversion of the debenture into common stock, the remaining balance of $53,000 was expensed.

The debenture issued to the April '03 Debenture investor was accompanied by a five-year warrant to purchase 156,311 shares of our common stock with an exercise price of $1.02 per share. We allocated the proceeds received from debt or convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The amount allocated to the warrants was determined to be $63,000 and was being amortized as interest expense over the term of the convertible debenture. A total of $15,000 had been amortized during the period from the date of issuance to the date of conversion into common stock. Upon conversion of the debentures into common stock, the remaining balance of $48,000 was expensed.

In May 2003, we entered into an agreement with a group of investors (the "May '03 Debenture Investors") for the sale of 9% debentures, convertible into shares of our common stock at a conversion price of $1.02 for the gross proceeds of $300,000. Interest was due on a quarterly basis commencing on June 1, 2003, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, we would have been obligated to redeem $19,000 per month of the debentures. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded $1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause the investors to convert their debentures into common stock. As a result, the May '03 Debenture Investors converted their debentures into an aggregate of 293,083 shares of our common stock in the quarter ended September 30, 2003.

The debentures would have been matured in May 2005. The May '03 Debenture Investors were also granted registration rights under a registration rights agreement, and certain other rights similar to those granted to the March '03 Debenture Investors.

Additional debentures aggregating up to $300,000 will be sold to the May '03 Debenture Investors in a second closing, if within one year after the date of first sale of debentures there occurs a period of 15 consecutive trading days during which the daily volume weighted average closing price of our common stock is maintained at a price at or above $1.75 per share, subject to certain conditions. The shares of common stock underlying these debentures and warrants were not included in the registration statement declared effective in July 2003. Neither the investors nor we have executed the second closing as of the date of this report.

In accordance with generally accepted accounting principles, the difference between the conversion price of $1.02 and our stock price on the date of issuance of the debentures amounted to $38,000 and was being amortized over the term of the debentures. A total of $7,000 had been amortized during the period from the date of issuance to the date of conversion into common stock. Upon conversion of the debentures into common stock, the remaining balance of $31,000 was expensed.

These debentures were accompanied by five-year warrants to purchase an aggregate of 101,112 shares of common stock with an exercise price of $1.02 per share. We allocated the proceeds received from debt or convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The amount allocated to the warrants is $39,000 and was being amortized as interest expense over the life of the convertible debentures. A total of $7,000 had been amortized during the period from the date of issuance to the date of conversion into common stock. Upon conversion of the debentures into common stock, the remaining balance of $32,000 was expensed.

In June 2003, we entered into an agreement with various institutional investors ("Common Stock Institutional Investors") for the sale of 5,275,000 shares of common stock at a per share price of $1.50 for an aggregate purchase price of $7.9 million. In connection with this financing, we paid Roth Capital Partners, LLC, as placement agent, cash compensation of 8% of the proceeds and issued a five-year warrant to purchase 527,500 shares of common stock at an exercise price of $1.65 per share. We also issued five-year warrants to purchase 375,000 shares of common stock at an exercise price of $1.65 to the March '04 Debenture Investors and May '04 Debenture Investors in order to obtain their requisite consents and waivers of rights they possessed to participate in the financing. We filed a registration statement covering the shares sold and warrants issued in connection with this transaction. The registration statement was declared effective September 26, 2003.

NOTE 5 - INCOME TAX BENEFITS

Income tax benefits for the six months ended September 30, 2003 include $846,000 income tax refund receivable; offset in part by income tax payable relating to prior periods of $271,000. The net amount of $570,000 has been recorded as income under provision for income taxes in the consolidated statement of operations in the six months ended September 30, 2003. The income tax refund resulted from carrying back net operating losses in the last three years to prior periods.

NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives but requires that these assets be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that their value has diminished or been impaired. Other intangible assets will continue to be amortized over their estimated useful lives. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill.

Effective April 1, 2002, we adopted SFAS 142 and ceased amortization of goodwill recorded in business combinations prior to June 30, 2001. We evaluate the remaining useful lives of these intangibles on an annual basis to determine whether events or circumstances warrant a revision to the remaining period of amortization.

Pursuant to SFAS 142, we completed the transitional analysis of goodwill impairment as of April 1, 2002 and recorded an impairment of $627,000 as a cumulative effect of a change in accounting principle in the quarter ended June 30, 2002.

NOTE 7 - PREFERRED STOCK

The Series A Preferred has a stated value of $100 per share and is redeemed at our option any time prior to the maturity date of December 31, 2006 for 107% of the stated value and accrued and unpaid dividends. The preferred shares are entitled to cumulative dividends of 7.2% per annum, payable semi-annually, and have accumulative dividends of $1.4 million and $10.21 and $777,000 of $5.46 per share, at September 30, 2003 and 2002, respectively. The holders may convert each share of Series A Preferred at any time into the number of shares of our common stock determined by dividing the stated value plus all accrued and unpaid dividends, by a conversion price initially equal to $0.80. The conversion price will increase at an annual rate of 3.5% calculated on a semi-annual basis. The conversion price as of September 30, 2003 is $0.84. The Series A Preferred is entitled upon liquidation to an amount equal to its stated value plus accrued and unpaid dividends in preference to any distributions to common stockholders. The Series A Preferred has no voting rights prior to conversion into common stock, except with respect to proposed impairments of the Series A Preferred rights and preferences, or as provided by law. We have the right of first refusal to purchase all but not less than all of any shares of Series A Preferred or shares of common stock received on conversion which the holder may propose to sell to a third party, upon the same price and terms as the proposed sale to a third party.

10

NOTE 8 - EARNINGS (LOSS) PER SHARE (RESTATED)

Basic earnings (loss) per common share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common shares ("diluted EPS") reflect the potential dilutive effect, determined by the treasury method, of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Earnings per share for the three and six months ended September 30, 2003 and 2002 is calculated as follows (in thousands):

	Three months ended September 30,		Six months ended
	2003	2002	2003
Net loss available to common stockholders	$ (4,777)	$ (3,221)	$ (4,745)
Basic and diluted weighted average shares	34,417	28,855	33,264

Basic and dliluted loss per share	$ (0.14)	$ (0.11)	$ (0.14)

The following potential common shares have been excluded from the computation of diluted net loss per share for the three and six months ended September 30, 2002, because the effect would have been anti-dilutive:

	2003	2002
Outstanding options under our stock option plans	4,866,240	5,181,082
Outstanding options granted outside our stock option plans	5,054,312	5,074,312
Warrants issued in conjunction with private placements	6,330,281	4,232,000
Warrants issued for services rendered	748,169	804,002
Convertible notes	223,214	2,083,333
Convertible note due to a major customer	2,500,000	2,500,000
Series A Convertible Preferred Stock	18,444,424	18,576,750
Total	38,116,640	38,451,479

NOTE 9 - BUSINESS SEGMENTS AND GEOGRAPHIC DATA (AS RESTATED)

We are a provider of software solutions and services to the retail industry. We provide high value innovative solutions that help retailers understand, create, manage and fulfill consumer demand. Our solutions and services have been developed specifically to meet the needs of the retail industry. Our solutions help retailers improve the efficiency and effectiveness of their operations and build stronger, longer lasting relationships with their customers. We currently operate in the United States and the United Kingdom. The geographic distribution of our revenues and long-lived assets are as follows (in thousands):

	Three months ended September 30,		Six months ended September	
	2003 (As restated)	2002	2003 (As restated)	2002
Revenues:				
United States	$ 2,288	$ 3,224	$ 7,214	$ 7,652
United Kingdom	491	573	1,031	1,038
Total revenues	$ 2,779	$ 3,797	$ 8,245	$ 8,690

11

	September 30, 2003 (As restated)	March 31, 2003
Identifiable assets from continuing operations:		
United States	$ 39,021	$ 37,146
United Kingdom	617	491

Total identifiable assets	$ 39,638	$ 37,637

For the three months ended September 30, 2003 and 2002, revenues from one major customer represents 7% and 27%, respectively, of total revenues. Revenues from this major customer represents 18% and 35% of total revenues for the six months ended September 30, 2003 and 2002, respectively. The accounts receivable balance from this major customer at September 30, 2003 and 2002 represents 45% and 9% of total accounts receivable.

We organize our business into two segments as follows:

- RETAIL MANAGEMENT SOLUTIONS - offer suite of applications, which builds on our long history in retail software design and development. We provide our customers with an extremely reliable, widely deployed, comprehensive and fully integrated retail management solutions. Retail Management Solutions include merchandise management that optimizes workflow and provides the highest level of data integrity. This module supports all operational areas of the supply chain including planning, open-to-buy purchase order management, forecasting, warehouse and store receiving distribution, transfers, price management, performance analysis and physical inventory. In addition, Retail Management Solutions include a comprehensive set of tools for analysis and planning, replenishment and forecasting, event and promotion management, warehouse, ticketing, financials and sales audit. Through collaborations with strategic partners, Retail Management Solutions offer tools for loss prevention, communication with stores and vendors, integration needs, purchase and allocation decisions, analysis of weather impact, control and management of business processes, consumer research, tracking consumer shopping patterns, forecasting and replenishment, and analyzing store people productivity.

- STORE SOLUTIONS - offer suite of applications builds on our long history of providing multi-platform, client server in-store solutions. We market this set of applications under the name "OnePointe," and "OnePointe International" which is a full business to consumer software infrastructure encompassing a range of integrated store solutions. "OnePointe" is a complete application providing all point-of-sale ("POS") and in-store processor (server) functions for traditional "brick and mortar" retail operations.

12

A summary of the revenues and operating income (loss) attributable to each of these business units and identifiable assets is as follows (in thousands):

	Three months ended September 30,		Six Se
	2003	2002	2003

	(As restated)		(A
Revenues:			
Retail Management Solutions	$ 2,406	$ 3,528	$ 7,47
Store Solutions	373	269	77
	$ 2,779	$ 3,797	$ 8,24
Operating income (loss):			
Retail Management Solutions	$ (1,345)	$ (1,040)	$ (37
Store Solutions	(415)	(416)	(63
Other (see below)	(980)	(637)	(1,71
Total operating income (loss)	$ (2,740)	$ (2,093)	$ (2,72
Depreciation:			
Retail Management Solutions	$ 35	$ 50	$ 6
Store Solutions	7	13	1
Other (see below)	8	23	2
Total depreciation	$ 50	$ 86	$ 10
Other operating loss:			
Depreciation	$ (8)	$ (23)	$ (25
Administrative costs and other non-allocated expenses	(972)	(614)	(1,690
Total other operating loss	$ (980)	$ (637)	$(1,715

	September 30, 2003	March 31, 2003
	(As restated)	
Identifiable assets:		
Retail Management Solutions	$ 33,328	$ 31,953
Store Solutions	4,410	4,404
Total	$ 37,738	$ 36,357
Goodwill, net of amortization:		
Retail Management	$ 13,903	$ 13,903
Store Solutions	892	892
Total	$ 14,795	$ 14,795

Operating income (loss) in Retail Management Solutions and Store Solutions includes direct expenses for software licenses, maintenance services, programming and consulting services, sales and marketing expenses, product development expenses, and direct general and administrative expenses. The "Other" caption includes non-allocated costs and other expenses that are not directly identified with a particular business unit and which management does not consider in evaluating the operating income of the business unit.

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS (AS RESTATED)

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 further clarifies accounting for derivative instruments. We believe the adoption of this statement will have no material impact on our consolidated financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Upon adoption of SFAS 150, the convertible note due to Toys was re-classified from equity to liabilities (see Note 4 under "Convertible Note Due to Toys "R" Us, Inc.").

