ISLAND PACIFIC INC
Form 10-K/A
November 16, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MARCH 31, 2004

[ ] TRANSACTION 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 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)
19800 MACARTHUR BLVD, SUITE 1200, IRVINE, CA	92612
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.0001 Par Value	American Stock Exchange

Securities registered under Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) 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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Yes [ ] No [X]

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates, based on the closing sale price of the registrant's common stock on September 30 2003 as reported on the American Stock Exchange, was approximately $65.5 million. Excludes shares of common stock held by directors, officers and each person who holds 5% or more of the registrant's common stock.

The number of shares outstanding of the registrant's Common Stock was 53,974,532 on June 1, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

This annual report on Form 10-K/A is an amendment to the Form 10-K filed by the Registrant on June 29, 2004.

This annual report on Form 10-K/A is being filed to reflect the restatement of the Registrant's 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. Reversal of a purchase of software technology ("Software Technology") and related amortization,
5. Accrual of a royalty liability and related recognition of royalty fees pursuant to the purchase agreement of Software Technology,
6. Recognition of amortization of debt discount on the March '03, April '03, May '03 and Toys "R" Us convertible debt as interest expense,
7. Capitalization and amortization of beneficial conversion interest charges related to the March '03, April '03, May '03 and March '04 convertible debentures,
8. Capitalization of legal fees related to the acquisitions of Page Digital Incorporated and Retail Technologies International, Inc.,
9. Reclassification of impairment of prepaid development expense from other expense to selling, general and administrative expense, and
10. Reclassification of a gain on debt forgiveness from

extraordinary item to other income.

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.

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INTRODUCTORY NOTE

THE ANNUAL REPORT ON FORM 10-K/A 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 ("ISLAND PACIFIC", "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 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." STAKEHOLDERS, 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.

ITEM 1. BUSINESS

GENERAL

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. The Company is organized in three strategic business units - Retail Management Solutions, Store Solutions and Multi-channel Retail Solutions.

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. To date, we have licensed our solutions to more than 200 retailers across a variety of retail sectors.

ISLAND PACIFIC

Historically, retailers have relied upon custom-built systems, often self-developed, to manage business processes and business information with both trading partners and customers. These legacy systems are typically built on 1960s business models and 1970s technology. They are not Internet-enabled, and do not permit collaboration among a retailer's customers, partners, suppliers and other members of the supply/demand chain. Moreover, they reflect the thinking of a seller's market.

Over the past few years, retailers have begun to purchase packaged solutions designed specifically for the retail industry. Most of these systems are very expensive to license, and very expensive, time-consuming and difficult to implement. They have been primarily positioned to the largest companies, who have enormous amounts of managerial, technical and financial resources at their disposal - organizations for which distraction and mistakes are affordable.

These solutions ignore the needs of the small to medium sized retailers, who have many of the same needs and face many of the same challenges as do the larger retailers, but lack the managerial, financial and technological capacity of the larger retailers.

Our solutions serve the small to medium sized market.

All retailers today face the challenge of operating in a very competitive environment, an environment that can be best described as over-stored and over-homogenized -- an environment in which power has shifted from the seller to the buyer.

As retailers expand their businesses to include the Internet, catalog, kiosk and other distribution channels, the complexity of managing inventory and meeting customer demands places tremendous pressure on their business processes and their technology infrastructure.

To meet an ever more mobile and demanding consumer's expectations, retailers need to deliver on the customer's terms. This means having the right product, at the right time and in the right place across multi-channel touch points. To do this, retailers need valuable consumer insights, intelligence on external factors that shape consumer response such as how the weather, the economy and changing consumer attitudes will affect future buying patterns. This intelligence, augmented by powerful communications, comprehensive loss prevention, strong forecasting, planning, assortment planning, allocation, event planning, replenishment and merchandising functions are critical to profitably achieve this goal. These represent the content of our product offering.

Small to medium sized retailers need a cost-effective, easily installed, affordable, comprehensive, integrated software infrastructure that spans supplier to consumer and gives the retailer visibility, flexibility and control of all business processes to meet all competitive challenges.

We believe a market opportunity exists to provide these retailers with a software solution that is designed specifically for their needs. This solution should be easy-to-use, leverage a retailer's existing investments in information technology and be sufficiently flexible to meet the specific needs of a broad range of retail sectors, such as fashion, hard-lines, mass merchandise or food and drug.

We have developed and deployed software solutions that enable retailers to manage the entire scope of their operations. These operations include point-of-sale, customer relationship management, vendor relationship management, merchandising, demand chain management, planning, and forecasting.

Key areas, which differentiate our software solutions, include:

- VALUE - Our integrated and modular architecture helps retailers meet return on investment objectives by allowing them to implement the most critical and valuable applications first. This modular architecture decreases migration path risk for the replacement of legacy systems and increases the probability of an on-time, on-budget implementation project.

- PROVEN - We are a leading provider of retail infrastructure software and services. We understand the complex needs of retailers and have designed our solutions specifically for the retail industry. We provide certain software products and services infrastructure for retailers with combined revenues of over $200 billion annually.

- SCALABLE - Our solutions are engineered to provide scalability to efficiently handle large volumes of transactions and users. Our solutions work in environments that span from one to five thousand stores.

- INNOVATIVE - Our partnerships and our solutions include some of the most advanced technologies available to retailers.

STRATEGY

Our mission is to provide the small to medium sized retailer all the intelligence, tools and infrastructure necessary to success in a highly competitive environment.

Our mission is to make this information and these tools and infrastructure useable, affordable and reliable for end-use in highly volatile environments.

Our mission is to make our products and services easy to acquire, easy to install and easy to live with.

Our mission is to create value for retailers by providing valuable intelligence and innovative technology solutions that help to understand, create, manage, and fulfill consumer demand.

Our strategies are as follows:

- INCREASE OUR MARKET SHARE. We believe we can continue to build and expand our position of leadership within the retail packaged software applications market as the retail industry increasingly turns to packaged software applications as an alternative to expensive in-house and custom developed applications.

- PROVIDE HIGH LEVELS OF CUSTOMER SATISFACTION. The retail industry is strongly influenced by formal and informal references. We believe we have the opportunity to expand market share by providing high levels of customer satisfaction with our current customers, thereby fostering strong customer references to support sales activities.

- DELIVER VALUE TO OUR CUSTOMERS. We believe that maximizing our customers' return on investment will help us compete in our market space and increase our market share.

- BECOME THE PREFERRED APPLICATION AND TECHNOLOGY ARCHITECTURE FOR THE SMALL TO MEDIUM SIZED RETAILERS GLOBALLY. By leveraging our 25 years of success, we believe we are uniquely positioned to become the preferred application and technology architecture provider for retail software and associated services to this market.

- FULFILL THE MULTI-CHANNEL REQUIREMENTS OF RETAILERS. Through the acquisition of Page Digital, we believe we will be able to address the expanding needs of retailers to cohesively manage their varied channels of distribution.

RECENT DEVELOPMENTS

OPERATIONAL IMPROVEMENTS

In recent periods, we have taken a number of steps designed to improve our balance sheet and operations, including:

- Purchased complementary businesses, with substantial revenues and earnings potential.
- Revamped our management team by adding a new President and COO and CTO with longstanding industry experience, as well as a new CFO.
- Recapitalized our balance sheet, eliminating substantial debt and raising new equity in its place.
- Improved our IBM-based core products through continuing internal research and development.
- Obtained the rights to distribute complementary products, including a new easy-to-install and easy-to-use, open-architecture software system for very small retailers, which we will introduce in 2004.
- Established partnerships with several value added resellers to provide a variety of options and product extensions.
- Improved our distribution capabilities by adding new third party channels, such as IBM and IBM's resellers, and professional service firms such as CGI and LakeWest.

We believe that these actions have positioned us for a return to sustained revenue growth and profitability.

