ISLAND PACIFIC INC
Form S-1/A
February 03, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 3, 2004
REGISTRATION NO. 333-111009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2
TO
FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ISLAND PACIFIC, INC.
(formerly known as 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)

7372
(Primary Standard Industrial Classification Code Number)

19800 MACARTHUR BOULEVARD, SUITE 1200
IRVINE, CALIFORNIA 92612
(949) 476-2212
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

HARVEY BRAUN
CHIEF EXECUTIVE OFFICER
ISLAND PACIFIC, INC.
19800 MACARTHUR BOULEVARD, SUITE 1200
IRVINE, CALIFORNIA 92612
(949) 476-2212
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:
Harry J. Proctor, Esq.
Solomon Ward Seidenwurm & Smith, LLP
401 B Street, Suite 1200
San Diego, CA 92101

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (1)	PROPOSED MAXIMUM AGGREGATE OFFERIN PRICE (1)
Common Stock, $.0001 par value	15,415,770	N/A	N/A

(1) It is not known how many of such shares of Common Stock will be purchased under this Registration Statement or at what price such shares will be purchased.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) promulgated under the Securities Act of 1933, as amended (the "Securities Act") based upon the average of the high and low prices of our common stock on December 4, 2003 as reported on the American Stock Exchange, which was $2.05 per share.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

PROSPECTUS

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE

CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

ISLAND PACIFIC, INC.

15,415,770 SHARES

COMMON STOCK

We are registering 15,415,770 shares of our common stock for resale by the selling stockholders identified in this prospectus on pages 16 through 19. The selling stockholders may sell the shares of common stock described in this prospectus in public or private transactions, on or off the American Stock Exchange, at prevailing market prices, or at privately negotiated prices. The selling stockholders may sell shares directly to purchasers or through brokers or dealers. Brokers or dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. The selling stockholders will receive all of the proceeds from the sale of the shares and will pay all underwriting discounts and selling commissions, if any, applicable to the sale of the shares. We will pay the expenses of registration of the sale of the shares.

Our common stock is listed on the American Stock Exchange under the symbol "IPI." The closing sale price of our common stock as reported on the American Stock Exchange on January 15, 2004 was $2.50 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS," BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is February 3, 2004, subject to completion.

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YOU SHOULD RELY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. THE SELLING STOCKHOLDERS ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE ON THE COVER PAGE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR ANY SALE OF THE COMMON STOCK. IN THIS PROSPECTUS, "IPI", "WE", "US", "OUR" AND "THE COMPANY" REFER TO ISLAND PACIFIC, INC., UNLESS THE CONTEXT OTHERWISE REQUIRES.

PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. THIS SUMMARY DOES NOT CONTAIN ALL OF THE INFORMATION YOU SHOULD CONSIDER BEFORE BUYING SHARES IN THIS OFFERING. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY, INCLUDING "RISK FACTORS" AND OUR FINANCIAL STATEMENTS BEFORE MAKING AN INVESTMENT DECISION.

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.

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 market our software solutions through direct and indirect sales channels primarily to retailers who sell to their customers through traditional retail stores, catalogs and/or internet-enabled storefronts.

Our offerings consist of the following components:

The ISLAND PACIFIC MERCHANDISE MANAGEMENT suite of applications builds on our long history in retail software design and development and provides our customers with a comprehensive and fully integrated merchandise management solution. Our complete enterprise-level offering of applications and services is designed to assist our customers in maximizing their business potential. The foundation of our application suite is the individual modules that comprise the offering. The modules are:

- IP GLADIATOR;
- IP GLOBAL NETWORK;
- IP INTEGRATOR;
- IP BUYER'S WORKMATE;
- IP WEATHER IMPACT;
- IP BUSINESS PROCESS OPTIMIZATION;
- IP CONSUMER RESEARCH;
- IP PROFILING;
- IP FORECASTING AND REPLENISHMENT;
- IP OMNICARD;
- IP STORE PEOPLE PRODUCTIVITY;
- MERCHANDISING MANAGEMENT;
- THE EYE(TM) ANALYSIS AND PLANNING;
- REPLENISHMENT AND FORECASTING;
- PROMOTION AND EVENTS;

- WAREHOUSE;
- TICKETING; AND
- FINANCIALS.

The ISLAND PACIFIC STORE SOLUTION 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.

Our PROFESSIONAL SERVICES provide our customers with expert retail business consulting, project management, implementation, application training, technical and documentation services. This offering ensures that our customers' technology selection and implementation projects are planned and implemented timely and effectively. We also provide development services to customize our applications to meet specific requirements of our customers and ongoing support and maintenance services.