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In June 2003, we entered into a development and marketing license agreement with a software and services company affiliated with one of our officers. Under this agreement, we obtain an exclusive right to sell and distribute this company's software. In return, we committed to fund $1.2 million toward development of this product. We also agreed to pay a royalty of 30% of the software license revenues up until we have recuperated all the development funding, at which point the royalty will increase to 50% thereafter. As of September 30, 2003, we've funded $275,000 toward development.

In September 2003, we entered into an agreement in principle to acquire Page Digital, Inc. for $7 million. This purchase has not yet been finalized as of the date of this report.

In April of 2002, our former CEO, Thomas Dorosewicz, filed a demand with the California Labor Commissioner for $256,250 in severance benefits allegedly due under a disputed employment agreement, plus attorney's fees and costs. Mr. Dorosewicz's demand was later increased to $283,894. On June 18, 2002, we filed an action against Mr. Dorosewicz, Michelle Dorosewicz and an entity affiliated with him in San Diego Superior Court, Case No. GIC790833, alleging fraud and other causes of action relating to transactions Mr. Dorosewicz caused us to enter into with his affiliates and related parties without proper board approval. On July 31, 2002, Mr. Dorosewicz filed cross-complaints in that action alleging breach of statutory duty, breach of contract, fraud and other causes of action related to his employment with us and other transactions he entered into with us. This dispute was heard before an arbitrator during the week ended October 3, 2003, and a decision from the arbitrator should be forthcoming.

We decided in the third quarter of fiscal 2002 to sell certain assets of our Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was, however, subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to an entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. We have reserved $187,000 as our potential exposure. The receiver has also claimed that we are obligated to it for inter-company balances of $636,000, but we do not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due.

On May 15, 2002, an employee who is currently out on disability/worker's compensation leave, Debora Hintz, filed a claim with the California Labor Commissioner seeking $41,000 in alleged unpaid commissions. In or about December of 2002, Ms. Hintz filed a discrimination claim against us with the Department of Fair Employment and Housing, alleging harassment and sexual orientation discrimination. We have responded appropriately to both the wage claim and the discrimination allegations, which we believe lack merit based on present information.

On August 30, 2002, Cord Camera Centers, Inc., an Ohio corporation ("Cord Camera"), filed a lawsuit against one of our subsidiaries, SVI Retail, Inc. as the successor to Island Pacific Systems Corporation, in the United States District Court for the Southern District of Ohio, Eastern Division, Case No. C2 02 859. The lawsuit claimed damages in excess of $1.5 million, plus punitive damages of $250,000, against SVI Retail for alleged fraud, negligent misrepresentation, breach of express warranties and breach of contract. These claims pertained to the following agreements between Cord Camera and Island Pacific: (i) a License Agreement, dated December 1999, as amended, for the use of certain software products, (ii) a Services Agreement for consulting, training and product support for the software products and (iii) a POS Software Support Agreement for the maintenance and support services for a certain software product. The parties settled this matter in September 2003 and the terms of the settlement are covered by a confidentiality agreement.

In mid-2002, we were the subject of an adverse judgment entered against us in favor of Randall's Family Golf Centers, ("Randall") in the approximate sum of $61,000. The judgment was entered as a default judgment, and is based on allegations that the Company received a preferential transfer of funds within 90 days of the filing by Randall of a chapter 11 case in the United States Bankruptcy Court for the Southern District of New York. We and Randall have agreed to settle this claim for $12,500, subject to the settlement receiving approval by the U.S. Bankruptcy Court.

On November 22, 2002, UDC Homes, Inc and UDC Corporation now known as Shea Homes, Inc. served Sabica Ventures, Inc. ("Sabica") and Island Pacific, an operating division of SVI Solutions, Inc. ("Island Pacific") with a cross-complaint for indemnity on behalf of an entity identified in the summons as Pacific Cabinets. Sabica and Island Pacific filed a notice of motion and motion to quash service of summons on the grounds that neither Sabica nor Island Pacific has ever done business as Pacific Cabinets and has no other known relation to the construction project that is the subject of the cross-complaint and underlying complaint. A hearing on Sabica's and Island Pacific's motion to quash occurred on May 22, 2003 which was subsequently denied.

Certain of our standard software license agreements contain a limited infringement indemnity clause under which we agree to indemnify and hold harmless our customers and business partners against certain liability and damages arising from claims of various copyright or other intellectual property infringement by our products. These terms constitute a form of guarantee that is subject to the disclosure requirements, but not the initial recognition or measurement provisions of Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of others." We have never lost an infringement claim and our cost to defend such lawsuits have been insignificant. Although it is possible that in the future third parties may claim that our current or potential future software solutions infringe on their intellectual property, we do not currently expect a significant impact on our business, operating results or financial condition.

Except as set forth above, we are not involved in any material legal proceedings, other than ordinary routine litigation proceedings incidental to our business, none of which are expected to have a material adverse effect on our financial position or results of operations. However, litigation is subject to inherent uncertainties, and an adverse result in existing or other matters may arise from time to time which may harm our business.

NOTE 12 - RELATED-PARTY TRANSACTIONS

We retain our former CEO and Chairman of the Board to provide consulting services starting August 2003. For the quarter and six months ended September 30, 2003, the expense for this service was $74,000.

We retained an entity owned by an immediate family member of our CEO and Chairman to provide recruiting services. For the six months ended September 30, 2003, the expense for this service was $108,000.

In June 2003, we entered into a development and marketing license agreement with a software and services company affiliated with one of our officers. Under this agreement, we obtain an exclusive right to sell and distribute this company's software. In return, we committed to fund $1.2 million toward development of this product. We also agreed to pay a royalty of 30% of the software license revenues up until we have recuperated all the development funding, at which point the royalty will increase to 50% thereafter. As of September 30, 2003, we've funded $275,000 toward development.

15

NOTE 13 - SUBSEQUENT EVENTS

In October 2003, Donald Radcliffe resigned as a member of our Board Directors.

On November 7, 2003, we entered into an agreement with various institutional investors ("November 2003 Institutional Investors") for the sale of 3,180,645 shares of common stock at a price of $1.55 per share for an aggregate purchase price of $4.9 million. We also granted the November 2003 Institutional Investors registration rights under a registration rights agreement in which we agree to file a registration statement with the Securities and Exchange Commission for the resale of all shares sold these investors. If the registration statement is not filed by December 7, 2003, we will be obligated to pay on December 7, 2003, and each monthly anniversary until the registration statement is filed, an amount in cash, as liquidated damages, equal to 2.0% of the purchase price paid by the November 2003 Institutional Investors.

In connection with this financing, we paid Roth Capital Partners, LLC ("Roth Capital"), as placement agent, a compensation of $179,000 in cash and 115,226 shares of our common stock and issued a five-year warrant to purchase 282,065 shares of our common stock at an exercise price of $1.71 per share. Roth Capital was granted the registration rights similar to those granted to the November 2003 Institutional Investors.

NOTE 14 - RESTATEMENTS

Subsequent to the issuance of our condensed consolidated financial statements for the three and six months ended September 30, 2003, our management determined that:

* The revenue from a one-time sale of software technology rights should not be recognized,

* The revenues and cost of revenues should be presented separately as product and services revenues and corresponding costs of revenues,

* The amortization expense of software products should be reported as cost of product revenue,

* The debt discount and beneficial conversion charges should be capitalized and amortized over the term of the debt, and

* The convertible note payable to Toys should be re-classified from from equity to liabilities.

As a result, the condensed consolidated financial statement for the three and six months ended September 30, 2003 and 2002 have been restated from the amounts previously reported. A summary of the significant effects of the restatement is as follows:

	As Previously Reported	Restatem Adjustm
At September 30, 2003:		
Accounts receivable, net	$ 8,514	$ (3,
Current assets	12,118	(3,
Total assets	43,538	(3,
Convertible note	--	1,
Total liabilities	6,031	1,
Committed common stock	1,383	(1,
Additional paid-in capital	61,526	1,
Accumulated deficit	(39,506)	(5,
Total stockholders' equity	37,507	(5,
For the three-month period ended September 30, 2003:		
Total revenues	$ 6,679	$ (3,
Cost of revenues	1,074	
Gross profit	5,605	(4,
Application development expense	546	
Depreciation and amortization	898	(
Total expenses	4,445	(
Interest expense	(209)	(1,

Net income (loss)	700	(5,
Net income (loss) available to common stockholders	418	(5,
Basic and diluted EPS (loss) available to common stockholders	0.01	(0
For the six-month period ended September 30, 2003:		
Total revenues	$ 12,145	$ (3,
Cost of revenues	2,728	1,
Gross profit	9,417	(5,
Application development expense	683	
Depreciation and amortization	1,766	1,
Total expenses	8,246	(1,
Interest expense	(521)	(1,
Net income (loss)	984	(5,
Net income (loss) available to common stockholders	430	(5,
Basic and diluted EPS (loss) available to common stockholders	0.01	(0

1. Accounts receivables and revenues were revised to reverse recognition of revenue and receivable from a one-time sale of software technology rights in the amount of $3.9 million.

2. Convertible note and committed stock were revised to re-classify the convertible note payable to Toys in the amount of $1,383,000 to liabilities.

3. Additional paid-in capital was revised to reflect the proper amortization of debt discount and beneficial conversion interest expense, previously charged against additional paid-in capital.

4. Accumulated deficit was revised to reverse revenue of $3.9 million from a one-time sale of software technology rights and recognize amortization expense of $1,275,000 in connection with the debt discount and beneficial conversion interest charges on the March '03, April '03 and May '03 debt financings.

5. Cost of revenues was revised to include amortization of capitalized software in the amount of $579,000 and $1,162,000 in the three and six-month periods ended September 30, 2003, respectively, previously reported as depreciation and amortization expense and to re-classify $39,000 expense to application development expense.

6. Application development expense was revised to include $39,000 expense in the periods ended September 30, 2003, previously reported as cost of revenues.

7. Depreciation and amortization was revised to re-classify amortization of software in the amounts of $579,000 and $1,201,000 in the three and six-month periods ended September 30, 2003, respectively, to cost of revenues.

8. Interest expense was revised to recognize amortization expense in connection with debt discount and beneficial conversion interest charges of $1,275,000 on the March '03, April '03 and May '03 debt financings.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 AND THE COMPANY INTENDS THAT CERTAIN MATTER DISCUSSED IN THIS REPORT ARE "FORWARD-LOOKING STATEMENTS" INTENDED TO QUALIFY FOR THE SAFE HARBOR FROM LIABILITY ESTABLISHED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE FORWARD-LOOKING STATEMENTS CAN GENERALLY BE IDENTIFIED BY THE CONTEXT OF THE STATEMENT WHICH MAY INCLUDE WORDS SUCH AS THE COMPANY ("IPI", "WE" OR "US") "BELIEVES", "ANTICIPATES", "EXPECTS", "FORECASTS", "ESTIMATES" OR OTHER WORDS SIMILAR MEANING AND CONTEXT. SIMILARLY, STATEMENTS THAT DESCRIBE FUTURE PLANS, OBJECTIVES, OUTLOOKS, TARGETS, MODELS, OR GOALS ARE ALSO DEEMED FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE FORECASTED OR ANTICIPATED AS OF THE DATE OF THIS REPORT. CERTAIN OF SUCH RISKS AND UNCERTAINTIES ARE DESCRIBED IN CLOSE PROXIMITY TO SUCH STATEMENTS AND ELSEWHERE IN THIS REPORT INCLUDING ITEM 2, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." STOCKHOLDERS, POTENTIAL INVESTORS AND OTHER READERS ARE URGED TO CONSIDER THESE FACTORS IN EVALUATING THE FORWARD-LOOKING STATEMENTS AND ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS OR CONSTRUE SUCH STATEMENTS TO BE A REPRESENTATION BY US THAT OUR OBJECTIVES OR PLANS WILL BE ACHIEVED. THE FORWARD-LOOKING STATEMENTS INCLUDED IN THIS REPORT ARE MADE ONLY AS OF THE DATE OF THIS REPORT, AND WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE SUCH FORWARD-LOOKING STATEMENTS TO REFLECT SUBSEQUENT EVENTS OR CIRCUMSTANCES.