ACQUISITION OF PAGE DIGITAL

As part of our strategy to meet the expanding needs of multi-channel retailers, on January 30, 2004, we acquired Page Digital Incorporated ("Page Digital" through a merger transaction for total consideration of $7.1 million, consisting of $2.0 million in cash, 2,500,000 shares of our common shares valued at $2.00 per share and $138,000 in acquisition costs. Page Digital develops multi-channel commerce software solutions and has a suite of direct commerce applications that complete the multi-channel retail distribution and customer service chain for Internet, telephone, brick and mortar, catalog and other direct commerce channels. Our acquisition of Page Digital will continue to

enhance our ability to provide our combined customer bases with e-commerce, customer relationship management and catalog management solutions. In connection with the Page Digital acquisition, we added approximately 40 employees. Page Digital had total assets of $2.1 million as of October 31, 2003 and generated annual revenues of $5.3 million in the fiscal year ended October 31, 2003.

The legitimization of business to business and business to consumer direct commerce (Internet, brick-and-mortar, catalog, and other) has rapidly created a substantial market for the Page Digital suite of direct commerce applications. According to the United States Department of Commerce, the market for multi-channel direct commerce applications was just $15 billion in 1999, grew to $27.3 billion in 2000, grew to $32.6 billion in 2001, and it is growing at a rate 2.5 times greater than traditional retailing (Source: Internet Retailer, April 2002). The acquisition of Page Digital will enable us to continue to provide our customers with Page Digital's e-commerce, customer relations management, and Catalog Management solutions. We expect to further integrate these solutions into our offerings to enable customers to complete the multi-channel retail distribution and customer service chain. In addition, the acquisition will also allow us to offer Page Digital's customers the IP Merchandising solution, as well as Point of Sale, Loss Prevention, and IP's other alliance solutions.

ACQUISITION OF RTI

Pursuant to an agreement dated June 1, 2004, we acquired Retail Technologies International, Inc. ("RTI") from Michael Tomczak, Jeffrey Boone and Intuit Inc. ("Intuit") in a merger transaction. On March 12, 2004, we, RTI, IPI Merger Sub, Inc., ("Merger Sub") and Michael Tomczak and Jeffrey Boone (the "Shareholders") entered the initial Agreement of Merger and Plan of Reorganization (the "March 12, 2004 Merger Agreement") which provided we would acquire RTI in a merger transaction in which RTI would merge with and into Merger Sub. The merger consideration contemplated by the March 12, 2004 Merger Agreement was a combination of cash and shares of our common stock. The March 12, 2004 Merger Agreement was amended by the Amended and Restated Agreement of Merger and Plan of Reorganization, dated June 1, 2004, by and between us, RTI, Merger Sub, IPI Merger Sub II, Inc. ("Merger Sub II") and the Shareholders (the "Amended Merger Agreement").

Pursuant to the Amended Merger Agreement, the Merger (as defined below) was completed with the following terms: (i) we assumed RTI's obligations under those certain promissory notes issued by RTI on December 20, 2002 with an aggregate principal balance of $2.3 million; (ii) the total consideration paid at the closing of the Merger was $11.6 million paid in shares of our common stock with fair value of $1.2 million, newly designated Series B convertible preferred stock ("Series B Preferred") with fair value of $5.7 million, promissory notes totaling $3.6 million, assumption of incentive stock options with fair value of $1.0 million and acquisition costs of $110,000; (iii) the Shareholders and Intuit are entitled to price protection payable if and to the extent that the average trading price of our common stock is less than $0.76 at the time the shares of our common stock issued in the Merger and issuable upon conversion of the Series B Preferred are registered pursuant to the registration rights agreement dated June 1, 2004 between us, the Shareholders and Intuit (the "Registration Rights Agreement"); and (iv) the merger consisted of two steps (the "Merger"), first, Merger Sub merged with and into RTI, Merger Sub's separate corporate existence ceased and RTI continued as the surviving corporation (the "Reverse Merger"), immediately thereafter, RTI merged with and into Merger Sub II, RTI's separate corporate existence ceased and Merger Sub II continued as the surviving corporation (the "Second-Step Merger").

As a result of the Merger, each Shareholder received 1,258,616 shares of Series B Preferred and a promissory note payable monthly over two years in the principal amount of $1,295,000 bearing interest at 6.5% per annum. As a result of the Merger, Intuit, the holder of all of the outstanding shares of RTI's Series A Preferred stock, received 1,546,733 shares of our common stock and a promissory note payable monthly over two years in the principal amount of $530,700 bearing interest at 6.5% per annum.

The Shareholders and Intuit were also granted registration rights. Under the Registration Rights Agreement, we agreed to register the common stock issuable upon conversion of the Series B Preferred issued to the Shareholders within 30 days of the automatic conversion of the Series B Preferred into common stock. The automatic conversion will occur upon us filing an amendment to our certificate of incorporation with the Delaware Secretary of State increasing the authorized number of shares of our common stock ("Certificate of Amendment") after securing shareholder approval for the Certificate of Amendment. Under the Registration Rights Agreement, Intuit is entitled to demand registration or to have its shares included on any registration statement filed prior the registration statement covering the Shareholders' shares, subject to certain conditions and limitations, or if not previously registered to have its shares included on the registration statement registering the Shareholders' shares. The Shareholders and Intuit are entitled to price protection payments of up to a maximum of $0.23 per share payable by promissory note, if and to the extent that the average closing price of our common stock for the 10 days immediately preceding the date the registration statement covering their shares is declared effective by the Securities and Exchange Commission, is less than the 10 day average closing price as of June 1, 2004, which was $0.76. We have not recorded the liability relating to the price protection at the date of acquisition as the contingency is based on future events and cannot yet be determined. We will compute the total liability as soon as it can be determined and recorded as a liability. The total cost of the price protection contingency will be deferred and amortized over the shortest of the remaining useful lives of the assets acquired in the acquisition in accordance with SFAS 141, "Business Combinations".

Pursuant to the Amended Merger Agreement, The Sage Group, plc as well as certain officers and directors signed voting agreements that provide they will not dispose of or transfer their shares of our capital stock and that they will vote their shares of our capital stock in favor of the Certificate of Amendment and the Amended Merger Agreement and transactions contemplated therein.

Upon the consummation of the Merger, Michael Tomczak, RTI's former President and Chief Executive Officer, was appointed our President, Chief Operating Officer and director and Jeffrey Boone, RTI's former Chief Technology Officer, was appointed our Chief Technology Officer. We entered into two-year employment agreements and non-competition agreements with Mr. Tomczak and Mr. Boone.

The combination of Island Pacific, RTI and Page Digital, will enable us to offer a fully integrated solution to mid-tier retailers that will be unique in the marketplace. As a result of this transaction, smaller retailers will now be able to cost-effectively acquire a solution that provides both front and back-end support. The combination instantly expands our products, services offerings and distribution channels.

FINANCIAL INFORMATION ABOUT SEGMENTS AND GEOGRAPHIC AREAS

We currently structure our operations into three strategic business units. The business units are retail management solutions, store solutions and multi-channel retail solutions. Our operations are conducted principally in the

United States and the United Kingdom. In addition, we manage long-lived assets by geographic region. The business units are as follows:

- RETAIL MANAGEMENT SOLUTIONS ("RETAIL MANAGEMENT") - offers a suite of applications, which builds on our long history in retail software design and development. We provide our customers with extremely reliable, widely deployed, comprehensive and fully integrated retail management solutions. Retail Management Solutions includes 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 includes 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 offers 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 - offers a suite of applications that builds on our long history of providing multi-platform, client server in-store solutions. We market this set of applications under the name "OnePointe," which is a feature-rich application created with the specialty retailer in mind. More than 15 years of development has resulted in a solution with a high degree of fit and value out of the box. Additionally, the software was designed for easy customization, enabling our development team to quickly develop solutions to meet retailers' specific point-of-sale ("POS")and in-store processor (server) requirements.

  In connection with our acquisition of RTI, Store Solutions also offers POS application under the name "Retail Pro(R)" which provides a total solution for small to mid-tier retailers worldwide. Today, Retail Pro(R) is used by approximately 9,000 businesses in over 24,000 stores in 63 countries. The product is translated into fourteen languages making it one of the few quality choices for the global retailer. At its core, Retail Pro(R) is a high performance, 32-bit Windows application offering point-of-sale, inventory control and customer relations management. Running on WindowsNT, Windows2000, Windows XP Professional and Windows.Net platforms, Retail Pro(R) combines a fully user-definable graphical interface with support for a variety of input devices (from keyboard to touch screen). Its Retail Business Analytics module includes an embedded Oracle(r) 9i database. Retail Pro(R) is fast and easy to implement. The software has been developed to be very flexible and adaptable to the way a retailer runs its business.