We market our applications and services through an experienced professional direct sales force in the United States and in the United Kingdom. We believe our knowledge of the complete needs of multi-channel retailers enables us to help our customers identify the optimal systems for their particular businesses. The customer relationships we develop build recurring support, maintenance and professional service revenues and position us to continuously recommend changes and upgrades to existing systems.

Our executive offices are located at 19800 MacArthur Boulevard, Suite 1200, Irvine, California, 92612, telephone number (949) 476-2212.

THE OFFERING

Common stock to be offered by the selling stockholders	15,415,770 shares (1)
Common stock outstanding as of January 8, 2004	47,683,626 shares
Use of proceeds	We will not receive any proceeds from the sale of shares of common stock covered by this prospectus.
American Stock Exchange symbol	IPI

(1) The registrant is hereby registering a number of shares of common stock equal to (a) 150% of the 3,180,645 shares of common stock held by Heartwood Capital, LP, Blackstone Partners, LP, Ruth Moore Bypass Trust, Douglas Moore IRA, Moore Family Trust, Burlingame Equity Investors, LP, 033 Growth

Partners I, L.P., 033 Growth Partners II, L.P., Oyster Pond Partners, L.P., 033 Growth International Fund, Ltd., Passport Master Fund, LP, Passport Master Fund II, LP and Deutsche Bank AG, London Branch, all of whom have registration rights, plus (b) 115,226 shares of common stock and 282,065 shares of common stock underlying a warrant held by Roth Capital Partners, LLC, who has registration rights, plus (c) 8,923,915 shares of common stock, 71,812 shares of common stock underlying options and 624,281 shares of common stock issuable upon conversion of the Series A Convertible Preferred Stock held by The Sage Group plc, who has registration rights with respect to the 624,281 shares issuable upon conversion of the Series A Convertible Preferred Stock and has "piggy-back" registration rights with respect to 8,923,915 shares of common stock and 71,812 shares of common stock underlying options, plus (d) 100,000 shares of common stock held by Cord Camera Centers, Inc., who has registration rights, plus (e) 204,319 shares of common stock held by Koyah Leverage Partners, L.P., Koyah Partners, L.P. and Raven Partners, L.P., all of whom have registration rights, plus (f) 114,849 shares of common stock held by Ronald Koren, David Leacock, Augusto Rosero, Manuel Vicente, Cheryl Valencia, Randy Pagnotta, Rachel Glicksman and Richardson & Patel, LLP, all of whom have "piggy-back" registration rights, plus (g) 208,333 shares of common stock underlying the warrant held by KBK Ventures, Inc., who has "piggy-back" registration rights. This number of shares is subject to adjustment to prevent dilution resulting from stock splits, stock dividends or similar events. Therefore, pursuant to Rule 416, this Registration Statement also registers such indeterminate number of shares as may be issuable in connection with stock splits, stock dividends or similar transactions.

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SUMMARY CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS)

The following financial information should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and unaudited financial information and related notes included elsewhere in this prospectus.

SUMMARY CONSOLIDATED FINANCIAL DATA FOR THE SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002 (IN THOUSANDS, EXCEPT PER SHARE DATA):

	SIX MONTHS ENDED S
	2003
	(UNAUDITE
STATEMENT OF OPERATIONS DATA:	
Net sales	$ 12,145
Cost of sales	2,728
Gross profit	9,417
Expenses:	
Application development	683
Depreciation and amortization	1,766

Selling, general and administrative	5,797	--
Total expenses	8,246	--
Operating income (loss)	1,171	
Other income (expense):		
Interest income	9	
Other expense	(178)	
Interest expense	(521)	
Total other expense	(690)	
Income (loss) before provision for income taxes	481	
Provision for income taxes	(503)	
Income (loss) before cumulative effect of a change in accounting principle	984	
Cumulative effect of changing accounting principle - goodwill valuation under SFAS 142	--	
Income (loss) from continuing operations	984	
Income from discontinued operations of the SVI Training Products, Inc. subsidiary net of applicable income taxes	--	
Net income (loss)	984	
Cumulative preferred dividends	554	
Net income (loss) available to common stockholders	$ 430	$
Basic earnings (loss) per share:		
Income (loss) before cumulative effect of a change in accounting principle	$ 0.03	$
Cumulative effect of a change in accounting principle - goodwill Valuation under SFAS 142	--	
Income (loss) from continuing operations	0.03	
Income from discontinued operations	--	
Cumulative Preferred Dividends	0.02	
Net income (loss) available to common stockholders	$ 0.01	$
Diluted earnings (loss) per share:		
Income (loss) before cumulative effect of a change in accounting principle	$ 0.02	$
Cumulative effect of a change in accounting principle - goodwill valuation under SFAS 142	--	
Income (loss) from continuing operations	0.02	
Income from discontinued operations	--	
Cumulative Preferred Dividends	0.01	
Net income (loss) available to common stockholders	$ 0.01	$