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES AND OTHER FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS FORM 10-Q/A. READERS ARE ALSO URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY US WHICH ATTEMPT TO ADVISE INTERESTED PARTIES OF THE FACTORS WHICH AFFECT OUR BUSINESS, INCLUDING WITHOUT LIMITATION THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED IN OUR ANNUAL REPORT FILED ON FORM 10-K/A FOR THE YEAR ENDED MARCH 31, 2003, AND THE DISCLOSURES UNDER THE HEADING "RISK FACTORS" IN THE FORM 10-K/A, AS WELL AS OTHER REPORTS AND FILINGS MADE WITH THE SECURITIES AND EXCHANGE COMMISSION.

OVERVIEW

We are a provider of software solutions and services to the retail industry. We provide solutions that help retailers understand, create, manage and fulfill consumer demand. We derive the majority of our revenues from three sources: the initial sale of application software licenses, or license revenues, professional services and support, or maintenance services. Application software license fees are dependent upon the sales volume of our customers, the number of users of the application(s), and/or the number of locations in which the customer plans to install and utilize the application(s). As the customer grows in sales volume, adds additional users and/or adds additional locations, we charge additional license fees. Professional services relate to implementation of our software, training of customer personnel and modification or customization work. Support, maintenance and software updates are a source of recurring revenues and are generally based on a percentage of the software license revenues and are charged on an annual basis pursuant to renewable maintenance contracts. We typically charge for professional services including consulting, implementation and project management services on an hourly basis.

As the vast majority of our revenues are derived from the retail industry, we are heavily dependent on the financial strength of retailers and their capital budgets. Deterioration in the health of retailers or a reduction in their capital budget or a decision to delay the purchase of new systems have a direct impact on our business. Our sales cycles are long, generally three to twelve months, and our ability to close a pipeline of potential transaction is very unpredictable. As such, management believes that license revenue and growth in license revenue are the best indicator of the Company's business as they signify either new customers or an expansion of licenses of existing customers. While there's generally a time lag between a sale of new license and when we provide services and support, an increase in license revenue will generally lead to an increase in services and support revenues in future quarters.

RESTATEMENTS

As discussed in the notes to condensed financial statements, we restated our September 30, 2003 financial statements to:

1. Reverse recognition of revenue from a one-time sale of software technology rights,

2. Present revenues and cost of revenues separately as product and services and corresponding cost of revenues,

3. Report amortization of software products as cost of product revenue,

4. Capitalize and amortize of debt discount and beneficial conversion charge as interest expense over the term of the debt, and

5. Re-classify the convertible note payable from equity to liabilities.

These changes had no impact on the net cash flows from operations.

RECENT DEVELOPMENTS

In the third quarter of fiscal 2004, the 9% convertible debenture holders converted all of outstanding balances totaling $4.2 million into 4,103,141 shares of our common stock.

In September 2003, ICM Asset Management's investors converted all outstanding balances totaling $1.4 million of the convertible notes into 2,287,653 shares of our common stock.

In October 2003, we announced our intentions to acquire Page Digital, Inc. for $7 million. This acquisition has not yet been finalized as of the date of this report.

In October 2003, Donald Radcliffe resigned as a member of our Board Directors.

In November 2003, we entered into an agreement with various institutional investors for the sale of 3,180,645 shares of common stock at a price of $1.55 per share for an aggregate purchase price of $4.9 million. See "Liquidity and Capital Resources -- Financing Transactions" below.

DISCONTINUED OPERATIONS

Effective April 1, 2003, we sold our wholly-owned subsidiary, SVI Training Products, Inc. ("Training Products") to its former president for the sale price of $180,000 plus earn-out payments equal to 20% of the total gross revenues of Training Products in each of its next two fiscal years, to the extent the revenues in each of those years exceed certain targets. We received a promissory note for the amount of $180,000 and the earn-out payments, if any, will be made in quarterly installments following each fiscal year, bearing an annual interest rate of 5%. The sale of the Training Products subsidiary resulted in a loss of $129,000, net of estimated income taxes, which was accrued for at March 31, 2003. The operating results of Training Products for the prior periods are restated as discontinued operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, based on historical experience, and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

- REVENUE RECOGNITION. Our revenue recognition policy is significant because our revenue is a key component of our results of operations. In addition, our revenue recognition determines the timing of certain expenses such as commissions and royalties. We follow specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue policy.

  We license software under non-cancelable agreements and provide related services, including consulting, training, customization of software and customer support. We recognize revenue in accordance with Statement of Position 97-2 (SOP 97-2), Software Revenue Recognition, as amended and interpreted by Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition, with respect to certain transactions, as well as Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants.

Software license revenue, including third party license revenues or partner products, is generally recognized when a license agreement has been signed, the software product has been delivered, there are no uncertainties surrounding product acceptance, the fees are fixed and determinable, and collection is considered probable. If a software license contains an undelivered element, the fair value of the undelivered element is deferred and the revenue recognized once the element is delivered. We can establish vendor specific objective evidence ("VSOE") for all elements and not just undelivered elements. The undeliverable elements are primarily training, consulting and maintenance services. VSOE of fair value for training and consulting services is based upon hourly rates charged when those services are sold separately. VSOE of fair value for maintenance is the price the customer will be required to pay when it is sold separately (that is, the renewal rate). In addition, if a software license contains contingencies, such as specific customer acceptance criteria, right of return or a cancellation right, the software revenue is recognized upon the later of customer acceptance or the expiration of the acceptance period or cancellation right. Typically, payments for our software licenses are due in installments within twelve months from the date of delivery. Where software license agreements call for payment terms of twelve months or more from the date of delivery, revenue is recognized as payments become due and all other conditions for revenue recognition have been satisfied. Deferred revenue consists primarily of prepaid maintenance support revenues, prepaid services revenue and deferred licenses.

Consulting services are separately priced, are generally available from a number of suppliers, and are not essential to the functionality of our software products. Consulting services, which include project management, system planning, design and implementation, customer configurations, and training are billed on both an hourly basis and under fixed price contracts. Consulting services revenue billed on an hourly basis is recognized as the work is performed. Under most fixed price contracts, consulting services revenue is recognized using the percentage of completion method of accounting by relating hours incurred to date to total estimated hours at completion. In instances where our fixed price contracts require the achievement of certain milestones, the milestones are agreed with the customer and revenues are recognized only when the milestones are delivered and accepted by the customer.

Customization of software is billed on both an hourly basis and under fixed price contracts. Customization services billed on an hourly basis are recognized as the work is performed. Under most fixed price contracts, customization services revenue is recognized using the percentage of completion method of accounting by relating hours incurred to date to total estimated hours at completion. In instances where our fixed price contracts require the achievement of certain milestones, the milestones are agreed with the customer and revenues are recognized only when the milestones are delivered and accepted by the customer.

Customer support services include post contract support and the rights to unspecified upgrades and enhancements. Maintenance revenues from ongoing customer support services are billed on a monthly basis and recorded as revenue in the applicable month, or on an annual basis with the revenue being deferred and recognized ratably over the maintenance period. If an arrangement includes multiple elements, the fees are allocated to the various elements based upon vendor-specific objective evidence of fair value.

- ACCOUNTS RECEIVABLE. We typically extend credit to our customers. Software licenses are generally due in installments within twelve months from the date of delivery. Billings for customer support and consulting services performed on a time and material basis are due upon receipt. From time to time software and consulting services are provided under fixed price contracts where the revenue is only recognized and the payments are only due upon customer acceptance and the achievement of certain milestones. Management estimates the probability of collection of the receivable balances and provides an allowance for doubtful accounts based upon an evaluation of our customers ability to pay and general economic conditions.

- VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL. For fiscal 2003, we have adopted SFAS No. 142 resulting in a change in the way we value long-term intangible assets and goodwill. We completed the initial transitional analysis of goodwill impairment as of April 1, 2002 and recorded an impairment of $0.6 million as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2003. We no longer amortize goodwill, but instead test goodwill for impairment on an annual basis or more frequently if certain events occur. Goodwill is to be measured for impairment by reporting units, which currently consist of our operating segments. At each impairment test for a business unit, we are required to compare the carrying value of the business unit to the fair value of the business unit. If the fair value exceeds the carrying value, goodwill will not be considered impaired. If the fair value is less than the carrying value, we will perform a second test comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The difference if any between the carrying amount of that goodwill and the implied fair value will be recognized as an impairment loss, and the carrying amount of the associated goodwill will be reduced to its implied fair value. These tests require us to make estimates and assumptions concerning prices for similar assets and liabilities, if available, or estimates and assumptions for other appropriate valuation techniques.

  For our intangible assets with finite lives, including our capitalized software and non-compete agreements, we assess impairment at least annually or whenever events and circumstances suggest the carrying value of an asset may not be recoverable based on the net future cash flows expected to be generated from the asset on an undiscounted basis. When we determine that the carrying value of intangibles with finite lives may not be recoverable, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

RECENT ACCOUNTING PRONOUNCEMENTS

A number of new pronouncements have been issued for future implementation as discussed in the footnotes to our interim financial statements (see Note 9). As discussed in the notes to the interim financial statements, the implementation of some of these new pronouncements is not expected to have a material effect on our financial position or results of operations.

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

REVENUES

Product revenues decreased $0.2 million, or 10%, to $1.8 million in the quarter ended September 30, 2003 from $2.0 million in the quarter ended September 30, 2002, primarily due to a $0.4 million decrease in new licenses, offset by $0.2 million from the sale of partner products. Services revenues decreased by $0.8 million, or 44% to $1.0 million in the quarter ended September 30, 2003 from $1.8 million in the quarter ended September 30, 2002 primarily due to a $0.8 million decrease from Toys R Us., Inc. "(Toys"). Toys revenue in fiscal 2004 consisted primarily of implementation services. Toys had been a major customer since fiscal 2000 and terminated its contract in third quarter of fiscal 2004. As we don't anticipate additional material Toys revenue in the near future, the loss of Toys will have a significant impact on future revenues as we attempt to replace those revenues with revenues generated from new customers. Total revenues decreased $1.0 million, or 26%, to $2.8 million in the quarter ended September 30, 2003 from $3.8 million in the quarter ended September 30, 2002 due to the above factors. Excluding Toys revenues of $0.2 million and $1.0 million in the quarter ended September 30, 2003 and September 30, 2002, respectively, total revenues were $2.6 million for the quarter ended September 30, 2003 compared to $2.8 million in the quarter ended September 30, 2002, a 7% decrease.

COST OF REVENUES/GROSS PROFIT

Cost of revenues decreased by $0.6 million, or 26%, to $1.7 million in the quarter ended September 30, 2003 from $2.3 million in the quarter ended September 30, 2002. Cost of product revenues remained at $1.2 million in the quarter ended September 30, 2003 and the quarter ended September 30, 2002. Cost of services revenue decreased $0.7 million, or 58%, to $0.5 million in the quarter ended September 30, 2003 from $1.2 million in the quarter ended September 30, 2002. Total gross profit decreased $0.4 million, or 27%, to $1.1 million in the quarter ended September 30, 2003 from $1.5 million in the quarter ended September 30, 2002. Total gross profit was 39% for the quarter ended September 30, 2003 and September 30, 2002. Gross profit on products was 33% and 40% for the quarters ended September 30, 2003 and September 30, 2002, respectively, while gross profit on services was 50% and 33% for the quarters ended September 30, 2003 and September 30, 2002, respectively. Amortization of capitalized software included in cost of product revenues decreased to $0.6 million in the quarter ended September 30, 2003 from $0.7 million in the quarter ended September 30, 2002. The decrease in gross margin for product revenues is due primarily an increase in sale of partner products which carry lower margins than company licenses. The increase in gross margin on services was due primarily to a decrease, in the quarter ended September 30, 2003, of the percentage of reimbursed costs, which carry 100% costs, as a percentage of total services as well as decrease of Toys services in the quarter ended September 30, 2003, which generally carry lower margins.