- MULTI-CHANNEL RETAIL SOLUTIONS ("MULTI-CHANNEL RETAIL") - Page Digital designs its application to specifically address direct commerce business processes, which primarily relate to interactions with the end-user. Having developed its software out of necessity to manage its own former direct commerce operation, Page Digital has been extremely attentive to functionality, usability and scalability. Its software components include applications for customer relations management, order management, call centers, fulfillment, data mining and financial management. Specific activities like partial ship orders, payments with multiple tenders, back order notification, returns processing and continuum marketing represent just a few of the more than 1,000 parameterized direct commerce activities that have been built into its "Synaro"(TM)applications. Page Digital makes these components and its interfacing technology available to customers, systems integrators and independent software developers who may modify them to meet their specific needs. This growing base of inherited functionality continues to improve the market relevance of its products.

For further financial information about our business segments and geographic areas see our Financial Statements section and "Notes to Consolidated Financial Statements for the Year Ended March 31, 2004 - Note 15" thereunder.

PRODUCTS

We develop, partner and sell business intelligence and software solutions that support virtually all of the operational activities of a typical retailer. Our business intelligence is critical to sound strategy and execution. Our software solutions create value by applying innovative technology that helps our customers efficiently and effectively understand, create, manage and fulfill consumer demand. Our products can be deployed individually to meet specific business needs, or as part of a fully integrated, end-to-end solution.

Our solution set consists of the following components:

THE RETAIL MANAGEMENT SOLUTIONS are a combination of collaborations with partner companies and solutions developed internally by us. They are all completely integrated. Our offerings include:

- IP GLADIATOR: is a collaborative solution with Wazagua that orchestrates a myriad of processes across retail enterprise to deliver effective loss prevention. To do so, IP Gladiator enables an integrated asset protection workflow spanning exception management, investigation management, case management and civil collection. The salient features of this solution include: (a) availability in ASP or in-house modes, (b) advanced data mining to recognize loss patterns, and (c) POS platform independence.

- IP GLOBAL NETWORK: is an offering that cost-effectively enables retailer collaboration with vendors, including product design collaboration, and facilitates improved communication with stores. This will feature services such as teleconferencing, voice-over-IP, and instant messaging to deliver the collaboration capabilities.

- IP INTEGRATOR: is a common integration platform that seamlessly unifies all IP applications with partner applications as well as enables integrations to 3rd party and legacy applications of a retailer. It leverages an industry proven technology to deliver speed, reliability, maintainability and shorter implementation cycles in addressing integration needs. This solution is jointly developed with Bostech.

- IP BUYER'S WORKMATE: features a suite of integrated modules that enable, automate and enforce best practices leading to sound merchandise purchase and allocation decisions, in compliance with the approved budgets. This suite, along with the range of capabilities provided through IP Consumer Research, IP Weather Impacts, IP Profiling and the IP Core Merchandising suite, enables the retailer to plan and execute consumer-sensitive merchandising, placement, pricing and promotion decisions. The suite consists of:

  - IP DECISION SUPPORT: features an analytical processing tool designed to provide retailers with relevant, timely and detailed business information.

  - IP ASSORTMENT PLANNING: enables retailers to arrive at a well-researched and sound buying decisions - yielding merchandise assortments that meet local consumer demand, minimize inventory investment, accelerate sales, reduce inter-store transfers and reduce markdowns.

  - IP ALLOCATION: enables allocation of purchase order receipts, advanced shipping notices and warehouse back-stock in a manner sensitive to the assortment plan, merchandise performance, and store stocking levels.

- IP BUSINESS PROCESS OPTIMIZATION: is a collaborative retail process management solution offered in partnership with KMG that enables the retailers to improve productivity and reduce inefficiencies through better control and management of business processes. The applications of interest to retailers can range from operational activities such as new store construction and opening, global sourcing, distribution center optimization and promotions management to fiduciary responsibilities and processes such tracking and control of financial reporting.

- IP FORECASTING AND REPLENISHMENT: is a collaborative offering of a full feature forecasting and replenishment solution to address the needs of retailers seeking a higher end solution in this area.

- IP STORE PEOPLE PRODUCTIVITY: application helps retailers analyze the productivity of stores, people and items, and transaction level sales productivity.

At the foundation of our application suite are the integrated modules that comprise our core-merchandising solution. They are as follows:

1. Merchandising Management

   - The Island Pacific Merchandising module is a comprehensive solution for management of core retail processes, which optimizes workflow and provides the highest level of data integrity.

   - This module supports all operational areas of the supply chain: Planning, Open-To-Buy, Purchase Order Management, Forecasting, Warehouse and Store Receiving, Distribution, Transfers, Price Management, Performance Analysis, and Physical Inventory.

2. The Eye(TM) Analysis and Planning

   - The Eye(TM), our datamart is a comprehensive analysis and planning tool that provides answers to retailers' merchandising questions. The specific "who, what, where, when and why" are defined in a multi-dimensional format. The Eye is completely integrated to IP Core Merchandising.

   - This application enables retailers to develop completely user-defined inquiries and reports. The capacity of The Eye to store, manipulate, and present information is limited only by a retailer's imagination.

3. Replenishment and Forecasting

   - The Island Pacific Replenishment module is a tool that ensures retailers will have the right merchandise in the right stores at the right time by dynamically forecasting accurate merchandise need, reducing lost sales, increasing stock turn, and reducing cost of sales.

4. Promotions and Events

   - The Island Pacific Event and Promotion Management tool enables retailers to manage, plan and track all promotional and event related activities including price management, in-store display, deal, and media related promotions. The promotions addressed through this module can include non-price promotions as well. The analysis includes actual to plan comparisons prior to, during and after the event.

5. Warehouse

- o The Island Pacific Warehouse module provides enhanced control and visibility of product movement through the warehouse. Item, quantity and bin integrity is ensured through directed put away, task confirmation, RF procedures, automated cycle counts and carton control.

6. Ticketing

- o The Island Pacific Ticketing module supports both merchandise and warehouse location identification utilizing multiple printers and bar codes. User-configured tickets may include desired product characteristics, including but not limited to retail price, compare at pricing, item, style, color and size information.

7. Financials

- o The Island Pacific Financials module incorporates a General Ledger that is synchronized with the Merchandising Stock Ledger.

- o This module also includes a robust Accounts Payable application, which supports 3-way automated matching of invoices, receipts, and purchase orders that streamline workflow to optimize operations.

8. Sales Audit

- o This module is an integrated conduit between Point-of-Sale applications and the Island Pacific Host System, which manages the upload- and download- processes. The upload process manages all transactional information that occurs at the store such as Sales, Customer Returns, Physical Inventory, Transfers, Acknowledgements, Purchase Order Drop Ship Receipts, Layaway, and Special Order. The Download process manages all Store pricing including Price Look Up, Promotional pricing, Deal pricing, Event pricing, Price Changes, Markdowns, On Order to Stores, In-transit, Current Inventory, Company definitions (Hierarchy, Constants, Vendors, Stores)

- o This application is flexible relative to POS requirements, while featuring full integration to IP POS product, OnePointe.

THE STORE SOLUTIONS offers applications under the names "OnePointe," and "Retail Pro(R)."

"OnePointe" is a complete application providing all point-of-sale and in-store processor (server) features along with multi-channel capability (peer-to-peer) for traditional "brick and mortar" retail operations. The features are as follows:

- POS Terminal is a robust, easy to use system. Some of key features are transaction processing, merchandise recording, handling tendering, handling exceptions and administrative functions

- In-Store Processor houses the back-office functions and allows central management of the store and POS system. This is a full-featured, easy-to-use application. Functions supported by the system include modifiable parameters, reports, store operations, back office operations and maintenance functions.

- For Multi-Channel capability, "OnePointe" utilizes advanced communications technology that provides connectivity between different retail touch points in real time, allowing any devise on the network, via LAN, WAN, internet or intranet, the ability to access another at any time.