	SIX MONTHS ENDED S 2003	
	(UNAUDITE	
Weighted-average common shares outstanding:		
Basic	33,264	
Diluted	61,718	
BALANCE SHEET DATA:		
Working capital	$ 6,155	$
Total assets	$ 43,538	$
Long-term obligations	$ 68	$
Stockholders' equity	$ 37,507	$

SUMMARY CONSOLIDATED FINANCIAL DATA FOR THE LAST 5 FISCAL YEARS(1):

	YEAR ENDED MARCH 31,			
	2003	2002	2001	20
	(in thousands except for per sha			
STATEMENT OF OPERATIONS DATA:				
Net sales	$ 22,296	$ 26,715	$ 28,049	$ 25
Cost of sales	8,045	11,003	10,815	6
Gross profit	14,251	15,712	17,234	18
Application development expenses	4,643	4,203	5,333	4
Depreciation and amortization	4,148	6,723	8,299	7
Selling, general and administrative expenses	8,072	12,036	16,985	13
Impairment of intangible assets	--	--	6,519	
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	--	--	7,647	
Total expenses	16,863	22,962	44,783	25
Loss from operations	(2,612)	(7,250)	(27,549)	(6
Other income (expense):				
Interest income	1	7	620	1
Other income (expense)	24	(56)	74	
Interest expense	(1,088)	(3,018)	(3,043)	(1
Total other income (expense)	(1,063)	(3,067)	(2,349)	
Loss before provision (benefit) for income taxes	(3,675)	(10,317)	(29,898)	(7

Provision (benefit) for income taxes	11	2	(4,778)	(2
Loss before extraordinary item and change in accounting principle	(3,686)	(10,319)	(25,120)	(5
Extraordinary item- Gain on debt forgiveness	1,476	--	--	
Cumulative effect of changing accounting principle - Goodwill valuation under SFAS 142	(627)	--	--	
Loss from continuing operations	(2,837)	(10,319)	(25,120)	(5
Income (loss) from discontinued operations	119	(4,339)	(3,825)	1
Net income (loss)	(2,718)	(14,658)	(28,945)	(4
Cumulative preferred dividends	1,015	254	--	
Net income (loss) available to common stockholders	$ (3,733)	$(14,912)	$(28,945)	$ (4
Basic earnings (loss) per share:				
Loss before extraordinary item and change in accounting principle	$ (0.12)	$ (0.29)	$ (0.72)	$ (
Extraordinary item - gain on debt forgiveness	0.05	--	--	
Loss from change in accounting principle	(0.02)	--	--	
Loss from continuing operations	(0.09)	(0.29)	(0.72)	(
Income (loss) from discontinued operations	--	(0.12)	(0.11)	
Cumulative preferred dividends	(0.03)	(0.01)	--	
Net income (loss) available to common stockholders	$ (0.12)	$ (0.42)	$ (0.83)	$ (

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	YEAR ENDED MARCH 31,			
	2003	2002	2001	2000
		(in thousands)		
Diluted earnings (loss) per share:				
Loss before extraordinary item and change in accounting principle	$ (0.12)	$ (0.29)	$ (0.72)	$ (0
Extraordinary item - gain on debt forgiveness	0.05	--	--	
Loss from change in accounting principle	(0.02)	--	--	
Loss from continuing operations	(0.09)	(0.29)	(0.72)	(0
Income (loss) from discontinued operations	--	(0.12)	(0.11)	0
Cumulative preferred dividends	(0.03)	(0.01)	--	
Net income (loss) available to				

common stockholders	$ (0.12)	$ (0.42)	$ (0.83)	$ (0
Weighted average common shares:				
Basic	29,599	35,698	34,761	32,
Diluted	29,599	35,698	34,761	32,
BALANCE SHEET DATA:				
Working capital	$ (4,056)	$ (5,337)	$ (2,782)	$ 2,
Total assets	$ 37,637	$ 40,005	$ 56,453	$ 94,
Long-term obligations	$ 2,807	$ 8,013	$ 18,554	$ 21,
Stockholders' equity	$ 23,842	$ 21,952	$ 26,993	$ 53,

(1) Except for the year ended March 31, 2003, certain reclassifications are reflected in the above data since the filing of such annual reports on forms 10KSB, 10K and 10K/A. Such reclassifications did not result in changes in net income (loss), net income (loss) per share or stockholders' equity.