APPLICATION DEVELOPMENT EXPENSE

Application development expense decreased by $0.7 million, or 54%, to $0.6 million in the quarter ended September 30, 2003 from $1.3 million in the quarter ended September 30, 2002. The decrease is primarily due to capitalizing $0.9 million development costs for new products. We've made significant investments in our new products in the current year. We anticipate these new products will be launched during the second half of the fiscal 2004. In the prior comparative period, research and development efforts was spent on enhancing existing products.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization remained at $0.3 million in the quarter ended September 30, 2003 and the quarter ended September 30, 2002.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $1.1 million, or 58%, to $3.0 million in the three months ended September 30, 2003 from $1.9 million in the three months ended September 30, 2002. Much of the current quarter was spent building the infrastructure and developing our sales organization.

LOSS FROM OPERATIONS

Loss from operations, which included depreciation and amortization expense, was $2.7 million for the quarter ended September 30, 2003, compared to a loss from operations of $2.1 million for the quarter ended September 30, 2002. Earnings from continuing operations before interest, provision for income taxes, depreciation, amortization and change in accounting principle was $2.1 million for the quarter ended September 30, 2003 compared to a loss of $1.0 million for the quarter ended September 30, 2002.

INTEREST EXPENSE

Interest expense increased by $0.5 million, or 50%, to $1.5 million in the quarter ended September 30, 2003 from $1.0 million in the quarter ended September 30, 2002. The increase is due primarily to $0.6 million in amortization of debt discount and beneficial conversion charges the convertible debt.

PROVISION FOR INCOME TAXES

Provision for income taxes for the quarters ended September 30, 2003 and 2002 are $67,000 and $1,000, respectively.

CUMULATIVE PREFERRED DIVIDENDS

Cumulative dividends on the outstanding Series A Preferred attributable to the quarter ended September 30, 2003 and 2002 were $0.3 million.

SIX MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO SIX MONTHS ENDED SEPTEMBER 30, 2002

REVENUES

Product revenues increased $0.9 million, or 22%, to $5.0 million in the six months ended September 30, 2003 from $4.1 million in the six months ended September 30, 2002, primarily due to a $0.6 million increase from the sale of partner products and $0.3 million increase in new licenses. Services revenues decreased by $1.4 million, or 30% to $3.2 million in the six months ended September 30, 2003 from $4.6 million in the six months ended September 30, 2002 primarily due to a $1.6 million decrease from Toys R Us., Inc. "(Toys"). Toys revenue in fiscal 2004 consisted primarily of implementation services. Toys had been a major customer since fiscal 2000 and terminated its contract in third quarter of fiscal 2004. As we don't anticipate additional material Toys revenue in the near future, the loss of Toys will have a significant impact on future revenues as we attempt to replace those revenues with revenues generated from new customers. Total revenues decreased $0.5 million, or 6%, to $8.2 million in the six months ended September 30, 2003 from $8.7 million in the six months ended September 30, 2002 due to the above factors. Excluding Toys revenues of $1.5 million and $3.1 million in the six months ended September 30, 2003 and September 30, 2002, respectively, total revenues were $6.7 million for the six months ended September 30, 2003 compared to $5.6 million in the six months ended September 30, 2002, a 20% increase.

COST OF REVENUES/GROSS PROFIT

Cost of revenues decreased by $1.2 million, or 24%, to $3.9 million in the six months ended September 30, 2003 from $5.1 million in the six months ended September 30, 2002. Cost of product revenues increased by $0.1 million, or 4%, to $2.4 million in the six months ended September 30, 2003 from $2.3 million in the six months ended September 30, 2002. Cost of services revenue decreased $1.3 million, or 46%, to $1.5 million in the six months ended September 30, 2003 from $2.8 million in the six months ended September 30, 2002. Total gross profit increased $0.8 million, or 22%, to $4.4 million in the six months ended September 30, 2003 from $3.6 million in the six months ended September 30, 2002. Total gross profit was 54% and 41% for the six months ended September 30, 2003 and September 30, 2002. Gross profit on products was 54% and 44% for the six months ended September 30, 2003 and September 30, 2002, respectively, while gross profit on services was 53% and 39% for the six months ended September 30, 2003 and September 30, 2002, respectively. Amortization of capitalized software

included in cost of product revenues decreased to $1.2 million in the six months ended September 30, 2003 from $1.5 million in the six months ended September 30, 2002. The increase in gross margin for product revenues is due primarily to a $0.3 million increase in company licenses and a $0.3 million reduction in amortization of capitalized software costs in the six months ended September 30, 2003 compared to the six months ended September 30, 2002. The increase in gross margin on services was due primarily to a decrease of the percentage of reimbursed costs, which carry 100% costs, as a percentage of total services as well as decrease of Toys services in the quarter ended September 30, 2003, which generally carry lower margins. Reimbursed costs represented approximately 4% of total services revenues in the six months ended September 30, 2003 compared to 10% in the six months ended September 30, 2002.

APPLICATION DEVELOPMENT EXPENSE

Application development expense decreased by $1.5 million, or 68%, to $0.7 million in the six months ended September 30, 2003 from $2.2 million in the six months ended September 30, 2002. The decrease is primarily due to capitalizing $1.8 million development costs for new products. We've made significant investments in our new products in the first six months of the current quarter. We anticipate these new products will be launched during the second half of the fiscal 2004. In the prior comparative period, research and development efforts was spent on enhancing existing products.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization remained at $0.6 million in the six months ended September 30, 2003 and the six months ended September 30, 2002.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $2.0 million, or 53%, to $5.8 million in the six months ended September 30, 2003 from $3.8 million in the six months ended September 30, 2002. The first six months of fiscal 2003 included a $0.6 million reversal of excess amount accrued in prior periods for a litigation settlement. Additional, much of the first six months of fiscal 2004 was spent building the infrastructure and developing our sales organization.

LOSS FROM OPERATIONS

Loss from operations, which included depreciation and amortization expense, was $2.7 million for the six months ended September 30, 2003, compared to a loss from operations of $3.1 million for the comparable period in prior year.

INTEREST EXPENSE

Interest expense increased by $0.4 million, or 29%, to $1.8 million in the six months ended September 30, 2003 from $1.4 million in the six months ended September 30, 2002. The increase is due primarily to $0.7 million increase in amortization of debt discount and beneficial conversion, offset by $0.3 million decrease in interest expense.

PROVISION FOR INCOME TAXES

Provision for income taxes represents $0.6 million income tax refund and $0.1 million provision for state income taxes in the six months ended September 30, 2003. No provision was made at in the six months ended September 30, 2002 due to the availability of tax losses. The income tax refund of $0.6 million at September 30, 2003 results from amending prior years' income tax returns to carry back net operating losses incurred in the past 2 years.

CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

Pursuant to SFAS 142, we completed the transitional analysis of goodwill impairment as of April 1, 2002 and recorded an impairment of $0.6 million as the cumulative effect of a change in accounting principle in the quarter ended June 30, 2002. We also evaluated the remaining useful lives of our intangibles in the quarter ended June 30, 2002 and no adjustments have been made to the useful lives of our intangible assets. There have been no such charges in the quarter ended June 30, 2003.

CUMULATIVE PREFERRED DIVIDENDS

Cumulative dividends on the outstanding Series A Preferred attributable to the six months ended September 30, 2003 and 2002 were $0.6 million and $0.5 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

During the six months ended September 30, 2003, we financed our operations using cash on hand, internally generated cash, proceeds from the sale of common stock and proceeds from sale of convertible debentures. At September 30, 2003 and March 31, 2003, we had cash of $1.1 million and $1.3 million, respectively.

Operating activities used cash of $5.6 million in the six months ended September 30, 2003 and $1.9 million in the six months ended September 30, 2002. Cash used for operating activities in the six months ended September 30, 2003 resulted from $4.2 million net loss, $0.6 million increase in accounts receivable and other receivables and $3.9 million decrease in accounts payable and accrued expenses; offset in part by $1.8 million of non-cash depreciation and amortization and $1.5 million amortization of debt discount and conversion option.

Investing activities used cash of $2.5 million in the six months ended September 30, 2003 and $0.3 million in the six months ended September 30, 2002. Cash used for investing activities in the current quarter was primarily for capitalization of $2.2 million software development costs.

Financing activities provided cash of $7.8 million and $1.0 million in the six months ended September 30, 2003 and 2002, respectively. The 2004 financing activities included net proceeds of $7.2 million from the sale of common stock and $0.7 million from the issuance of convertible debentures.

Accounts receivable increased to $4.6 million at September 30, 2003 from $4.0 million at March 31, 2003. The increase is primarily due to $3.9 million in current receivable from new sales.

We believe that our cash and cash equivalent and funds generated from operations will provide adequate liquidity to meet our normal operating requirements for at least the next twelve months. Our future capital requirements depend on many factors, including our application development and sales and marketing activities. In addition, we have incurred losses for the last three fiscal years. In the next twelve months, we anticipate raising additional capital through public or private equity or debt financings. In the long-term, we anticipate that cash from operations will be sufficient to provide liquidity for our normal operating requirements. As such, we do not know whether additional financing will be available when needed, or available on terms acceptable to us. We may raise capital through public or private equity or debt financings. If we are unable to raise the needed funds, we may be forced to curtail some or all of our activities and we may not be able to grow.

FINANCING TRANSACTIONS

In June 2003, we entered into an agreement with various institutional investors ("June 2003 Institutional Investors") for the sale to these investors of 5,275,000 shares of common stock at a per share price of $1.50 for an aggregate purchase price of $7.9 million. Pursuant to a registration rights agreement, we filed a separate registration statement respecting their shares which was declared effective on September 26, 2003 by the SEC.

In connection with this financing, we paid Roth Capital Partners, LLC, as placement agent, cash compensation of 8% of the proceeds and issued a warrant to purchase 527,500 shares of common stock at an exercise price of $1.65 per share. We also issued warrants to purchase 375,000 shares of common stock at an exercise price of $1.65 to certain holders of our 9% convertible debentures in order to obtain their requisite consents and waivers of rights they possessed to participate in the financing.

On November 7, 2003, we entered into an agreement with various institutional investors ("November 2003 Institutional Investors") for the sale of 3,180,645 shares of common stock at a price of $1.55 per share for an aggregate purchase price of $4.9 million. We also granted the November 2003 Institutional Investors registration rights under a registration rights agreement in which we agree to file a registration statement with the Securities and Exchange Commission for the resale of all shares sold these investors. If the registration statement is not filed by December 7, 2003, we will be obligated to pay on December 7, 2003, and each monthly anniversary until the registration statement is filed, an amount in cash, as liquidated damages, equal to 2.0% of the purchase price paid by the November 2003 Institutional Investors.

In connection with this financing, we paid Roth Capital Partners, LLC ("Roth Capital"), as placement agent, a compensation of $179,000 in cash and 115,226 shares of our common stock and issued a five-year warrant to purchase 282,065 shares of our common stock at an exercise price of $1.71 per share. Roth Capital was granted the registration rights similar to those granted to the November 2003 Institutional Investors.

INDEBTEDNESS

UNION BANK

Pursuant to the Discounted Loan Payoff Agreement dated March 31, 2003, we issued to Union Bank of California a $500,000 unsecured, non-interest bearing convertible note payable in either cash or shares of common stock, at our option. If we elect to pay the principal amount or any portion thereof in shares of common stock, the shares will be computed on a price per share of 80% of the average share closing price of our common stock for the ten trading day period immediately preceding payoff date. The maturity date is March 31, 2004. As of September 30, 2003, the bank had assigned the right of this note to Roth Capital Partners, LLC.