Retail Pro(R) is a leading point-of-sale and inventory management software used by specialty retailers worldwide. The following is brief description of some of the functionality of Retail Pro(R):

POINT OF SALE	
CASH DRAWER AND RECEIPT FUNCTIONS	Data is captured for analysis and inventory is updated in real time. Drives all required hardware at point of sale.
INTEGRATED CREDIT CARD PROCESSING	Supports authorization and processing of all major payment types including credit, debit and gift cards.
CUSTOMER DATA	Customer name and address information is entered at point of sale where buying history can be viewed. Purchase history can aid in controlling merchandise returns and discounts.

LAYAWAYS AND SPECIAL ORDERS	Layaways are tracked and special orders can be created for out-of-stock merchandise or custom item.
ITEM QUANTITY AND PRICE LOOKUP	Retail Pro(R) allows an instant view of whether an item is in stock at any location and of correct price.
POS SUMMARY REPORTS	Daily x/z out report provides summary of each day's activity for each clerk and store and reconciles the cash drawer.

INVENTORY CONTROL	
STOCK ON HAND, IN TRANSIT, ON ORDER	Inventory information can be sorted in variety of ways and viewed in a matrix based on user-defined

	filters. This information can be viewed either in a report or while generating a purchase order or other activity.
PURCHASE ORDERS, RECEIVING AND TICKETING	Purchase orders can be created and are integrated with data from the inventory files. Merchandise may be received against the purchase order and returns can be generated. Bar codes for the merchandise can be generated based on receiving information.
PRICING AND MARKDOWNS	Retail Pro(R) displays margin % by item number to aid in determining price. Alternate pricing levels can be set up for employees, preferred customers and wholesale accounts.
MULTI-STORE DISTRIBUTION AND TRANSFERS	Retail Pro(R) will automatically inform all the sending and receiving stores as part of the daily polling process. By comparing days of supply the system can recommend transfers to optimize sales.
PRE-SET AND USER DEFINED REPORTS	Retail Pro(R) comes with a variety of pre-designed reports for any store or group of stores and a built-in report designer. Retail Pro(R) also allows for a retailer to set preferences as to how it will view reports.
PHYSICAL INVENTORY	Physical inventories can be taken with a portable terminal or PDA to promote accuracy and speed.
CUSTOMER FUNCTIONS	
CUSTOMER LISTS AND MAILINGS	Information by customer such as total amount spent, time since last visit, size, birthday, etc. can be sorted and viewed. In a multi-store operation, names can be distributed to all stores so each customer can be recognized
PREFERRED CUSTOMER PRICING	Retail Pro(R) allows pricing to be based on a customers level. It can also plan for a predetermined markdown schedule for preferred customers.
GIFT REGISTRY	The system will keep track of a list of items that someone would like other people to buy for them and keep track of those items already purchased.

The MULTI-CHANNEL RETAIL SOLUTIONS offered through our SYNARO(R) products were designed for plug-and-play use to allow companies to rapidly capitalize on direct commerce opportunities, both through the Internet as well as through call centers and catalogs that augment Web-based components or as a complete integrated solution. The table below provides a brief description of the associated benefits of each of SYNARO(R) products.

SYNARO(R) PRODUCT DESCRIPTIONS

PRODUCT	DESCRIPTION

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INTEGRATOR	A powerful middleware processor that seamlessly integrates disparate front- and back-end business systems to allow for the creation of best-of-breed solutions. Integrator is specially tuned to provide real-time integration for high volume and high performance requirements. SYNARO(R) components are tightly integrated out-of-the-box for rapid deployment of best practice functionality.
ERM	A platform to manage communications between a company and its customers across all mediums, which utilizes segmentation, list management, campaign management and forecasting functions that can be applied to both interactive and traditional channels. ERM provides a graphical user interface that allows our customers to configure screens and keystrokes to accommodate their specific requirements. It includes features such as multi-channel order entry, e-mail management and response, closed loop workflow and real-time communications with customers to name a few.
WEBSTORE	A real-time, online front-end for manufacturers, retailers, wholesalers, direct marketers and other businesses who seek to facilitate sales transactions over the Internet. WebStore comes with preset templates, a shopping cart metaphor, SSL security, search engine and databases for configuring the site to handle product information, special selling situations, etc. It is compatible with multiple web servers such as BEA's WebLogic, IBM's WebSphere, and Sun's iPlanet.
ORDER MANAGEMENT	A multi-faceted component application, which ensures proper accounting for orders e.g. back order, customer hold, hold until complete, date sensitive orders, continuity orders, etc.; exceptions are brought to management's attention; and orders can be processed and verified from any Web application. It includes a comprehensive Call Center capability including Computer Telephony Integration and customer relations management.
ORDER FULFILLMENT	A comprehensive application that monitors and controls all fulfillment parameters including specifications, replenishment orders, continuity programs, drop ship orders, ship complete orders, gift orders, backorders and shipping and handling orders.
MARKETING	Controls offer and promotion set-up, which includes customer list segmentation, campaign management including targeted e-mail capability, item selection and placement and pricing. Targeted marketing promotions and offers provide the opportunity to improve margins and accelerate return on investment.
PRODUCT MANAGEMENT	Controls inventory management issues such as item type and attributes. Multiple item types such as configured, kits, gift certificates, serialized, drop ship, special order, and club membership allow for significant flexibility.
WAREHOUSE MANAGEMENT	Provides pick ticket processing, cycle count physical inventory, bin location control, cross docking and location maintenance.

WORK FLOW MANAGEMENT	Provides for closed loop issues management and future chain of events processing of marketing campaigns.
DATA ANALYSIS	A report writer and query tool for mining, visualizing and analyzing data that supports Business Objects, Crystal Reports, FOCUS and any ORACLE SQL-compliant DB.
FORECASTING	The Oracle-based Forecasting application allows for flexible inventory and merchandise forecasting that enables direct commerce companies to increase turns and reduce back orders.

FINANCIALS	A product suite that includes all financial components necessary to run a business, including real-time or batch credit card processing, accounts receivable and accounts payable management and general ledger operations.

Our PROFESSIONAL SERVICES provide our customers with expert retail business consulting, project management, implementation, application training, technical and documentation services. This product 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.

MARKETS AND CUSTOMERS

Our software is installed in over 200 retailers. With the acquisition of Page Digital in January 2004 and Retail Technologies, Inc. in June 2004, our software is installed in over 9,000 retailers worldwide. Our applications are used by the full spectrum of retailers including specialty goods sellers, mass merchants and department stores. Most of our U.S. customers are in the Tier 1 to Tier 3 retail market sectors.

A sample of some of our active customers is listed below:

Nike	Limited Brands	American Eagle Outfitters	D
Phillips-Van Heusen	Signet (UK)	Shoefayre (UK)	P
Timberland	Vodaphone (UK)	Academy Sports	M
IBM	Lands' End	Hershey Foods	M
A&E Television Network	Turner Broadcasting	Betsey Johnson	T
IKEA	Play it Again Sports	Patagonia	S
SafeCo Field	The Body Shop	Staples Center	G

Swarovsky	Louis Vuitton Fashion Group

MARKETING AND SALES

We sell our applications and services primarily through a direct sales force that operates in the United States and the United Kingdom. Sales efforts involve comprehensive consultations with current and potential customers prior to completion of the sales process. Our Sales Executives, Retail Application Consultants (who operate as part of the sales force) and Marketing and Technology Management associates use their collective knowledge of the needs of multi-channel retailers to help our customers identify the optimal solutions for their individual businesses.

We maintain a comprehensive web site describing our applications, services and company. We regularly engage in cooperative marketing programs with our strategic alliance partners. We annually host a Users Conference in which hundreds of our customers attend to network and to share experiences and ideas regarding their business practices and implementation of our, and our partners' technology. This Users Conference also provides us with the opportunity to meet with many of our customers on a concentrated basis to provide training and insight into new developments and to gather valuable market requirements information.

We are aggressively focusing on our Product Marketing and Product Management functions to better understand the needs of our markets in advance of required implementation, and to translate those needs into new applications, enhancements to existing applications and related services. These functions are also responsible for managing the process of market need identification through product or service launch and deployment. It is the goal of these functions to position Island Pacific optimally with customers and prospects in our target market.