RISK FACTORS

THE PURCHASE OF OUR SHARES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING A DECISION TO BUY OUR COMMON STOCK. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCURS, OUR BUSINESS COULD BE HARMED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU MAY LOSE ALL OR PART OF YOUR INVESTMENT. YOU SHOULD ALSO REFER TO THE OTHER INFORMATION IN THIS PROSPECTUS, INCLUDING OUR FINANCIAL STATEMENTS AND THE RELATED NOTES. EXCEPT FOR HISTORICAL INFORMATION, THE INFORMATION IN THIS PROSPECTUS CONTAINS "FORWARD-LOOKING" STATEMENTS ABOUT OUR EXPECTED FUTURE BUSINESS AND PERFORMANCE. OUR ACTUAL OPERATING RESULTS AND FINANCIAL PERFORMANCE MAY PROVE TO BE VERY DIFFERENT FROM WHAT WE MIGHT HAVE PREDICTED AS OF THE DATE OF THIS PROSPECTUS. THE RISKS DESCRIBED BELOW ADDRESS SOME OF THE FACTORS THAT MAY AFFECT OUR FUTURE OPERATING RESULTS AND FINANCIAL PERFORMANCE.

BUSINESS RISKS

WE INCURRED LOSSES FOR FISCAL YEARS 2003, 2002, 2001 AND 2000.

We incurred losses of $2.7 million, $14.7 million, $28.9 million and $4.1 million in the fiscal years ended March 31, 2003, 2002, 2001, and 2000 respectively. The losses in the past four years have generally been due to difficulties completing sales for new application software licenses, the resulting change in sales mix toward lower margin services, and debt service expenses. We will need to generate additional revenue to achieve profitability in future periods. If we are unable to achieve profitability, or maintain profitability if achieved, may have a material adverse effect on our business and stock price and we may be unable to continue operations at current levels, if at all.

WE HAD NEGATIVE WORKING CAPITAL IN PRIOR FISCAL YEARS, AND WE HAVE EXTENDED PAYMENT TERMS WITH A NUMBER OF OUR SUPPLIERS.

At March 31, 2003, 2002 and 2001, we had negative working capital of $4.1 million, $5.3 million and $2.8 million, respectively. We have had difficulty meeting operating expenses, including interest payments on debt, lease payments and supplier obligations. We have at times deferred payroll for our executive officers, and borrowed from related parties to meet payroll obligations. We have extended payment terms with our trade creditors wherever possible.

As a result of extended payment arrangements with suppliers, we may be unable to secure products and services necessary to continue operations at current levels from these suppliers. In that event, we will have to obtain these products and services from other parties, which could result in adverse consequences to our business, operations and financial condition, and we may be unable to obtain these products from other parties on terms acceptable to us, if at all.

OUR NET SALES HAVE DECLINED IN RECENT FISCAL YEARS. WE EXPERIENCED A SUBSTANTIAL DECREASE IN APPLICATION SOFTWARE LICENSE SALES. OUR GROWTH AND PROFITABILITY IS DEPENDENT ON THE SALE OF HIGHER MARGIN LICENSES.

Our net sales decreased by 16% in the fiscal year ended March 31, 2003, compared to the fiscal year ended March 31, 2002. Our net sales decreased by 5% in the fiscal year ended March 31, 2002 compared to the fiscal year ended March 31, 2001. We experienced a substantial decrease in application license software sales, which typically carry a much higher margin than other revenue sources. We must improve new application license sales to become profitable. We have taken steps to refocus our sales strategy on core historic competencies, but our typically long sales cycles make it difficult to evaluate whether and when sales will improve. We cannot be sure that the decline in sales has not been due to factors which might continue to negatively affect sales.

OUR FINANCIAL CONDITION MAY INTERFERE WITH OUR ABILITY TO SELL NEW APPLICATION SOFTWARE LICENSES.

Future sales growth may depend on our ability to improve our financial condition. Our past financial condition has made it difficult for us to complete sales of new application software licenses. Because our applications typically require lengthy implementation and extended servicing arrangements, potential customers require assurance that these services will be available for the expected life of the application. These potential customers may defer buying decisions until our financial condition improves, or may choose the products of our competitors whose financial condition is or is perceived to be stronger. Customer deferrals or lost sales will adversely affect our business, financial conditions and results of operations.

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 have 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 net sales 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:

- o The size and timing of individual orders, particularly with respect to our larger customers;

- o General health of the retail industry and the overall economy;

- o Technological changes in platforms supporting our software products; and

- o 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. Application license revenues in any quarter are substantially dependent on orders booked and delivered in that quarter. Additionally, 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. As a result of these factors, it is difficult for us to predict revenues and adjust costs as necessary.

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:

- o The extent of marketing and sales efforts necessary to promote and sell our applications and services;

- o The timing and extent of our development efforts; and

- o 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 HAVE RELIED ON CAPITAL CONTRIBUTED BY RELATED PARTIES, AND SUCH CAPITAL MAY NOT BE AVAILABLE IN THE FUTURE.