NATIONAL AUSTRALIA BANK LIMITED

We decided in the third quarter of fiscal 2002 to sell certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was however subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to the entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. At June 30, 2002, we have accrued $187,000 as the maximum amount of our potential exposure. The receiver has also claimed that we are obligated to it for inter-company balances of $636,000, but we do not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due.

ICM ASSET MANAGEMENT, INC.

During the quarter ended June 30, 2001, we entered into Subscription Agreements with a limited number of accredited investors related to existing stockholders for gross proceeds of $1.3 million. Each unit consisted of a convertible promissory note to purchase 250 shares of our common stock for each $1,000 borrowed by us. The holders of the notes had the option to convert the unpaid principal and interest to common stock at any time at a conversion price of $0.60 per share. The notes matured on September 30, 2003 and earned interest at 8% per annum, increasing to 13% in the event of a default in payment of principal or interest, to be paid at maturity. We did not have a right to prepay the notes. In September 2003, the investors converted the outstanding balance of principal and accrued interest totaling $1.4 million into 2,287,653 shares of our common stock.

We also issued to these accredited investors warrants to purchase an aggregate of 1,600,000 shares at $0.60 per share, expiring July 19, 2007. The warrants are not callable by us. No warrants have been exercised as of October 31, 2003.

We filed a registration statement for the resale of all shares held by or obtainable by these and other investors. The registration statement was declared effective by the SEC on July 18, 2003.

TOYS "R" US

In May 2002, Toys "R" Us, Inc. ("Toys") agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 common shares. The purchase price was received in installments through September 27, 2002. The note is non-interest bearing, and the face amount was either convertible into shares of our stock valued at $0.553 per share or payable in cash at our option, at the end of the term. In November 2002, the Board decided that this note will be converted solely for equity and will not be repaid in cash. The note is due May 29, 2009, or if earlier than that date, three years after the completion of the development project contemplated in the development

agreement between us and Toys entered into at the same time. We do not have the right to prepay the convertible note before the due date. The face amount of the note is 16% of the $1.3 million purchase price as of May 29, 2002, and increases by 4% of the $1.3 million purchase price on the last day of each succeeding month, until February 28, 2004, when the face amount is the full $1.3 million purchase price. The face amount will cease to increase if Toys terminates its development agreement with us for a reason other than our breach. The face amount will be zero if we terminate the development agreement due to an uncured breach by Toys of the development agreement. We have received all of the $1.3 million proceeds.

The warrant entitles Toys to purchase up to 2,500,000 of our common shares at $0.553 per share. The warrant was initially vested as to 400,000 shares as of May 29, 2002, and vests at the rate of 100,000 shares per month until February 28, 2004. The warrant will cease to vest if Toys terminates its development agreement with us for a reason other than our breach. The warrant will become entirely non-exercisable if we terminate the development agreement due to an uncured breach by Toys of the development agreement. Toys may elect a "cashless exercise" where a portion of the warrant is surrendered to pay the exercise price. As of October 31, 2003, 2.1 million shares of the warrant are exercisable. No warrants have currently been exercised.

The note conversion price and the warrant exercise price are each subject to a 10% reduction in the event of an uncured breach by us of certain covenants to Toys. These covenants do not include financial covenants. Conversion of the note and exercise of the warrant each require 75 days advance notice. As a result, under the rules of the SEC, Toys will not be considered the beneficial owner of the common shares into which the note is convertible and the warrant is exercisable until 15 days after it has given notice of conversion or exercise, and then only to the extent of such noticed conversion or exercise. We also granted Toys certain registration rights for the common shares into which the note is convertible and the warrant is exercisable, including the right to demand registration on Form S-3 if such form is available to us, and the right to include shares into which the note is convertible and the warrant is exercisable in other registration statements we propose to file.

OMICRON/MIDSUMMER/ISLANDIA

On March 31, 2003, we entered into a securities purchase agreement with Midsummer Investment, Ltd. ("Midsummer"), Omicron Master Trust ("Omicron"), and Islandia, L.P. ("Islandia") for the sale to these investors of debentures, convertible into shares of our common stock at a conversion price equal to $1.0236 per share, for an aggregate amount of $3.5 million. The investors also received a five-year warrant to purchase up to, in the aggregate, 1,572,858 shares of common stock with an exercise price equal to $1.0236 per share. The debentures would have been matured in May 2005 and bore an interest rate of 9% per annum. Interest was payable on a quarterly basis commencing on June 1, 2003, in cash or shares of common stock, at our option. If certain conditions were met, we had the right, but not the obligation, to redeem the debentures at 110% of their face value, plus accrued interest. Commencing in February 2004, we would have been obligated to redeem $219,000 per month of the debentures. Furthermore, if the daily volume weighted average price of our common stock on the American Stock Exchange exceeds $1.0236 by more than 200% for 15 consecutive trading days, we will have the option to cause the investors to convert their debentures into common stock. In July 2003, Omicron converted $500,000 of their debenture into 488,472 shares of our common stock. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded $1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause the investors to convert their debentures into common stock. As a result, the investors converted the remaining balance of their debentures into an aggregate of 2,930,832 shares of our common stock as of September 30, 2003.

Pursuant to the registration rights agreement, we filed a registration statement covering 130% of the common stock issuable upon the conversion of the debentures and the warrants. The registration statement was declared effective July 18, 2003.

Additional debentures, aggregating up to $2 million, will be sold to these investors in a second closing, if within one year after the date of first sale of debentures there occurs a period of 15 consecutive trading days during which the daily volume weighted average closing price of our common stock is maintained at a price at or above $1.75 per share, subject to certain conditions. The shares of common stock underlying these debentures and warrants were not included in the registration statement declared effective in July 2003. Neither the investors nor we have executed the second closing as of October 31, 2003.

MBSJ INVESTORS, LLC

On April 1, 2003, we entered into a securities purchase agreement with MBSJ Investors, LLC ("MBSJ") for the sale to MBSJ of a 9% debenture, convertible to shares of our common stock at a conversion price of $1.0236, for $400,000. This debenture was accompanied by a five-year warrant to purchase 156,311 shares of common stock with an exercise price of $1.0236 per share. Interest was due on a quarterly basis, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, we would have been obligated to redeem $20,000 per month of the debenture. The debenture would have matured in October 2005. This debenture was accompanied by a five-year warrant to purchase 156,311 shares of our common stock with an exercise price of $1.0236 per share. MBSJ was also granted registration rights under a registration rights agreement, and certain other rights similar to those granted to Midsummer, Omicron and Islandia. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded $1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause the investor to convert its debenture into common stock. As a result, the investor converted its debenture into 390,777 shares of our common stock as of September 2003.

CRESTVIEW

On May 6, 2003, we entered into an agreement with Crestview Capital Fund I, L.P., Crestview Capital Fund II, L.P. and Crestview Capital Offshore Fund, Inc. (collectively, the "Crestview Investors") for the sale to the Crestview Investors of 9% debentures, convertible into shares of our common stock at a conversion price of $1.0236 for $300,000. These debentures were accompanied by five-year warrants to purchase an aggregate of 101,112 shares of common stock with an exercise price of $1.0236 per share. Interest was due on a quarterly basis, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, we would have been obligated to redeem $19,000 per month of the debentures. The debentures would have matured in May 2005. These debentures were accompanied by five-year warrants to purchase an aggregate of 101,112 shares of common stock with an exercise price of $1.0236 per share. The Crestview Investors were also granted registration rights under a registration rights agreement, and certain other rights similar to those granted to Midsummer, Omnicron and Islandia. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded $1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause the investor to convert its debenture into common stock. As a result, the investors converted their debentures into 293,082 shares of our common stock as of September 30, 2003.

Additional debentures aggregating up to $300,000 will be sold to these investors in a second closing, if within one year after the date of first sale of debentures there occurs a period of 15 consecutive trading days during which the daily volume weighted average closing price of our common stock is maintained at a price at or above $1.75 per share, subject to certain conditions. The shares of common stock underlying these debentures and warrants were not included in the registration statement declared effective in July 2003. Neither the investors nor we have executed the second closing as of October 31, 2003.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations, including purchase commitments at September 30, 2003, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

Contractual Cash Obligations	2004	2005	2006	2007	Thereaf
	For the fiscal years ending March 31, (in thousands)				
Operating leases	$ 445	$ 867	$ 360	$ 107	$
Purchases	667	394			
Payables aged over 90 days	398				
Total contractual cash obligations	$1,510	$1,261	$ 360	$ 107	$

Other Commercial Commitments	2004	2005	2006	2007	T
	For the fiscal years ending March 31, (in thousands)				
Guarantees	$ 187				
Total commercial commitments	$ 187				

BUSINESS RISKS

INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN OUR FORM 10-K/A FOR THE YEAR ENDED MARCH 31, 2003 AND FORM 10-Q/A FOR THE QUARTER ENDED SEPTEMBER 30, 2003. INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THOSE DESCRIBED BELOW, RISKS AND UNCERTAINTIES THAT ARE NOT PRESENTLY KNOWN TO US OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS COULD BE HARMED, THE PRICE OF OUR COMMON STOCK COULD DECLINE AND OUR INVESTORS MAY LOSE ALL OR PART OF THEIR INVESTMENT. SEE THE NOTE REGARDING FORWARD-LOOKING STATEMENTS INCLUDED AT THE BEGINNING OF ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN THIS FORM 10-Q/A.

OUR SALES CYCLES ARE LONG AND PROSPECTS ARE UNCERTAIN. THIS MAKES IT DIFFICULT FOR US TO PREDICT REVENUES AND BUDGET EXPENSES.

The length of sales cycles in our business makes it difficult to evaluate the effectiveness of our sales strategies. Our sales cycles historically has ranged from three to twelve months, which has caused significant fluctuations in revenues from period to period. Due to our difficulties in completing new application software sales in recent periods and our refocused sales strategy, it is difficult to predict revenues and properly budget expenses.

Our software applications are complex and perform or directly affect mission-critical functions across many different functional and geographic areas of the retail enterprise. In many cases, our customers must change established business practices when they install our software. Our sales staff must dedicate significant time consulting with a potential customer concerning the substantial technical and business concerns associated with implementing our products. The purchase of our products is often discretionary, so lengthy sales efforts may not result in a sale. Moreover, it is difficult to predict when a license sale will occur. All of these factors can adversely affect our business, financial condition and results of operations.

OUR OPERATING RESULTS HAVE FLUCTUATED SIGNIFICANTLY IN THE PAST, AND THEY MAY CONTINUE TO DO SO IN THE FUTURE, WHICH COULD ADVERSELY AFFECT OUR STOCK PRICE.

Our quarterly operating results have fluctuated significantly in the past and may fluctuate in the future as a result of several factors, many of which are outside of our control. If revenue declines in a quarter, our operating results will be adversely affected because many of our expenses are relatively fixed. In particular, sales and marketing, application development and general and administrative expenses do not change significantly with variations in revenue in a quarter. It is likely that in some future quarter our revenues or operating results will be below the expectations of public market analysts or investors. If that happens, our stock price will likely decline.

OUR REVENUE MAY VARY FROM PERIOD TO PERIOD, WHICH MAKES IT DIFFICULT TO PREDICT FUTURE RESULTS.

Factors outside our control that could cause our revenue to fluctuate significantly from period to period include:

- the size and timing of individual orders, particularly with respect to our larger customers;
- general health of the retail industry and the overall economy;
- technological changes in platforms supporting our software products; and
- market acceptance of new applications and related services.