We distribute our Retail Pro(R) products in North America, South America, Europe, Asia, Australia, and Africa via a network of value-added resellers (VARs). In general, each VAR is responsible for a particular geographical region. Currently, RTI has 27 VARs in North America, 7 in South America, 19 in Europe and the Middle East, 11 in Asia, 2 in Australia/New Zealand and 1 in Africa. These resellers are trained and certified on Retail Pro(R) and provide users with technical expertise, and a localized and translated product.

COMPETITION

The markets for our application technology and services are highly competitive, subject to rapid change and sensitive to new product introductions or enhancements and marketing efforts by industry participants. We expect competition to increase in the future as open systems architecture becomes more common and as more companies compete in the emerging electronic commerce market.

The largest of our competitors offering end-to-end retail solutions is JDA Software Group, Inc. Other suppliers offer one or more of the components of our solutions. In addition, new competitors may enter our markets and offer merchandise management systems that target the retail industry. For enterprise solutions, our competitors include Retek Inc., SAP AG, nsb Retail Systems PLC, Essentus, Inc., GERS, Inc., Marketmax, Inc., Micro Strategies Incorporated and Evant, Inc., formerly NONSTOP Solutions. For Store Solutions, our competitors include Datavantage, Inc., CRS Business Computers, NSB Retail Systems PLC, Triversity, ICL, NCR and IBM. Our Direct applications compete with Smith Gardner & Associates, Inc., and CommercialWare, Inc. Our primary competitors in the multi-channel retail market include Ecometry, CommercialWare and Sigma-Micro. RTI's primary competitors include Celerant Technology Corp., 360 Commerce, CRS Business Computers, NSB Retail Systems PLC, Micro Strategies Incorporated, Retek, Inc. and JDA Software Group, Inc. Our professional services offerings compete with the professional service groups of our competitors, major consulting firms associated or formerly associated with the "Big 4" accounting firms, as well as locally based service providers in many of the territories in which we do business. Our strategic partners, including IBM, NCR and Fujitsu, represent potential competitors as well.

We believe the principal competitive factors in the retail solutions industry are price, application features, performance, retail application expertise, availability of expert professional services, quality, reliability, reputation, timely introduction of new offerings, effective distribution networks, customer service, and quality of end-user interface. We believe we currently compete favorably with respect to these factors. In particular, we believe that our competitive advantages include:

- Proven, single version technology, reducing implementation costs and risks and providing continued forward migration for our customers.
- Extensive retail application experience for all elements of the customer's business, including Professional Services, Development, Customer Support, Sales and Marketing/Technology Management.
- Ability to provide expert Professional Services.
- Large and loyal customer base.
- Hardware platform independent Store Solution (POS) application.
- Breadth of our application technology suite including our multi-channel retailing capabilities.
- Our corporate culture focusing on the customer.

Many of our current and potential competitors are more established, benefit from greater name recognition, have greater financial, technical, production and/or marketing resources, and have larger distribution networks, any or all of which could give them a competitive advantage over us. Moreover, our current financial condition has placed us at a competitive disadvantage to many of our larger competitors, as we are required to provide assurance to customers that we have the financial ability to support the products we sell. We believe strongly that we provide and will continue to provide excellent support to our customers, as demonstrated by the continuing upgrade purchases by our top-tier established customer base.

PROPRIETARY RIGHTS

Our success and ability to compete depend in part on our ability to develop and maintain the proprietary aspects of our technologies. We rely on a combination of copyright, trade secret and trademark laws, and nondisclosure and other contractual provisions, to protect our various proprietary applications and technologies. We seek to protect our source code, documentation and other written materials under copyright and trade secret laws. We license our software under license agreements that impose restrictions on the ability of the customer to use and copy the software. These safeguards may not prevent competitors from imitating our applications and services or from independently developing competing applications and services, especially in foreign countries where legal protections of intellectual property may not be as strong or consistent as in the United States.

We hold no patents. Consequently, others may develop, market and sell applications substantially equivalent to our applications, 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 integrate widely-available platform technology from third parties for certain of our applications. These third-party licenses generally require us to pay royalties and fulfill confidentiality obligations. Any termination of, or significant disruption in, our ability to license these products could cause delays in the releases of our software until equivalent technology can be obtained and integrated into our applications. These delays, if they occur, could have a material adverse effect on our business, operating results and financial condition.

Intellectual property rights are often the subject of large-scale litigation in the software and Internet industries. 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. We cannot guarantee the success of any litigation we might bring to protect our proprietary rights.

Although we believe that our application technology does not infringe on any third-party's patents or proprietary rights, we cannot be certain that we will not 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, defending or bringing claims related to our intellectual property rights may require our management to redirect our human and monetary resources to address these claims. In addition, these actions could cause 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.

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.

Our application Retail Pro(R) is licensed from a third party. On December 6, 2002, RTI sold certain intellectual property for $7,500,000 to the third party. In connection with the sale, RTI also sold certain property and equipment for proceeds of $44,000 and 1,445,000 shares of series A preferred stock at $0.346 per share, for $500,000 respectively. RTI recognized a total gain of $7.5 million on the sale of the intellectual property and property and equipment due to the tangible assets being fully depreciated as of the date of sale. The third party also entered into employment agreements with several of RTI's employees and a covenant not-to-compete with one of the original stockholders. Under a license agreement, the third party granted back to RTI the right to sell various products and licenses. Under the terms of the license agreement, RTI is obligated to pay royalties equal to 75% of the sales made to certain customers. The terms of the license agreement vary depending on the product with the minimum term being approximately three years. Any termination of, or disruption in this license could have a material adverse affect on RTI's business.

EMPLOYEES

As of June 4, 2004, following the acquisition of RTI, we had a total of 224 employees, 208 of which were based in the United States. Of the total, 14% were engaged in sales and marketing, 45% were engaged in application technology development projects, 24% were engaged in professional services, and 17% were in general and administrative. We believe our relations with our employees overall are good. We have never had a work stoppage and none of our employees are subject to a collective bargaining agreement.

We file registration statements, periodic and current reports, proxy statements and other materials with the Securities and Exchange Commission. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at WWW.SEC.GOV that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including our filings.

Our Internet address is WWW.ISLANDPACIFIC.COM. We make available, free of charge, our annual reports on Form 10-K and 10-K/A, quarterly reports on Form 10-Q and Form 10-Q/A and current reports on Form 8-K and Form 8-K/A, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 through our website, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The contents of our website are not incorporated into, or otherwise to be regarded as a part of, this Annual Report on Form 10-K/A.

ITEM 2. PROPERTIES

Our principal corporate headquarters consists of 26,521 square feet in a building located in Irvine, California. The corporate headquarters is also used for certain of our sales, marketing, consulting, customer support, training and product development functions. This facility is occupied under a lease that expires on June 30, 2005. The current monthly rent is $56,000. We also occupy premises in the United Kingdom located at The Old Building, Mill House Lane, Wendens Ambo, Essex, England. The lease for this office building expires June

30, 2008. Annual rent is $72,000 (payable quarterly) plus common area maintenance charges and real estate taxes. We also lease 44,505 square-foot office space in Englewood, Colorado for our Page Digital subsidiary. This lease commenced on January 1, 2004 and expires on December 31, 2013 with a five-year renewal option. The monthly rent is $71,000. We assumed this lease in connection with the acquisition of Page Digital. Prior to our assumption, the lease was entered between CAH Investments, LLC ("CAH"), which is wholly owned by the spouse of Lawrence Page, Page Digital's former president and our current Executive Vice President - Special Projects and director, and Southfield Crestone, LLC. We also lease an office that consists of 12,717 square feet of rentable space in a building located in Folsom, California for our RTI subsidiary. This lease expires in January 2006 and has a monthly rent of $22,000.

ITEM 3. 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 the Company and other transactions he entered into with the Company. The parties agreed to resolve all claims in binding arbitration. The dispute was heard by an arbitrator the week of October 3, 2003. The arbitrator issued an award on November 7, 2003, resolving most of the disputed issues in favor of the Company as follows: (a) the Company was awarded a refund of rental payments amounting to $66,951; (b) the excessive equipment leasing financing charges by Mr. Dorosewicz were recast substantially reducing the Company's unpaid balance; (c) Mr. Dorosewicz was ordered to repay attorneys' fees reimbursement he had previously been provided by the Company; (d) Mr. Dorosewicz was denied severance benefits; (e) Mr. Dorosewicz's claims with respect to options were denied; and (f) Mr. Dorosewicz was awarded his unpaid bonus in the amount of $56,719. The net amount awarded to Mr. Dorozewicz was $85,339, which was paid in January 2004.