Our cash from operations has not been sufficient to meet our operational needs, and we have relied on capital from related parties. A company affiliated with Donald S. Radcliffe, our former director, made short-term loans to us in fiscal 2002 and in fiscal 2003 to meet payroll when cash on hand was not sufficient. Softline Limited ("Softline") loaned us $10 million to make a required principal payment on our Union Bank term loan in July 2000. A subsidiary of Softline loaned us an additional $600,000 in November 2000 to meet working capital needs. This loan was repaid in February 2001, in part with $400,000 we borrowed from Barry M. Schechter, our former Chairman. We borrowed an additional $164,000 from Mr. Schechter in March 2001, which was repaid in July 2001, for operational needs related to our Australian subsidiary.

We may not be able to obtain capital from related parties in the future. No officer, director, stockholder or related party is under any obligation to continue to provide cash to meet our future liquidity needs.

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 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 73% 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 impairments 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 12%, 9% and 8% of our net sales from continuing operations were outside North America, principally in Australia and the United Kingdom, in the fiscal years ended March 31, 2003, 2002 and 2001, respectively. Many of our expenses related to foreign sales, such as corporate level administrative overhead and development, are denominated in U.S. dollars. When accounts receivable and accounts payable arising from international sales 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.

HISTORICALLY WE HAVE BEEN DEPENDENT ON A SMALL NUMBER OF CUSTOMERS FOR A SIGNIFICANT AMOUNT OF OUR BUSINESS.

Toys "R" Us ("Toys") accounted for 13% of our net sales for the six month period ended September 30, 2003, and 31%, 47% and 33% of our net sales for the fiscal years ended March 31, 2003, 2002 and 2001, respectively. QQQ Systems Ltd. ("QQQ Systems") accounted for 32% of our net sales for the six months ended September 30, 2003. In November 2003, Toys terminated their software development and services agreement with us. We cannot provide any assurances that QQQ Systems 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 our Chairman and Chief Executive Officer, Harvey Braun, and our President and Chief Operating Officer, Steven Beck. We do not have any written employment agreements with Mr. Braun or Mr. Beck. We are also heavily dependent on our former Chairman, Barry Schechter, who remains a consultant to us. We do not have a written consulting agreement with Mr. Schechter. 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 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 sales 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 weakening economic conditions that could negatively impact the industry and our customers' ability to pay for our products and services. Such consolidation and weakening 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. Uncertain economic conditions and the specter of terrorist activities have adversely impacted sales of our software applications, and we believe mid-tier specialty retailers may be reluctant during the current economic climate to make the substantial infrastructure investment that generally accompanies the implementation of our software applications, 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 who 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. For a further discussion of competitive factors in our industry, see "Business" under the heading "Competition."

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;

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

- o 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 INITIATE 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 initiate 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 subject to 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, and 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 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 material 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.

THE SAGE GROUP PLC (THE "SAGE GROUP") HAS THE RIGHT TO ACQUIRE A SIGNIFICANT PERCENTAGE OF OUR COMMON STOCK, WHICH IF ACQUIRED BY THE SAGE GROUP, MAY ENABLE THE SAGE GROUP TO EXERCISE EFFECTIVE CONTROL OF US.

On November 14, 2003, the Sage Group acquired substantially all of the assets of Softline, including Softline's 141,000 shares of our Series A Convertible Preferred Stock, which are convertible into 18,700,185 shares of our common stock within 60 days of January 8, 2004 (the 18,700,185 shares consist of 18,478,789 shares issuable as of January 8, 2004 and 221,396 shares that will be issuable within 60 days of January 8, 2004 on account of accrued and unpaid dividends during that 60 day period), 8,923,915 shares of our common stock and options to purchase 71,812 shares of our common stock. The Sage Group beneficially owns approximately 41.7% of our outstanding common stock, including shares the Sage Group has the right to acquire upon conversion of its Series A Convertible Preferred Stock and exercise of its outstanding options. Although the Series A Convertible Preferred Stock is redeemable by us and 25,125,000 shares of common stock beneficially owned by the Sage Group are subject to an option held by Steven Beck, as trustee of a certain management group of the Company, if the Sage Group converts its Series A Convertible Preferred Stock, it may have effective control over all matters affecting us, including:

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

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

The Sage Group beneficially owns a significant percentage of our common stock. In addition, two of the current members of our board of directors are employed by a subsidiary of the Sage Group. The Sage Group's potential effective 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, the Sage Group's potential effective 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. For further information on our stock price trends, see "Price Range of Common Stock."