In particular, we usually deliver our software applications when contracts are signed, so order backlog at the beginning of any quarter may represent only a portion of that quarter's expected revenues. As a result, application license revenues in any quarter are substantially dependent on orders booked and delivered in that quarter, and this makes it difficult for us to accurately predict revenues. We have experienced, and we expect to continue to experience, quarters or periods where individual application license or services orders are significantly larger than our typical application license or service orders. Because of the nature of our offerings, we may get one or more large orders in one quarter from a customer and then no orders the next quarter.

OUR EXPENSES MAY VARY FROM PERIOD TO PERIOD, WHICH COULD AFFECT QUARTERLY RESULTS AND OUR STOCK PRICE.

If we incur additional expenses in a quarter in which we do not experience increased revenue, our results of operations would be adversely affected and we may incur losses for that quarter. Factors that could cause our expenses to fluctuate from period to period include:

- the extent of marketing and sales efforts necessary to promote and sell our applications and services;
- the timing and extent of our development efforts; and
- the timing of personnel hiring.

IT IS DIFFICULT TO EVALUATE OUR PERFORMANCE BASED ON PERIOD TO PERIOD COMPARISONS OF OUR RESULTS.

The many factors, which can cause revenues and expenses to vary, make meaningful period to period comparisons of our results difficult. We do not believe period to period comparisons of our financial performance are necessarily meaningful, and you cannot rely on them as an indication of our future performance.

WE MAY EXPERIENCE SEASONAL DECLINES IN SALES, WHICH COULD CAUSE OUR OPERATING RESULTS TO FALL SHORT OF EXPECTATIONS IN SOME QUARTERS.

We may experience slower sales of our applications and services from October through December of each year as a result of retailers' focus on the holiday retail-shopping season. This can negatively affect revenues in our third fiscal quarter and in other quarters, depending on our sales cycles.

WE MAY NEED TO RAISE CAPITAL TO GROW OUR BUSINESS. OBTAINING THIS CAPITAL COULD IMPAIR THE VALUE OF YOUR INVESTMENT.

We may need to raise further capital to:

- support unanticipated capital requirements;
- take advantage of acquisition or expansion opportunities;
- continue our current development efforts;
- develop new applications or services; or
- address working capital needs.

Our future capital requirements depend on many factors including our application development, sales and marketing activities. We do not know whether additional financing will be available when needed, or available on terms acceptable to us. If we cannot raise needed funds for the above purposes on acceptable terms, we may be forced to curtail some or all of the above activities and we may not be able to grow our business or respond to competitive pressures or unanticipated developments.

We may raise capital through public or private equity offerings or debt financings. To the extent we raise additional capital by issuing equity securities or convertible debt securities, our stockholders may experience substantial dilution and the new securities may have greater rights, preferences or privileges than our existing common stock.

INTANGIBLE ASSETS MAY BE IMPAIRED MAKING IT MORE DIFFICULT TO OBTAIN FINANCING.

Goodwill, capitalized software, non-compete agreements and other intangible assets represent approximately 78% of our total assets as of September 30, 2003. We may have to impair or write-off these assets, which will cause a charge to earnings and could cause our stock price to decline. Any such impairment will also reduce our assets, as well as the ratio of our assets to our liabilities. These balance sheet effects could make it more difficult for us to obtain capital, and could make the terms of capital we do obtain more unfavorable to our existing stockholders.

FOREIGN CURRENCY FLUCTUATIONS MAY IMPAIR OUR COMPETITIVE POSITION AND AFFECT OUR OPERATING RESULTS.

Fluctuations in currency exchange rates affect the prices of our applications and services and our expenses, and foreign currency losses will negatively affect profitability or increase losses. Approximately 13% and 12% of our total revenues were in the United Kingdom, in the six months ended September 30, 2003 and 2002, respectively. Many of our expenses related to foreign revenues, such as corporate level administrative overhead and development, are denominated in U.S. dollars. When accounts receivable and accounts payable arising from international revenues and services are converted to U.S. dollars, the resulting gain or loss contributes to fluctuations in our operating results. We do not hedge against foreign currency exchange rate risks.

WE HAVE CUSTOMERS REPRESENTING SIGNIFICANT AMOUNTS OF OUR BUSINESS.

Toys "R" Us, Inc. ("Toys") accounted for 18% and 35% of our total revenues for the six months ended September 30, 2003 and 2002, respectively. While we have a development agreement with Toys, this customer has the right to terminate the agreement without cause with limited advance notice. A reduction, delay or cancellation of orders from Toys would significantly reduce our revenues and force us to substantially curtail operations. We cannot provide any assurances that Toys or any of our current customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

IF WE LOSE THE SERVICES OF ANY MEMBER OF OUR SENIOR MANAGEMENT OR KEY TECHNICAL AND SALES PERSONNEL, OR IF WE ARE UNABLE TO RETAIN OR ATTRACT ADDITIONAL TECHNICAL PERSONNEL, OUR ABILITY TO CONDUCT AND EXPAND OUR BUSINESS WILL BE IMPAIRED.

We are heavily dependent on Harvey Braun, our Chief Executive Officer and Chairman of the Board, and Steven Beck, our President and Chief Operating Officer. We do not have any written employment agreements with Mr. Braun or Mr. Beck. We also believe our future success will depend largely upon our ability to attract and retain highly-skilled software programmers, managers, and sales and marketing personnel. Competition for personnel is intense, particularly in international markets. The software industry is characterized by a high level of

32

employee mobility and aggressive recruiting of skilled personnel. We compete against numerous companies, including larger, more established companies, for our personnel. We may not be successful in attracting or retaining skilled sales, technical and managerial personnel. The loss of key employees or our inability to attract and retain other qualified employees could negatively affect our financial performance and cause our stock price to decline.

WE ARE DEPENDENT ON THE RETAIL INDUSTRY, AND IF ECONOMIC CONDITIONS IN THE RETAIL INDUSTRY FURTHER DECLINE, OUR REVENUES MAY ALSO DECLINE. RETAIL SALES HAVE BEEN AND MAY CONTINUE TO BE SLOW.

Our future growth is critically dependent on increased sales to the retail industry. We derive the substantial majority of our revenues from the licensing of software applications and the performance of related professional and consulting services to the retail industry. Demand for our applications and services could decline in the event of consolidation, instability or more downturns in the retail industry. This decline would likely cause reduced revenues and could impair our ability to collect accounts receivable. The result would be reduced earnings and weakened financial condition, each or both of which would likely cause our stock price to decline.

The success of our customers is directly linked to economic conditions in the retail industry, which in turn are subject to intense competitive pressures and are affected by overall economic conditions. In addition, the retail industry may be consolidating, and it is uncertain how consolidation will affect the industry. The retail industry as a whole is currently experiencing increased competition and weak economic conditions that could negatively impact the industry and our customers' ability to pay for our products and services. Such consolidation and weak economic conditions have in the past, and may in the future, negatively impact our revenues, reduce the demand for our products and may negatively impact our business, operating results and financial condition. Weak economic conditions and the September 11, 2001 terrorist attack have adversely impacted sales of our software applications, and we believe mid-tier specialty retailers may be reluctant during the current economic slowdown to make the substantial infrastructure investment that generally accompanies the implementation of our software applications. The war in Iraq and the anticipated burden of rebuilding that country's infrastructure has also led to some uncertainty in the economic climate, which may adversely impact our business.

THERE MAY BE AN INCREASE IN CUSTOMER BANKRUPTCIES DUE TO WEAK ECONOMIC CONDITIONS.

We have in the past and may in the future be impacted by customer bankruptcies. During weak economic conditions, such as those currently being experienced in many geographic regions around the world, there is an increased risk that certain of our customers will file bankruptcy. When our customers file bankruptcy, we may be required to forego collection of pre-petition amounts owed, and to repay amounts remitted to us during the 90-day preference period preceding the filing. Accounts receivable balances related to pre-petition amounts may in certain of these instances be large due to extended payment terms for software license fees, and significant billings for consulting and implementation services on large projects. The bankruptcy laws, as well as the specific circumstances of each bankruptcy, may severely limit our ability to collect pre-petition amounts, and may force us to disgorge payments made during the 90-day preference period. We also face risk from international customers which file for bankruptcy protection in foreign jurisdictions, in that the application of foreign bankruptcy laws may be less certain or harder to predict. Although we believe that we have sufficient reserves to cover anticipated customer bankruptcies, there can be no assurance that such reserves will be adequate, and if they are not adequate, our business, operating results and financial condition would be adversely affected.

WE MAY NOT BE ABLE TO MAINTAIN OR IMPROVE OUR COMPETITIVE POSITION BECAUSE OF THE INTENSE COMPETITION IN THE RETAIL SOFTWARE INDUSTRY.

We conduct business in an industry characterized by intense competition. Most of our competitors are very large companies with an international presence. We must also compete with smaller companies which have been able to develop strong local or regional customer bases. Many of our competitors and potential competitors are more established, benefit from greater name recognition and have significantly greater resources than us. Our competitors may also have lower cost structures and better access to the capital markets than us. As a result, our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our competitors may:

- introduce new technologies that render our existing or future products obsolete, unmarketable or less competitive;

- make strategic acquisitions or establish cooperative relationships among themselves or with other solution providers, which would increase the ability of their products to address the needs of our customers; and

- establish or strengthen cooperative relationships with our current or future strategic partners, which would limit our ability to compete through these channels.

We could be forced to reduce prices and suffer reduced margins and market share due to increased competition from providers of offerings similar to, or competitive with, our applications, or from service providers that provide services similar to our services. Competition could also render our technology obsolete.

OUR MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, SO OUR SUCCESS DEPENDS HEAVILY ON OUR ABILITY TO DEVELOP AND INTRODUCE NEW APPLICATIONS AND RELATED SERVICES.

The retail software industry is characterized by rapid technological change, evolving standards and wide fluctuations in supply and demand. We must cost-effectively develop and introduce new applications and related services that keep pace with technological developments to compete. If we do not gain market acceptance for our existing or new offerings or if we fail to introduce progressive new offerings in a timely or cost-effective manner, our financial performance will suffer.

The success of application enhancements and new applications depends on a variety of factors, including technology selection and specification, timely and efficient completion of design, and effective sales and marketing efforts. In developing new applications and services, we may:

- fail to respond to technological changes in a timely or cost-effective manner;

- encounter applications, capabilities or technologies developed by others that render our applications and services obsolete or non-competitive or that shorten the life cycles of our existing applications and services;

- experience difficulties that could delay or prevent the successful development, introduction and marketing of these new applications and services; or

- fail to achieve market acceptance of our applications and services.

The life cycles of our applications are difficult to estimate, particularly in the emerging electronic commerce market. As a result, new applications and enhancements, even if successful, may become obsolete before we recoup our investment.

OUR PROPRIETARY RIGHTS OFFER ONLY LIMITED PROTECTION AND OUR COMPETITORS MAY DEVELOP APPLICATIONS SUBSTANTIALLY SIMILAR TO OUR APPLICATIONS AND USE SIMILAR TECHNOLOGIES WHICH MAY RESULT IN THE LOSS OF CUSTOMERS. WE MAY HAVE TO BRING COSTLY LITIGATION TO PROTECT OUR PROPRIETARY RIGHTS.

Our success and competitive position is dependent in part upon our ability to develop and maintain the proprietary aspects of our intellectual property. Our intellectual property includes our trademarks, trade secrets, copyrights and other proprietary information. Our efforts to protect our intellectual property may not be successful. Effective copyright and trade secret protection may be unavailable or limited in some foreign countries. We hold no patents. Consequently, others may develop, market and sell applications substantially equivalent to ours or utilize technologies similar to those used by us, so long as they do not directly copy our applications or otherwise infringe our intellectual property rights.

We may find it necessary to bring claims or litigation against third parties for infringement of our proprietary rights or to protect our trade secrets. These actions would likely be costly and divert management resources. These actions could also result in counterclaims challenging the validity of our proprietary rights or alleging infringement on our part. The ultimate outcome of any litigation will be difficult to predict.