The sale of our Australian subsidiary in the third quarter of fiscal 2002 was 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 accrued $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 was 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 had responded appropriately to both the wage claim and the discrimination allegations, which we believed lack merit based on present information. On December 1, 2003, the Department of Fair Housing and Employment closed the case on the basis of no probable cause to prove violation of statute, and gave notice of right to sue. In January 2004, we terminated Ms Hintz's employment with us and, as a result, her medical insurance was terminated. On February 12, 2004, Ms. Hintz filed a petition for violation of Labor Code Section 132(a) before the Workers' Compensation Appeals Board of the State of California.

On August 30, 2002, Cord Camera Centers, Inc., an Ohio corporation ("Cord Camera"), filed a lawsuit against one of our subsidiaries, SVI Retail, Inc. ("SVI Retail") 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 claims 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 pertain 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. We settled this case on September 30, 2003. The terms of the settlement agreement are subject to a confidentiality covenant.

In mid-2002, we were the subject of an adverse judgment entered 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 we 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 settled this matter by an agreement to pay $12,500 to Randall.

On November 22, 2002, UDC Homes, Inc. and UDC Corporation now known as Shea Homes, Inc. served Sabica Ventures, Inc. ("Sabica"), our wholly owned subsidiary and then our Island Pacific division (now are retail management solutions division) with a cross-complaint for indemnity on behalf of an entity identified in the summons as Pacific Cabinets. We filed a notice of motion and motion to quash service of summons on the grounds that we have never done business as Pacific Cabinets and have no other known relation to the construction project that is the subject of the cross-complaint and underlying complaint. A hearing on our motion to quash occurred on May 22, 2003 and was subsequently denied.

On April 2, 2004, we filed a federal court action in the Southern District of California against 5R Online, Inc. ("5R"), John Frabasile, Randy Pagnotta, and Terry Buckley for fraud, breach of fiduciary duty, breach of contract, and unfair business practice arising from their evaluation of, recommendation for, and ultimately engagement in a development arrangement between IPI and 5R. Pursuant to the development agreement entered into in June 2003 upon reliance of the representations of the individual defendants that product development was progressing, we paid $640,000 in development payments but received no product. Responsive pleadings will be served shortly, and the parties are exploring a business solution to the dispute. For fiscal year ended March 31, 2004, we have expensed payments of $640,000 and shown in selling, general and administration expenses.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during fourth quarter of fiscal year ended March 31, 2004.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the American Stock Exchange since July 8, 1998 under the symbol "IPI". Up until July 16, 2003, our common stock was traded under the symbol "SVI". The following table indicates the high and low sales prices for our shares for each quarterly period for each of our two most recent fiscal years.

YEAR ENDING MARCH 31, 2004	HIGH	LOW
First Quarter	$ 2.65	$ 0.88
Second Quarter	$ 3.65	$ 2.10
Third Quarter	$ 2.38	$ 1.77
Fourth Quarter	$ 2.93	$ 0.84

YEAR ENDED MARCH 31, 2003	HIGH	LOW
First Quarter	$ 0.66	$ 0.30
Second Quarter	$ 1.30	$ 0.21
Third Quarter	$ 1.25	$ 0.40
Fourth Quarter	$ 1.17	$ 0.55

As of June 1, 2004, the last reported sale price on the American Stock

Exchange for our common stock was $0.77. On this date, there were approximately 204 holders of record of our common stock. That number does not include beneficial owners of common stock whose shares are held in the name of banks, brokers, nominees or other fiduciaries.

We have never declared any dividends on our common stock. We are required to pay dividends on our Series A Convertible Preferred Stock in preference and priority to dividends on our common stock. We currently intend to retain any future earnings to discharge indebtedness and finance the growth and development of the business. We, therefore, do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends on our common stock when we are permitted to do so will be at the discretion of the board of directors and will be dependent upon the future financial condition, results of operations, capital requirements, general business conditions and other factors that the board of directors may deem relevant.

During the quarter ended March 31, 2004, we issued the following securities without registration under the Securities Act of 1933:

- 239,739 shares of common stock upon conversion of a convertible note initially issued to Union Bank of California pursuant to a Loan Discount Payout agreement, valued at $500,000.

- 9% Debentures to Omicron Master Trust and Midsummer Investment, Ltd. convertible into our common stock at a conversion price of $1.32 per share, for aggregate proceeds of $3.0 million. These debentures were accompanied by five-year warrants to purchase up to 1,043,479 shares of our common stock at an exercise price of $1.15 per share and warrants to purchase up to 8,500,000 shares of our common stock at an exercise price of $5.00 per share with an expiration date of the earlier of the six-month anniversary of the effective date of a registration statement or September 15, 2005.

- warrants to an investor relations consulting firm to purchase up to an aggregate of 103,000 shares of our common stock at exercise prices ranging from $1.50 to $1.75 per share.

The foregoing securities were offered and sold without registration under the Securities Act 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 the Securities Act and Regulation D thereunder, and an appropriate legend was placed on the shares.

Information concerning securities authorized for issuance under our equity compensation plans is included below under Item 12 under the heading "Security Ownership of Certain Beneficial Owners and Management."

ITEM 6. SELECTED FINANCIAL DATA (AS RESTATED)

The following selected financial data (as restated) should be read in conjunction with our consolidated financial statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected consolidated financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for, and as of the end of, each of our last five fiscal years are derived from our consolidated financial statements. The consolidated financial statements as of March 31, 2004, 2003, and 2002 and the independent auditors' report thereon, are included elsewhere in this report.

	YEAR ENDED MARCH 31, (		
	2004	2003	2002
	(Restated)		
		(in thousands except for per	
STATEMENT OF OPERATIONS DATA:			
Revenues:			
Product	$ 13,214	$ 11,550	$ 10,360
Services	4,625	10,746	16,355
Total revenues	17,839	22,296	26,715
Cost of revenues:			
Product	5,533	4,782	4,407
Services	2,338	6,165	9,466
Total cost of revenues	7,871	10,947	13,873
Gross profit	9,968	11,349	12,842
Expenses:			
Application development	1,082	4,643	4,203
Depreciation and amortization	1,215	1,246	3,853
Selling, general and administrative	15,246	8,072	12,036
Impairment of intangible assets	--	--	--
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	--	--	--
Total expenses	17,543	13,961	20,092
Loss from operations	(7,575)	(2,612)	(7,250)
Other income (expense):			
Interest income	20	1	7
Other income (expense)	(7)	2,208	(56)
Interest expense	(1,952)	(1,796)	(3,018)
Total other expense	(1,939)	413	(3,067)
Loss before provision (benefit) for income taxes	(9,514)	(2,199)	(10,317)
Provision (benefit) for income taxes	(586)	11	2
Loss before change in accounting principle	(8,928)	(2,210)	(10,319)

Cumulative effect of changing accounting principle - Goodwill valuation under SFAS No. 142	--	(627)	--
Loss from continuing operations	(8,928)	(2,837)	(10,319)
Income (loss) from discontinued operations	--	119	(4,339)
Net loss	(8,928)	(2,718)	(14,658)
Cumulative preferred dividends	(1,024)	(1,015)	(254)
Net loss available to common stockholders	$ (9,952)	$ (3,733)	$ (14,912)

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	YEAR ENDED MARCH 3		
	2004	2003	2002
	(Restated)		
			(in thousands)
Basic and diluted earnings (loss) per share:			
Loss before change in accounting principle	$ (0.22)	$ (0.07)	$ (0.29)
Loss from change in accounting principle	--	(0.02)	--
Loss from continuing operations	(0.22)	(0.09)	(0.29)
Income (loss) from discontinued operations	--	--	(0.12)
Cumulative preferred dividends	(0.02)	(0.04)	(0.01)
Net loss available to common stockholders	$ (0.24)	$ (0.13)	$ (0.42)
Weighted average common shares:			
Basic	41,450	29,599	35,698
Diluted	41,450	29,599	35,698
BALANCE SHEET DATA:			
Working capital	$ 727	$ (4,056)	$ (5,337)
Total assets	$ 48,527	$ 37,637	$ 40,005
Long-term obligations	$ 2,224	$ 2,807	$ 8,013
Stockholders' equity	$ 38,775	$ 23,842	$ 21,952