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. Holders of our Series A Convertible Preferred Stock are entitled to dividends 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 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 ISSUABLE UPON THE EXERCISE OF OPTIONS, WARRANTS, DEBENTURES AND CONVERTIBLE NOTES OR UNDER ANTI-DILUTION PROVISIONS IN CERTAIN AGREEMENTS 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. We currently have outstanding options and warrants for 14,254,228 shares. Of these options and warrants, as of January 8, 2004, 1,446,257 have exercise prices above the recent market price of $1.92 per share (as of January 8, 2004), and 12,807,971 have exercise prices at or 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 2,284,217 shares available for issuance as of January 8, 2004. Future options issued under the plan may have further dilutive effects.

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 of the note, which is March 31, 2004. This note will have a dilutive effect on stockholders if converted. As of September 30, 2003, the bank assigned this note to Roth Capital Partners, LLC.

Under a securities purchase agreement dated November 7, 2003 between the Company and various institutional investors, for a six-month period the Company is obligated to issue the investors additional shares of common stock, if the Company or any subsidiary or affiliate of the Company sells any of the Company's common stock for an aggregate purchase price of $1 million for a per share price that is less than 120% of the then current per share purchase price paid by such investors. The number of shares issued pursuant to the anti-dilution provision when aggregated with all prior issuances pursuant to the November 7, 2003 securities purchase agreement can not exceed 7,600,000 without stockholder approval.

Sales of shares issued pursuant to exercisable options, warrants, convertible notes or anti-dilution provisions 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.

WE MAY BE UNABLE TO SUCCESSFULLY INTEGRATE OUR OPERATIONS WITH PAGE DIGITAL INCORPORATED ("PAGE DIGITAL") OR RETAIL TECHNOLOGIES INTERNATIONAL, INC. ("RTI")

OR REALIZE ALL OF THE ANTICIPATED BENEFITS OF THESE ACQUISITIONS.

On January 30, 2004, we acquired Page Digital (see "Recent Transactions" below). On January 6, 2004, we executed a Letter of Intent/Term Sheet pursuant to which we intend to acquire RTI., subject to securing financing, due diligence, the execution of a definitive agreement, the approval of the board of directors of the Company and the approvals of the board of directors and shareholders of RTI. These acquisitions involve integrating two companies that previously operated independently into Island Pacific. These integrations will be complex, costly and time-consuming processes. The difficulties of combining these companies' operations include, among other things:

- Coordinating geographically disparate organizations, systems and facilities;
- Strain on management resources due to integration demands;
- Integrating personnel with diverse business backgrounds;
- Consolidating corporate and administrative functions;
- Coordinating product development;
- Coordinating sales and marketing functions;
- Retaining key employees; and
- Preserving relationships with key customers.

SATISFYING CLOSING CONDITIONS MAY DELAY OR PREVENT THE COMPLETION OF THE RTI TRANSACTION.

The closing of the RTI acquisition is conditioned, among other things, upon our securing financing, completion of due diligence, executing definitive agreements and securing the approval of the board of directors of Island Pacific and the approvals of the board of directors and the shareholders of RTI. Satisfying all these conditions is a complicated and time consuming process. We will have to dedicate significant financial and managerial resources to completing this transaction. It is possible that one of these conditions may become difficult or impossible to satisfy delaying or frustrating the consummation of the acquisition. There can be no assurance that the Company will be able to secure the necessary financing to complete the acquisition of RTI.

BUSINESS RISKS FACED BY PAGE DIGITAL COULD DISADVANTAGE OUR BUSINESS.

Page Digital is a developer of multi-channel commerce software and faces several business risks that could disadvantage our business if the proposed transaction is consummated. These risks include many of the risks that we face, described above, as well as:

- LONG AND VARIABLE SALES CYCLES MAKE IT DIFFICULT TO PREDICT OPERATING RESULTS - Historically, the period between initial contact with a prospective customer and the licensing of Page

Digital's products has ranged from one to twelve months. Page Digital's average sales cycle is currently three months. The licensing of Page Digital's products is often an enterprise wide decision by customers that involves a significant commitment of resources by Page Digital and its prospective customer. Customers generally consider a wide range of issues before committing to purchase Page Digital's products, including product benefits, cost and time of implementation, ability to operate with existing and future computer systems, ability to accommodate increased transaction volume and product reliability. As a part of the sales process, Page Digital spends a significant amount of resources informing prospective customers about the use and benefits of Page Digital products, which may not result in a sale, therefore increasing operating expenses. As a result of this sales cycle, Page Digital's revenues are unpredictable and could vary significantly from quarter to quarter causing our operating results to vary significantly from quarter to quarter.

- DEFECTS IN PRODUCTS COULD DIMINISH DEMAND FOR PRODUCTS AND RESULT IN LOSS OF REVENUES - From time to time errors or defects may be found in Page Digital's existing, new or enhanced products, resulting in delays in shipping, loss of revenues or injury to Page Digital's reputation. Page Digital's customers use its products for business critical applications. Any defects, errors or other performance problems could result in damage to Page Digital's customers' businesses. These customers could seek significant compensation from Page Digital for any losses. Further, errors or defects in Page Digital's products may be caused by defects in third-party software incorporated into Page Digital products. If so, Page Digital may not be able to fix these defects without the assistance of the software providers.