OUR APPLICATIONS MAY BE SUBJECT TO CLAIMS THEY INFRINGE ON THE PROPRIETARY RIGHTS OF THIRD PARTIES, WHICH MAY EXPOSE US TO LITIGATION.

We may become involved in litigation involving patents or proprietary rights. Patent and proprietary rights litigation entails substantial legal and other costs, and we do not know if we will have the necessary financial resources to defend or prosecute our rights in connection with any such litigation. Responding to and defending claims related to our intellectual property rights, even ones without merit, can be time consuming and expensive and can divert management's attention from other business matters. In addition, these actions could cause application delivery delays or require us to enter into royalty or license agreements. Royalty or license agreements, if required, may not be available on terms acceptable to us, if they are available at all. Any or all of these outcomes could have a material adverse effect on our business, operating results and financial condition.

DEVELOPMENT AND MARKETING OF OUR OFFERINGS DEPENDS ON STRATEGIC RELATIONSHIPS WITH OTHER COMPANIES. OUR EXISTING STRATEGIC RELATIONSHIPS MAY NOT ENDURE AND MAY NOT DELIVER THE INTENDED BENEFITS, AND WE MAY NOT BE ABLE TO ENTER INTO FUTURE STRATEGIC RELATIONSHIPS.

Since we do not possess all of the technical and marketing resources necessary to develop and market our offerings to their target markets, our business strategy substantially depends on our strategic relationships. While some of these relationships are governed by contracts, most are non-exclusive and all may be terminated on short notice by either party. If these relationships terminate or fail to deliver the intended benefits, our development and marketing efforts will be impaired and our revenues may decline. We may not be able to enter into new strategic relationships, which could put us at a disadvantage to those of our competitors, which do successfully exploit strategic relationships.

OUR PRIMARY COMPUTER AND TELECOMMUNICATIONS SYSTEMS ARE IN A LIMITED NUMBER OF GEOGRAPHIC LOCATIONS, WHICH MAKES THEM MORE VULNERABLE TO DAMAGE OR INTERRUPTION. THIS DAMAGE OR INTERRUPTION COULD HARM OUR BUSINESS.

Substantially all of our primary computer and telecommunications systems are located in two geographic areas. These systems are vulnerable to damage or interruption from fire, earthquake, water damage, sabotage, flood, power loss, technical or telecommunications failure or break-ins. Our business interruption insurance may not adequately compensate us for our lost business and will not compensate us for any liability we incur due to our inability to provide services to our customers. Although we have implemented network security measures, our systems are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. These disruptions could lead to interruptions, delays, loss of data or the inability to service our customers. Any of these occurrences could impair our ability to serve our customers and harm our business.

IF PRODUCT LIABILITY LAWSUITS ARE SUCCESSFULLY BROUGHT AGAINST US, WE MAY INCUR SUBSTANTIAL LIABILITIES AND MAY BE REQUIRED TO LIMIT COMMERCIALIZATION OF OUR APPLICATIONS.

Our business exposes us to product liability risks. Any product liability or other claims brought against us, if successful and of sufficient magnitude, could negatively affect our financial performance and cause our stock price to decline.

Our applications are highly complex and sophisticated and they may occasionally contain design defects or software errors that could be difficult to detect and correct. In addition, implementation of our applications may involve customer-specific customization by us or third parties, and may involve integration with systems developed by third parties. These aspects of our business create additional opportunities for errors and defects in our applications and services. Problems in the initial release may be discovered only after the application has been implemented and used over time with different computer systems and in a variety of other applications and environments. Our applications have in the past contained errors that were discovered after they were sold. Our customers have also occasionally experienced difficulties integrating our applications with other hardware or software in their enterprise.

We are not currently aware of any defects in our applications that might give rise to future lawsuits. However, errors or integration problems may be discovered in the future. Such defects, errors or difficulties could result in loss of sales, delays in or elimination of market acceptance, damage to our brand or to our reputation, returns, increased costs and diversion of development resources, redesigns and increased warranty and servicing costs. In addition, third-party products, upon which our applications are dependent, may contain defects which could reduce or undermine entirely the performance of our applications.

Our customers typically use our applications to perform mission-critical functions. As a result, the defects and problems discussed above could result in significant financial or other damage to our customers. Although our sales agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims, we do not know if these limitations of liability are enforceable or would otherwise protect us from liability for damages to a customer resulting from a defect in one of our applications or the performance of our services. Our product liability insurance may not cover all claims brought against us.

SOFTLINE LIMITED HAS THE RIGHT TO ACQUIRE A CONTROLLING PERCENTAGE OF OUR COMMON STOCK, SO WE MAY BE EFFECTIVELY CONTROLLED BY SOFTLINE, AND OUR OTHER STOCKHOLDERS ARE UNABLE TO AFFECT THE OUTCOME OF STOCKHOLDER VOTING.

Softline Limited beneficially owns approximately 49% of our outstanding common stock, including shares Softline has the right to acquire upon conversion of its Series A Convertible Preferred Stock. Ivan M. Epstein, Softline's Chief

Executive Officer, and Robert P. Wilkie, Softline's Chief Financial Officer, serve on our board of directors. If Softline converts its Series A Preferred Stock, it may have effective control over all matters affecting us, including:

- the election of all of our directors;
- the allocation of business opportunities that may be suitable for Softline and us;
- any determinations with respect to mergers or other business combinations involving us;
- the acquisition or disposition of assets or businesses by us;
- debt and equity financing, including future issuance of our common stock or other securities;
- amendments to our charter documents;
- the payment of dividends on our common stock; and
- determinations with respect to our tax returns.

OUR BUSINESS MAY BE DISADVANTAGED OR HARMED IF SOFTLINE'S INTERESTS RECEIVE PRIORITY OVER OUR INTERESTS.

Conflicts of interest have and will continue to arise between Softline and us in a number of areas relating to our past and ongoing relationships. Conflicts may not be resolved in a manner that is favorable to us, and such conflicts may result in harmful consequences to our business or prospects.

SOFTLINE'S INFLUENCE ON OUR COMPANY COULD MAKE IT DIFFICULT FOR ANOTHER COMPANY TO ACQUIRE US, WHICH COULD DEPRESS OUR STOCK PRICE.

Softline's potential voting control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to our business or our stockholders. As a result, Softline's control could reduce the price that investors may be willing to pay in the future for shares of our stock, or could prevent any party from attempting to acquire us at any price.

OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE.

The market price of our common stock has been, and is likely to continue to be, volatile. When we or our competitors announce new customer orders or services, change pricing policies, experience quarterly fluctuations in operating results, announce strategic relationships or acquisitions, change earnings estimates, experience government regulatory actions or suffer from generally adverse economic conditions, our stock price could be affected. Some of the volatility in our stock price may be unrelated to our performance. Recently, companies similar to ours have experienced extreme price fluctuations, often for reasons unrelated to their performance.

WE HAVE NEVER PAID A DIVIDEND ON OUR COMMON STOCK AND WE DO NOT INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK IN THE FORESEEABLE FUTURE.

We have not previously paid any cash or other dividend on our common stock. We anticipate that we will use our earnings and cash flow for repayment of indebtedness, to support our operations, and for future growth, and we do not have any plans to pay dividends in the foreseeable future. Softline is entitled to dividends on its Series A Convertible Preferred Stock in preference and priority to common stockholders. Future equity financing(s) may further restrict our ability to pay dividends.

THE TERMS OF OUR PREFERRED STOCK MAY REDUCE THE VALUE OF YOUR COMMON STOCK.

We are authorized to issue up to 5,000,000 shares of preferred stock in one or more series. We issued 141,000 shares of Series A Convertible Preferred Stock to Softline in May 2002. Our board of directors may determine the terms of subsequent series of preferred stock without further action by our stockholders. If we issue additional preferred stock, it could affect your rights or reduce the value of your common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. These terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions. We are actively seeking capital, and some of the arrangements we are considering may involve the issuance of preferred stock.

FAILURE TO COMPLY WITH THE AMERICAN STOCK EXCHANGE'S LISTING STANDARDS COULD RESULT IN OUR DELISTING FROM THAT EXCHANGE AND LIMIT THE ABILITY TO SELL ANY OF OUR COMMON STOCK.

Our stock is currently traded on the American Stock Exchange. The Exchange has published certain guidelines it uses in determining whether a security warrants continued listing. These guidelines include financial, market capitalization and other criteria, and as a result of our financial condition or other factors, the American Stock Exchange could in the future determine that our stock does not merit continued listing. If our stock were delisted from the American Stock Exchange, the ability of our stockholders to sell our common stock could become limited, and we would lose the advantage of some state and federal securities regulations imposing lower regulatory burdens on exchange-traded issuers.

DELAWARE LAW AND SOME PROVISIONS OF OUR CHARTER AND BYLAWS MAY ADVERSELY AFFECT THE PRICE OF YOUR STOCK.

Special meetings of our stockholders may be called only by the Chairman of the Board, the Chief Executive Officer or the Board of Directors. Stockholders have no right to call a meeting. Stockholders must also comply with advance notice provisions in our bylaws in order to nominate directors or propose matters for stockholder action. These provisions of our charter documents, as well as certain provisions of Delaware law, could delay or make more difficult certain types of transactions involving a change in control of the Company or our management. Delaware law also contains provisions that could delay or make more difficult change in control transactions. As a result, the price of our common stock may be adversely affected.

SHARES ISSUED UPON THE EXERCISE OF OPTIONS, WARRANTS, DEBENTURES AND CONVERTIBLE NOTES COULD DILUTE YOUR STOCK HOLDINGS AND ADVERSELY AFFECT OUR STOCK PRICE.

We have issued options and warrants to acquire common stock to our employees and certain other persons at various prices, some of which are or may in the future have exercise prices at below the market price of our stock. As of October 31, 2003, we have outstanding options and warrants for 16,865,219 shares. Of these options and warrants, 1,048,005 have exercise prices above the recent market price of $2.06 per share (as of October 31, 2003), and 15,817,214 have exercise prices at below that recent market price. If exercised, these options and warrants will cause immediate and possibly substantial dilution to our stockholders.

Our existing stock option plan currently has approximately 2,108,005 shares available for issuance as of October 31, 2003. Future options issued under the plan may have further dilutive effects.

We issued to Toys "R" Us, Inc. our major customer, a note convertible into 2,500,000 shares of common stock. This note has a conversion price of $0.553. This note will have a dilutive effect on stockholders if converted.

We issued to Union Bank of California, N.A. an unsecured note that is convertible into shares of common stock at a price per share of eighty percent (80%) of the average share closing price of our common stock for the ten trading day period immediately preceding the payoff date. This note will have a dilutive effect on stockholders if converted.

Sales of shares pursuant to exercisable options, warrants, convertible notes, and convertible debentures could lead to subsequent sales of the shares in the public market, and could depress the market price of our stock by creating an excess in supply of shares for sale. Issuance of these shares and sale of these shares in the public market could also impair our ability to raise capital by selling equity securities.

ITEM 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, results of operations or cash flows. We are exposed to market risks, which include changes in interest rates, changes in foreign currency exchange rate as measured against the U.S. dollar and changes in the value of stock of a publicly traded company, which secures a promissory note we hold.

INTEREST RATE RISK

We do not have debt or borrowings with variable rate term.

FOREIGN CURRENCY EXCHANGE RATE RISK

We conduct business in various foreign currencies, primarily in Europe. Revenues are typically denominated in the local foreign currency, which creates exposures to changes in exchange rates. These changes in the foreign currency exchange rates as measured against the U.S. dollar may positively or negatively affect our revenues, gross margins and retained earnings. We attempt to minimize currency exposure risk through decentralized sales, development, marketing and support operations, in which substantially all costs are local-currency based. There can be no assurance that such an approach will be successful, especially in the event of a significant and sudden decline in the value of the foreign currency. We do not hedge against foreign currency risk. Approximately 18% and 15% of our total revenues were denominated in currencies other than the U.S. dollar for the three months ended September 30, 2003 and 2002, respectively. Approximately 13% and 12% of our total revenues were denominated in currencies other than the U.S. dollar for the six months ended September 30, 2003 and 2002, respectively.