(1) Except for the year ended March 31, 2004, certain reclassifications are reflected in the above data since the filing of such annual reports on forms 10K and 10K/A. Such reclassifications did not result in changes in net income (loss), net income (loss) per share or stockholders' equity.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

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In recent periods, we have reported flat to decreased revenues and have suffered operating and net losses, largely attributable to general economic and competitive conditions. In this regard, we have taken a number of steps designed to improve our balance sheet and operations, including:

- Acquired two complementary companies with substantial revenues and earnings potential;
- Revamped our management team by adding a new President and COO and CTO, as well as a new CFO;
- Recapitalized our balance sheet, eliminating substantial debt and raising new equity in its place;
- Improved our IBM-based core products through continuing internal research and development;
- Obtained the rights to distribute complementary products, including a new easy-to-install and easy-to-use, open-architecture software system for very small retailers, which we will introduce in 2004;
- Established partnerships with several value added resellers to provide a variety of options and product extensions;

- o Improved our distribution capabilities by adding new third party channels, such as IBM and IBM's resellers, and professional service firms, such as CGI and LakeWest.

We believe that these actions have positioned us to achieve sustained revenue growth and profitability.

RESTATEMENT OF FISCAL 2004 INFORMATION

We restated our March 31, 2004 financial statements to:

1. Reverse $3.9 million revenue recognized on a one-time sale of software technology rights,
2. Separately present revenues from product and services and corresponding costs of revenues,
3. Reclassify amortization of software products from depreciation and amortization expense to cost of product revenue,
4. Reverse a $3.9 million purchase of software technology ("Software Technology" and related amortization,
5. Accrue $450,000 royalty liability and related recognition of royalty fees pursuant to the purchase agreement of Software Technology,
6. Recognize amortization of debt discount on the March '03, April '03, May '03 and Toys "R" Us convertible debts as interest expense,
7. Capitalize and amortize beneficial conversion interest charge related to the convertible debentures acquired in March 2003, April 2003, May 2003 and March 2004,
8. Capitalize legal fees incurred in connection with the acquisitions of Page Digital Incorporated and Retail Technologies International, Inc.,
9. Reclassify $640,000 impairment of prepaid development expense from other expense to selling, general and administrative expense, and
10. Reclassify a $1.5 million gain on debt forgiveness from extraordinary item to other income.

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

RECENT ACQUISITIONS

ACQUISITION OF PAGE DIGITAL

On January 30, 2004, we acquired Page Digital, a developer of multi-channel commerce software, through a merger transaction for total consideration of $7.1 million, consisting of $2.0 million in cash, 2,500,000 shares of our common shares valued at $2.00 per share and $138,000 in acquisition costs. The acquisition was accounted for as a purchase, and accordingly, the operating results of Page Digital have been included in our consolidated financial statements from the date of acquisition. In connection with the Page Digital acquisition, we added approximately 40 employees and recorded $6.1 million of goodwill, $1.4 million in software technology, $904,000 in customer relationships and $285,000 in trademark. For pro forma operating results, see "Notes to Consolidated Financial Statements - Note 2" in the Financial Statements section.

The legitimization of business to business and business to consumer direct commerce (Internet, brick-and-mortar, catalog, and other) has rapidly created a substantial market for the Page Digital suite of direct commerce applications. According to the United States Department of Commerce, the market for multi-channel direct commerce applications was just $15 billion in 1999, grew to $27.3 billion in 2000, grew to $32.6 billion in 2001, and it is growing at a rate 2.5 times greater than traditional retailing (Source: Internet Retailer, April 2002). The acquisition of Page Digital will enable us to continue to provide our customers with Page Digital's e-commerce, customer relations management, and Catalog Management solutions. We expect to further integrate these solutions into our offerings to enable customers to complete the multi-channel retail distribution and customer service chain. In addition, the acquisition will also allow us to offer Page Digital's customers the IP Merchandising solution, as well as Point of Sale, Loss Prevention, and IP's other alliance solutions.

ACQUISITION OF RTI

Pursuant to an agreement dated June 1, 2004, we acquired RTI from Michael Tomczak, Jeffrey Boone and Intuit in a merger transaction. On March 12, 2004, we, RTI, Merger Sub and the Shareholders entered the March 12, 2004 Merger Agreement which provided we would acquire RTI in a merger transaction in which RTI would merge with and into Merger Sub. The merger consideration contemplated by the March 12, 2004 Merger Agreement was a combination of cash and shares of our common stock. The March 12, 2004 Merger Agreement was amended by the Amended Merger Agreement dated June 1, 2004.

Pursuant to the Amended Merger Agreement, the Merger was completed with the following terms: (i) we assumed RTI's obligations under those certain promissory notes issued by RTI on December 20, 2002 with an aggregate principal balance of $2.3 million; (ii) the total consideration paid at the closing of the Merger was $11.6 million paid in shares of our common stock with fair value of $1.2 million, newly designated Series B Preferred Stock with fair value of $5.7 million, promissory notes totaling $3.6 million, incentive stock options with fair value of $1.0 million and acquisition costs of $110,000; (iii) the Shareholders and Intuit are entitled to price protection payable if and to the extent that the average trading price of our common stock is less than $0.76 at the time the shares of our common stock issued in the Merger and issuable upon conversion of the Series B Preferred are registered pursuant to the Registration Rights Agreement dated June 1, 2004 between us, the Shareholders and Intuit; and (iv) the merger consisted of two steps (the "Merger"), first, Merger Sub merged with and into RTI, Merger Sub's separate corporate existence ceased and RTI continued as the surviving corporation (the "Reverse Merger"), immediately thereafter, RTI merged with and into Merger Sub II, RTI's separate corporate existence ceased and Merger Sub II continued as the surviving corporation (the "Second-Step Merger").

As a result of the Merger, each Shareholder received 1,258,616 shares of Series B Preferred and a promissory note payable monthly over two years in the principal amount of $1,295,000 bearing interest at 6.5% per annum. As a result of the Merger, Intuit, the holder of all of the outstanding shares of RTI's Series A Preferred stock, received 1,546,733 shares of our common stock and a promissory note payable monthly over two years in the principal amount of $530,700 bearing interest at 6.5% per annum.

The Shareholders and Intuit were also granted registration rights.

Under the Registration Rights Agreement, we agreed to register the common stock issuable upon conversion of the Series B Preferred issued to the Shareholders within 30 days of the automatic conversion of the Series B Preferred into common stock. The automatic conversion will occur upon us filing the Certificate of Amendment with the Delaware Secretary of State increasing the authorized number of shares of our common stock after securing shareholder approval for the Certificate of Amendment. Under the Registration Rights Agreement, Intuit is entitled to demand registration or to have its shares included on any registration statement filed prior the registration statement covering the

Shareholders' shares, subject to certain conditions and limitations, or if not previously registered to have its shares included on the registration statement registering the Shareholders' shares. The Shareholders and Intuit are entitled to price protection payments of up to a maximum of $0.23 per share payable by promissory note, if and to the extent that the average closing price of our common stock for the 10 days immediately preceding the date the registration statement covering their shares is declared effective by the Securities and Exchange Commission, is less than the 10 day average closing price as of June 1, 2004, which was $0.76. We have not recorded the liability relating to the price protection at the date of acquisition as the contingency is based on future events and cannot yet be determined. We will compute the total liability as soon as it can be determined and recorded as a liability. The total cost of the price protection contingency will be deferred and amortized over the shortest of the remaining useful lives of the assets acquired in the acquisition in accordance with SFAS 141, "Business Combinations".

Pursuant to the Amended Merger Agreement, The Sage Group, plc as well as certain officers and directors signed voting agreements that provide they will not dispose of or transfer their shares of our capital stock and that they will vote their shares of our capital stock in favor of the Certificate of Amendment and the Amended Merger Agreement and transactions contemplated therein.

Upon the consummation of the Merger, Michael Tomczak, RTI's former President and Chief Executive Officer, was appointed our President, Chief Operating Officer and director and Jeffrey Boone, RTI's former Chief Technology Officer, was appointed our Chief Technology Officer. We entered into two-year employment agreements and non-competition agreements with Mr. Tomczak and Mr. Boone.