- FAILURE TO FORMALIZE AND MAINTAIN RELATIONSHIPS WITH SYSTEMS INTEGRATORS COULD REDUCE REVENUES AND HARM PAGE DIGITAL'S ABILITY TO IMPLEMENT PRODUCTS - A significant portion of Page Digital's sales are influenced by the recommendations of systems integrators, consulting firms and other third parties who assist with the implementation and maintenance of Page Digital's products. These third parties are under no obligation to recommend or support Page Digital's products. Failing to maintain strong relationships with these third parties could result in a shift by these third parties toward favoring competing products, which could negatively affect Page Digital's software license and service revenues.

- PAGE DIGITAL'S PRODUCT MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, SO PAGE DIGITAL'S SUCCESS DEPENDS HEAVILY ON ITS 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. Page Digital must cost-effectively develop and introduce new applications and related services that keep pace with technological developments to compete. If Page Digital fails to gain market acceptance for its existing or new offerings or if Page Digital fails to introduce progressive new offerings in a timely or cost-effective manner, our financial performance may suffer.

- FAILURE TO PROTECT PROPRIETARY RIGHTS OR INTELLECTUAL PROPERTY, OR INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS AGAINST PAGE DIGITAL COULD RESULT IN PAGE DIGITAL LOSING VALUABLE ASSETS OR BECOMING SUBJECT TO COSTLY AND TIME-CONSUMING LITIGATION - Page Digital's success and ability to compete depend on its proprietary rights and intellectual property. Page Digital relies on trademark, trade secret and copyright laws to protect its proprietary rights and intellectual property. Page Digital also has one issued patent. Despite Page Digital's efforts to protect intellectual property, a third party could obtain access to Page Digital's software source code or other proprietary information without authorization, or could independently duplicate Page Digital's software. Page Digital may need to litigate to enforce intellectual property rights. If Page Digital is unable to protect its intellectual property it may lose a valuable asset. Further, third parties could claim Page Digital has infringed their intellectual property rights. Any claims, regardless of merit, could be costly and time-consuming to defend.

- COMPETITION IN THE SOFTWARE MARKET IS INTENSE AND COULD REDUCE PAGE DIGITAL'S SALES OR PREVENT THEM FROM ACHIEVING PROFITABILITY - The market for Page Digital's products is intensely competitive and subject to rapid technological change. Competition is likely to result in price reductions, reduced gross margins and loss of Page Digital's market share, any one of which could reduce future revenues or earnings. Further, most of Page Digital's competitors are large companies with greater resources, broader customer relationships, greater name recognition and an international presence. As a result, Page Digital's competitors may be able to better respond to new and emerging technologies and customer demands.

FORWARD LOOKING STATEMENTS

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT AND SECTION 21E OF THE EXCHANGE ACT. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS THE WORDS MAY, WILL, SHOULD, EXPECT, PLAN, ANTICIPATE, BELIEVE, ESTIMATE, PREDICT, POTENTIAL OR CONTINUE, OR THE NEGATIVES OF SUCH WORDS OR OTHER COMPARABLE TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IMPORTANT FACTORS THAT MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO THE ITEMS DISCUSSED UNDER "RISK FACTORS" AND OTHER SECTIONS OF THIS PROSPECTUS.

ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. WE ARE UNDER NO OBLIGATION TO UPDATE ANY OF THE FORWARD-LOOKING STATEMENTS AFTER THE FILING OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS OR TO CHANGES IN OUR EXPECTATIONS.

SELLING STOCKHOLDERS

We are registering 15,415,770 shares of our common stock for resale by the selling stockholders named below. The term "selling stockholders" includes each stockholder named below and such stockholder's transferees, pledgees, donees or other successors. See "Registration Rights" and below for a more complete description of our agreements with selling stockholders.

BACKGROUND

In this registration statement, 150% of 3,180,645 shares of common stock held by Heartwood Capital, LP, Blackstone Partners, LP, Ruth Moore Bypass Trust, Douglas Moore IRA, Moore Family Trust, Burlingame Equity Investors, LP, 033 Growth Partners I, L.P., 033 Growth Partners II, L.P., Oyster Pond Partners, L.P., 033 Growth International Fund, Ltd., Passport Master Fund, LP, Passport Master Fund II, LP and Deutsche Bank AG, London Branch are being registered pursuant to a registration rights agreement dated November 7, 2003. We sold these shares of common stock to various institutional investors in a private placement under a Securities Purchase Agreement dated November 7, 2003 (the "November 7, 2003 PIPE Transaction"). See "Managements' Discussion and Analysis of Financial Condition and Results of Operations - Financing Transactions, Common Stock Institutional Investors."