EQUITY PRICE RISK

We have no direct equity investments.

ITEM 4. - CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Based on their evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14 (c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of a date (the "Evaluation Date") within 90 days of the filing date of this Quarterly Report on Form 10-Q/A, our principal executive officer and financial and accounting officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

CHANGES IN INTERNAL CONTROLS. There were no significant changes in our internal controls, as such term is defined under Section 13 (b) of the Exchange Act, or to our knowledge, in other factors that could significantly affect these controls subsequent to the Evaluation Date.

PART II. - OTHER INFORMATION

ITEM 1. - LEGAL PROCEEDINGS

In April of 2002, our former CEO, Thomas Dorosewicz, filed a demand with the California Labor Commissioner for $256,250 in severance benefits allegedly due under a disputed employment agreement, plus attorney's fees and costs. Mr. Dorosewicz's demand was later increased to $283,894. On June 18, 2002, we filed an action against Mr. Dorosewicz, Michelle Dorosewicz and an entity affiliated with him in San Diego Superior Court, Case No. GIC790833, alleging fraud and other causes of action relating to transactions Mr. Dorosewicz caused us to enter into with his affiliates and related parties without proper board approval. On July 31, 2002, Mr. Dorosewicz filed cross-complaints in that action alleging breach of statutory duty, breach of contract, fraud and other causes of action related to his employment with us and other transactions he entered into with us. This dispute was heard before an arbitrator during the week ended October 3, 2004 and a decision from the arbitrator should be forthcoming.

Due to the declining performance of our Australian subsidiary, we decided in the third quarter of fiscal 2002 to sell certain assets of our Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was, however, subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to an entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. We have reserved $187,000 as our potential exposure. The receiver has also claimed that we are obligated to it for inter-company balances of $636,000, but we do not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due.

On May 15, 2002, an employee who is currently out on disability/worker's compensation leave, Debora Hintz, filed a claim with the California Labor

Commissioner seeking $41,000 in alleged unpaid commissions. In or about December of 2002, Ms. Hintz filed a discrimination claim against us with the Department of Fair Employment and Housing, alleging harassment and sexual orientation discrimination. We have responded appropriately to both the wage claim and the discrimination allegations, which we believe lack merit based on present information.

On August 30, 2002, Cord Camera Centers, Inc., an Ohio corporation ("Cord Camera"), filed a lawsuit against one of our subsidiaries, SVI Retail, Inc. as the successor to Island Pacific Systems Corporation, in the United States District Court for the Southern District of Ohio, Eastern Division, Case No. C2 02 859. The lawsuit claimed damages in excess of $1.5 million, plus punitive damages of $250,000, against SVI Retail for alleged fraud, negligent misrepresentation, breach of express warranties and breach of contract. These claims pertained to the following agreements between Cord Camera and Island Pacific: (i) a License Agreement, dated December 1999, as amended, for the use of certain software products, (ii) a Services Agreement for consulting, training and product support for the software products and (iii) a POS Software Support Agreement for the maintenance and support services for a certain software product. The parties settled this matter in September 2003 and the terms of the settlement are covered by a confidentiality agreement.

In mid-2002, we were the subject of an adverse judgment entered against us in favor of Randall's Family Golf Centers, ("Randall") in the approximate sum of $61,000. The judgment was entered as a default judgment, and is based on allegations that the Company received a preferential transfer of funds within 90 days of the filing by Randall of a chapter 11 case in the United States Bankruptcy Court for the Southern District of New York. We and Randall have agreed to settle this claim for $12,500, subject to the settlement receiving approval by the U.S. Bankruptcy Court.

On November 22, 2002, UDC Homes, Inc and UDC Corporation now known as Shea Homes, Inc. served Sabica Ventures, Inc. ("Sabica") and Island Pacific, an operating division of SVI Solutions, Inc. ("Island Pacific") with a cross-complaint for indemnity on behalf of an entity identified in the summons as Pacific Cabinets. Sabica and Island Pacific filed a notice of motion and motion to quash service of summons on the grounds that neither Sabica nor Island Pacific has ever done business as Pacific Cabinets and has no other known relation to the construction project that is the subject of the cross-complaint and underlying complaint. A hearing on Sabica's and Island Pacific's motion to quash occurred on May 22, 2003 which was subsequently denied.

39

Certain of our standard software license agreements contain a limited infringement indemnity clause under which we agree to indemnify and hold harmless our customers and business partners against certain liability and damages arising from claims of various copyright or other intellectual property infringement by our products. These terms constitute a form of guarantee that is subject to the disclosure requirements, but not the initial recognition or measurement provisions of Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of others." We have never lost an infringement claim and our cost to defend such lawsuits have been insignificant. Although it is possible that in the future third parties may claim that our current or potential future software solutions infringe on their intellectual property, we do not currently expect a significant impact on our business, operating results or financial condition.

Except as set forth above, we are not involved in any material legal proceedings, other than ordinary routine litigation proceedings incidental to our business, none of which are expected to have a material adverse effect on our financial position or results of operations. However, litigation is subject to inherent uncertainties, and an adverse result in existing or other matters may arise from time to time which may harm our business.

ITEM 2. - CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended September 30, 2003, we issued 75,000 shares of common stock to an employee in lieu of cash payments for commissions earned in prior periods, valued at $75,000.

The foregoing securities were offered and sold without registration under the Securities Act of 1933 to sophisticated investors who had access to all information which would have been in a registration statement, in reliance upon the exemption provided by Section 4(2) under such Act and Regulation D thereunder.

ITEM 4. - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On July 9, 2003, we held a special meeting of stockholders. All 32,577,343 shares were represented at the meeting in person or by proxy. The following matters were considered and approved:

- Ratification of the sale and issuance of up to $6.5 million of 9% convertible debentures and accompanying warrants to purchase shares of common stock to certain investors. The measure passed with 21,475,900 votes for, 482,980 votes against, 11,835 abstained and 10,606,628 broker non-votes.

- Change of our name from "SVI Solutions, Inc." to "Island Pacific, Inc." The measure passed with 32,508,306 votes for, 56,072 votes against, 12,965 abstained and no broker non-votes.

- Amendment and restatement of our Restated Certificate of Incorporation to reflect the removal of Article XII, which restricts the shareholders' ability to take actions by written consent. The measure passed with 21,763,166 votes for, 82,572 votes against, 124,977 abstained and 10,606,628 broker non-votes.

ITEM 6. - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

2.1 Business Sale Agreement dated May 3, 2002 among the receivers and managers of the assets of SVI Retail (Pty) Limited and QQQ Systems PTY Limited, incorporated by reference to exhibit 2.3 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

2.2 Securities Purchase Agreement dated March 31, 2003 by and among the Company, Midsummer Investment, Ltd., Omicron Master Trust, and Islandia, L.P., incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed April 15, 2003

2.3 Securities Purchase Agreement dated April 1, 2003 by and among the Company and MBSJ Investors, LLC, incorporated by reference to exhibit 2.2 to the Company's Form 8-K filed on April 15, 2003.

2.4 Agreement dated May 6, 2003 by and among the Company, Crestview Capital Fund I, L.P., Crestview Capital Fund II, L.P. and Crestview Capital Offshore Fund, Inc., incorporated by reference to exhibit 2.12 to Company's Form S-1 filed May 12, 2003.

2.5 Securities Purchase Agreement dated June 27, 2003 by and among the Company and the purchasers named therein, incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed on July 2, 2003.

2.6 Securities Purchase Agreement dated November 7, 2003 by and among the Company and the purchasers named therein, incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed on November 12, 2003.

3.1 Amended and Restated Certificate of Incorporation, incorporated by reference to exhibit 3.1 to the Company's 8-K filed on July 15, 2003.

3.2 Certificate of Designation, incorporated by reference to exhibit 4.1 of the Company's Form 8-K filed May 16, 2002.

4.1 Registration Rights Agreement dated as of March 31, 2003 by and among the Company, Midsummer Investment, Ltd., Omicron Master Trust, and Islandia, L.P., incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed April 15, 2003.

4.2 Registration Rights Agreement dated as of April 1, 2003 between the Company and MBSJ Investors LLC., incorporated by reference to exhibit 4.2 to the Company's Form 8-K filed April 15, 2003.

4.3 Registration Rights Agreement dated June 27, 2003 by and among the Company and the parties named therein, incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on July 2, 2003.

4.4 Registration Rights Agreement dated November 7, 2003 by and among the Company and the parties named therein, incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on November 12, 2003.

10.1 Discounted Loan Payoff Agreement dated March 31, 2003 by and amount Union Bank of California, N.A., SVI Solutions, Inc., SVI Retail, Inc., Sabica Ventures, Inc. and SVI Training Products, Inc., incorporated by reference to exhibit 10.3 to the Company's Form 8-K filed on April 15, 2003.

10.2 Unsecured Promissory Note dated March 31, 2003 in favor of Union Bank of California, N.A., incorporated by reference to exhibit 10.47 to the Company's Form S-1 filed on May 12, 2003.

10.3 Amendment Agreement to between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated July 15, 2002, incorporated by reference to exhibit 10.11 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.4 First Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated December 5, 2002.Summary of loan transactions between the Company and World Wide Business Centres, incorporated by reference to exhibit 10.12 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.5	Second Amendment to Amendment Agreement between the Company,Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated March 14, 2003, incorporated by reference to exhibit 10.29 to the Company's Form S-1 filed on May 12, 2003.
10.6	Third Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated March 28, 2003, incorporated by reference to exhibit 10.30 to the Company's Form S-1 filed on May 12, 2003.
10.7	Fourth Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated April 3, 2003, incorporated by reference to exhibit 10.31 to the Company's Form S-1 filed on May 12, 2003.
10.8	Fifth Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated June 27, 2003 , incorporated by reference to exhibit 10.32 to the Company's Form S-3 filed on July 31, 2003.
10.9	Purchase Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.14 to the Company's Form 10-K for the fiscal year ended March 31, 2002.
10.10	Convertible Note in favor of Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.15 to the Company's Form 10-K for the fiscal year ended March 31, 2002.
10.11	Warrant in favor of Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.16 to the Company's Form 10-K for the fiscal year ended March 31, 2002.
10.12	Development Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.17 to the Company's Form 10-K for the fiscal year ended March 31, 2002. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
31.1	Rules 13a-14 and 15d-14 certification from Principal Executive Officer.
31.2	Rules 13a-14 and 15d-14 certification from Principal Financial and Accounting Officer
32.1	Section 1350 Certification of Principal Executive Officer.
32.2	Section 1350 Certification of Principal Financial and Accounting Officer.

(b) REPORTS ON FORM 8-K

On July 2, 2003, we filed a Form 8-K disclosing as Item 5 the sale of 5,275,000 shares of our common stock to a group of institutional investors.

On July 15, 2003, we filed a Form 8-K disclosing as Item 5 the name change to Island Pacific, Inc.

On August 1, 2003, we filed a Form 8-K disclosing as Item 5 the appointment of Harvey Braun, our Chief Executive Officer, to the position of Chairman of the Board and Ran Furman to the position of Chief Financial Officer.

On August 13, 2003, we filed a Form 8-K disclosing as Item 9 our first quarter financial results for the quarter ended June 30, 2003.

42

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly cause this report to be signed on its behalf by the undersigned thereunto duly authorized.

Island Pacific, Inc.
Registrant

/S/ Corinne Bertrand

Date: January 25, 2005

Corinne Bertrand
Chief Financial Officer
Signing on behalf of the registrant

43