The combination of Island Pacific, RTI and Page Digital, will enable us to offer a fully integrated solution to mid-tier retailers that will be unique in the marketplace. As a result of this transaction, smaller retailers will now be able to cost-effectively acquire a solution that provides both front and back-end support. The combination instantly expands our products, services offerings and distribution channels.

DISCONTINUED OPERATIONS

Effective April 1, 2003, we sold our subsidiary, SVI Training Products ("Training Products") to its president and our former director, Arthur Klitofsky, for the sale price of $180,000 plus earn-out payments equal to 20% of the total gross revenues of the Training Products unit in each of its next two fiscal years, if 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 Training Products resulted in a loss of $129,000, net of estimated income taxes, which was accrued as of March 31, 2003. Training Product's $248,000 of operating results are shown as discontinued operations, net of the loss on sale of the Training Products unit at March 31, 2003. In April 2004, we agreed to defer the payments due in January 2004 and April 2004 until April 2008. The balance of the note receivable was $153,000 as of June 22, 2004.

Due to the declining performance of our Australian subsidiary, we sold certain assets of the Australian subsidiary to its former management and ceased Australian operations in February 2002. However, the sale was subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and caused a receiver to be appointed in April 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver sold 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. We have accrued $187,000 as our potential exposure but could be subject to further liability.

The disposal of our Australian subsidiary resulted in a loss of $3.2 million. The operating results of the Australian subsidiary are shown on our financial statements as discontinued operations at March 31, 2002.

RESULTS OF OPERATIONS

Results of operations for the fiscal year ended March 31, 2004 ("Fiscal 2004") reflect continued weakness in new license sales of our application software suites. As a result of our net losses, we experienced significant strains on our cash resources throughout the Fiscal 2004. We have taken a number of affirmative steps to address our operating situation and liquidity problems, and to position us for improved results of operations.

- On June 4, 2004, we completed the acquisition of RTI, a provider of management systems for retailers. See "Recent Transactions - Acquisition of RTI" above.

- Upon completion of RTI's acquisition, Michael Tomczak, RTI's CEO and President, was appointed our President, Chief Operating Officer and director and Jeffrey Boone, RTI's CTO, was appointed our Chief Technology Officer. Mr. Tomczak replaced Steve Beck, who was serving as our president and Mr.

  Page, who was serving as our COO and CTO. Mr. Beck served as our President from April 2003 to June 2004 and our COO from April 2003 to February 2004. Mr. Page served as our CTO from January 2004 to June 2004 and as our COO from February 2004 to June 2004.

- Effective January 30, 2004, we completed the acquisition of Page Digital, a provider of direct commerce solutions to retailers. See "Recent Transactions - Acquisition of Page

Digital" above.

- In February 2004, Michael Silverman was appointed to the position of Chairman of the Board of Directors. Mr. Silverman has been on our board of directors since January 2001. He founded Advanced Remote Communication Solutions, Inc. (formerly known as Boatracs, Inc.) in 1990. He served as its Chairman until May 2002, and as Chief Executive Officer and President until October 1997, and again from November 1999 to May 2002. Mr. Silverman replaced Harvey Braun who was serving as Chief Executive Officer and Chairman of the board. Mr. Braun was our Chief Executive Officer from January 2003 through May 2004 and our Chairman of the board from July 2004 to February 2004.

- In January 2004, David Joseph, Page Digital's Senior Vice President of Sales, was appointed our Senior Vice President of Sales. Mr. Joseph has over 20 years of sales and marketing experience in the software industry.

- In July 2003, our Board of Directors appointed Ran Furman to the position of Chief Financial Officer.

- We completed a number of debt and equity financing transactions. See "Liquidity and Capital Resources - Financing Transactions" below.

The following table sets forth, for the periods indicated, the relative percentages that certain income and expense items bear to total revenues for the fiscal years ended March 31, 2004, 2003 and 2002 (in thousands):

	YEAR ENDED MARCH			
	2004		2003	
	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCE OF RE
	(AS RESTATED)			
Revenues:				
Product	$ 13,214	74%	$ 11,550	
Services	4,625	26%	10,746	
Total revenues	17,839	100%	22,296	
Cost of revenues:				
Product	5,533	31%	4,782	
Services	2,338	13%	6,165	
Total cost of sales	7,871	44%	10,947	
Gross profit	9,968	56%	11,349	

Expenses:			
Application development	1,082	6%	4,643
Depreciation and amortization	1,215	7%	1,246
Selling, general and administration	15,246	85%	8,072
Total expenses	17,543	98%	13,961
Loss from operations	(7,575)	(42)%	(2,612)
Other income (expense)			
Interest income	20	-- %	1
Other income (expense)	(7)	-- %	2,208
Interest expense	(1,952)	(11)%	(1,796)
Total other expense	(1,939)	(11)%	413
Loss before provision (benefit) for income taxes	(9,514)	(53)%	(2,199)
Provision (benefit) for income taxes	(586)	(3)%	11
Loss before change in accounting principle	(8,928)	(50)%	(2,210)
Cumulative effect of changing accounting principle - Goodwill valuation under SFAS No. 142	--		(627)
Loss from continuing operations	(8,928)		(2,837)
Income (loss) from discontinued operations, net of taxes	--		119
Net loss	(8,928)		(2,718)
Cumulative preferred dividends	(1,024)		(1,015)
Net loss available to common stockholders	$ (9,952)		$ (3,733)

FISCAL YEAR ENDED MARCH 31, 2004 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2003

TOTAL REVENUES

Product revenues consist of license sales, recurring maintenance revenues and sale of partner products and hardware. Service revenue consists of professional services incurred in implementation, training and modifications, as well as reimbursed costs. Product revenues were $13.2 million and $11.6 million in the fiscal years ended March 31, 2004 and 2003, respectively. Product revenues increased by $1.7 million, or 14%, primarily due to an increase of $1.8 million from the sale of partner products, the inclusion of $0.9 million of product revenues for Page Digital, an increase of $0.5 million in maintenance revenue, offset by $1.7 million decrease in license sales. We established relationships with strategic partners and began to offer their products, including IP Viewpoint, IP Buyers' Workmate, IP Integrator and IP Synaro, in the fourth quarter of fiscal 2003. Services revenues were $4.6 million and $10.7 million in fiscal years ended March 31, 2004 and 2003, respectively. Services revenues decreased by $6.1 million, or 57%, due primarily to a $5.9mm decrease from Toys R Us., Inc. "(Toys"), offset by the inclusion of $0.2 million of services revenues for Page Digital. The decrease in Toys revenue is due to completion of development contract in fiscal 2003. 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 $4.5 million, or 20%, to $17.8 million in the fiscal year ended march 31, 2004 from $22.3 million in the fiscal year ended March 31, 2003 due to the above factors. Excluding Toys revenues, total revenues were $16.3 million for the fiscal year ended March 31, 2004 compared to $14.8 million in the fiscal year ended March 31, 2003.

Fiscal 2004 and 2003 were challenging years for the sale of new application licenses. The slow down in the U.S. and world economies combined with the fear of future terrorist attacks and the ongoing hostilities in the world caused the retail industry to be more cautious with their investment in information systems and deliberately evaluating solutions, which resulted in decreases in sales and in extended sales cycles. In addition, our financial condition may have interfered with our ability to sell new application software licenses, as implementation of our applications generally requires extensive future services and support, and some potential customers have expressed concern about our financial ability to provide these ongoing services. We believe strongly that we provide and will continue to provide excellent support to our customers, as demonstrated by the continuing upgrade purchases by our top-tier established customer base. Significant sales growth may however depend in part on our ability to improve our financial condition.

COST OF REVENUES/GROSS PROFIT

Cost of revenues decreased $3.1 million, or 28%, to $7.9 million in the fiscal year ended March 31, 2004 from $10.9 million in the fiscal year ended March 31, 2003. Cost of product revenues increased $0.8 million, or 16%, to $5.5 million in fiscal year ended March 31, 2004 from $4.8 million in fiscal year ended March 31, 2003. Cost of product revenues included amortization expense of $2.6 million and $2.9 million for the fiscal years ended March 31, 2004 and 2003, respective