In connection with the November 7, 2003 PIPE Transaction we granted Roth Capital Partners, LLC ("Roth Capital"), as compensation for services rendered as placement agent in the transaction, 115,226 shares of our common stock and a five-year warrant to purchase 282,065 shares of our common stock at $1.71 per share. We also granted Roth Capital registration rights under our registration rights agreement executed in connection with the November 7, 2003 PIPE Transaction. All the shares held by or issuable to Roth Capital in connection with the November 7, 2003 PIPE Transaction are being registered in this registration statement.

For the six-month period following the November 7, 2003 PIPE Transaction, the Company is required to issue additional shares to the November 7, 2003 PIPE Transaction investors if the Company or any subsidiary or affiliate of the Company sells any of the Company's common stock for an aggregate purchase price of $1 million in any 30 day period for a per share price that is less than 120% of the then current per share purchase price paid by the November 7, 2003 PIPE Transaction investors (currently $1.86 - 120% of $1.55, the purchase price). If we, or any of our affiliates, sell shares at prices below $1.86 ("Subsequent Issuance"), the November 7, 2003 PIPE Transaction investors will receive additional shares so that their effective share price will represent a 17% discount to a Subsequent Issuance share price. For example: Under the formula, and for illustration purposes only, if the Company sold common shares at $1.75 per share, the investors would be entitled to receive an additional number of shares, on a pro-rata basis, so that the total number of shares they received is equal to the number of shares they would have received had their original purchase price been $1.4525 (a 17% discount on $1.75). Specifically, the investors paid an aggregate of $4,930,000. If the per share price had been $1.4525 they would have received a total of 3,394,148 shares ($4,930,000 divided by $1.4525 per share). Therefore, the investors would be entitled to an additional 213,503 shares of common stock (3,394,148 less the 3,180,645 shares that were issued in the November 7, 2003 PIPE Transaction). Thus, the Company will have effectively received less per share than they originally bargained for ($1.4525 vs. $1.55) and the investors would receive more shares for their total investment in the November 7, 2003 PIPE Transaction. The number of shares issued pursuant to the anti-dilution provision when aggregated with all prior issuances in the November 7, 2003 PIPE Transaction cannot exceed 7,600,000 without stockholder approval. After full negotiations with the investors, the Company provided this anti-dilution provision as an incentive to the investors for their participation in the PIPE Transaction. To provide for this potential issuance of additional shares, the Company is required to register 150% of the shares purchased in the November 7, 2003 PIPE Transaction.

In addition, we are registering (a) 8,923,915 shares of common stock, 71,812 shares of common stock underlying the stock options and 624,281 shares of common stock issuable on the conversion of Series A Convertible Preferred Stock held by the Sage Group, who has registration rights with respect to the 624,281 shares issuable upon conversion of the Series A Convertible Preferred Stock and has "piggy-back" registration rights with respect to the 8,923,915 shares of common stock and 71,812 shares of common stock underlying options; (b) 100,000 shares of common stock held by Cord Camera Centers, Inc., who has registration rights; (c) 204,319 shares of common stock held by Koyah Leverage Partners, L.P., Koyah Partners, L.P. and Raven Partners, L.P., all of whom have registration rights; (d) 114,849 shares of common stock held by Ronald Koren, David Leacock, Augusto Rosero, Manuel Vicente, Cheryl Valencia, Randy Pagnotta, Rachel Glicksman and Richardson & Patel, LLP, all of whom have "piggy-back" registration rights; and (e) 208,333 shares of common stock underlying the warrant held by KBK Ventures, Inc., who has "piggy-back" registration rights.

The following table, which reflects stockholdings as of January 8, 2004, is based in part upon information provided by the selling stockholders and sets forth (i) the names of the selling stockholders; (ii) the number of shares of our common stock that the selling stockholders owned prior to the offering for resale of any of the shares of our common stock being registered hereby; (iii) the maximum number of shares of our common stock that may be offered for resale for the accounts of the selling stockholders pursuant to this prospectus; and (iv) the percentage of shares of common stock to be held by the selling stockholders after the offering of the resale shares (assuming all of the resale shares are sold by the selling stockholders).

SELLING STOCKHOLDERS	NUMBER OF SHARES OF IPI COMMON STOCK BENEFICIALLY OWNED (1)	NUMBER OF SHARES OF IPI COMMON STOCK TO BE RESOLD IN THE OFFERING	NUMBER OF SHARES COMMON STOCK BENE OWNED AFTER THE O
Douglas Moore (3)*	280,500*	172,500	165,500