

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

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

=====

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

FORM 10-Q/A
(Amendment No. 1)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004 OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM
_____ TO _____

Commission file number 0-23049

ISLAND PACIFIC, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

33-0896617

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

19800 MACARTHUR BOULEVARD, 12TH FLOOR, IRVINE, CALIFORNIA

92612

(Address of principal executive offices)

(Zip Code)

(949) 476-2212

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common Stock, \$0.0001 Par Value - 62,894,387 shares as of October 31, 2004.

=====

TABLE OF CONTENTS

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

PART I. - FINANCIAL INFORMATION

Item 1.	Condensed Consolidated Financial Statements	
	Condensed Consolidated Balance Sheets as of September 30, 2004 and March 31, 2004.....	3
	Condensed Consolidated Statements of Operations for the Three Months and the Six Months Ended September 30, 2004 and 2003.....	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2004 and 2003.....	5
	Notes to Condensed Consolidated Financial Statements.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....	45
Item 4.	Controls and Procedures.....	45
PART II. - OTHER INFORMATION		
Item 1.	Legal Proceedings.....	45
Item 2.	Changes in Securities and Use of Proceeds.....	46
Item 3.	Defaults Upon Senior Securities.....	46
Item 4.	Submission of Matters to a Vote of Security Holders.....	46
Item 5.	Other Information.....	46
Item 6.	Exhibits and Reports on Form 8-K.....	47
SIGNATURES		53

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

SEPTEMBER 30
2004

ASSETS

Current assets:

Cash and cash equivalents	\$	96
---------------------------	----	----

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Accounts receivable, net of allowance for doubtful accounts of \$1,341 and \$409, respectively	4,83	
Other receivables, including \$14 and \$37 from related parties, respectively	11	
Inventories	3	
Current portion of non-compete agreements	31	
Current portion of note receivable	3	
Prepaid expenses and other current assets	70	
	6,99	
Total current assets	6,99	
Note receivable	11	
Property and equipment, net	96	
Goodwill, net	31,93	
Other intangibles, net	20,62	
Other assets	29	
	60,94	
Total assets	\$ 60,94	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of notes payable to related parties	\$ 98	
Current portion of notes payable	1,79	
Current portion of convertible debentures	2,29	
Current portion of capital leases	16	
Accounts payable	68	
Accrued expenses	3,22	
Deferred revenue	4,68	
Income tax payable	12	
	13,96	
Total current liabilities	13,96	
Notes payable to related parties, less current maturities	1,56	
Notes payable, less current maturities	26	
Convertible debentures, net, less current maturities	4,15	
Capital lease obligations, less current maturities	1	
Deferred revenue	87	
Long term liabilities	19	
	21,04	
Total liabilities	21,04	
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$.0001 par value; 5,000,000 shares authorized: Series A Convertible Preferred, 7.2% cumulative 141,100 shares issued and outstanding with a stated value of \$100 per share, dividends in arrears of \$2,581 and \$2,002, respectively	14,10	
Common Stock, \$.0001 par value; 100,000,000 shares authorized; 62,761,436 and 52,427,799 shares issued and outstanding, respectively	84,29	
Additional paid in capital	(58,49)	
Accumulated deficit	39,90	
	39,90	
Total stockholders' equity	39,90	
	60,94	
Total liabilities and stockholders' equity	\$ 60,94	

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

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

3

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

	Three Months Ended September 30,		Six Mo Septe
	2004	2003	2004
		(As restated)	
Revenues:			
Product	\$ 4,926	\$ 1,825	\$ 9,397
Services	1,757	954	2,569
Total revenues	6,683	2,779	11,966
Cost of revenues:			
Product	2,124	1,177	4,357
Services	956	476	1,434
Total cost of revenues	3,080	1,653	5,791
Gross profit	3,603	1,126	6,175
Expenses:			
Application development	1,802	585	3,049
Depreciation and amortization	530	280	936
Restructuring	681	--	681
Selling, general and administrative	3,988	3,001	8,299
Total expenses	7,001	3,866	12,965
Loss from operations	(3,398)	(2,740)	(6,790)
Other income (expense):			
Interest income	4	(17)	4
Other income (expense)	5	(167)	102
Interest expense	(2,088)	(1,504)	(2,389)
Total other expenses	(2,079)	(1,688)	(2,283)
Loss before provision for income taxes (benefits)	(5,477)	(4,428)	(9,073)
Provision for income taxes (benefits)	6	67	6
Net loss	(5,483)	(4,495)	(9,079)
Cumulative preferred dividends	(294)	(282)	(580)

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Net loss available to common stockholders	\$ (5,777)	\$ (4,777)	\$ (9,659)
	=====	=====	=====
Basic and diluted loss per share:			
Net loss	\$ (0.09)	\$ (0.13)	\$ (0.16)
Cumulative preferred dividends	(0.01)	(0.01)	(0.01)
	-----	-----	-----
Net loss available to common stockholders	\$ (0.10)	\$ (0.14)	\$ (0.17)
	=====	=====	=====
Basic and diluted weighted-average common shares outstanding	57,432	34,417	55,197

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

4

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

	SIX SEP 2004

Cash flows from operating activities:	
Net loss	\$ (9,07)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	2,68
Amortization of debt discount and conversion option	1,18
Gain on disposal of furniture and fixtures	
Provision for allowance for doubtful accounts, net of recoveries	34
Stock-based compensation	2
Common stock issued for services rendered and settlement cost	-
Changes in assets and liabilities net of effects from acquisitions:	
Accounts receivable and other receivables	97
Income tax refund receivable	-
Inventories	
Prepaid expenses and other assets	25
Accounts payable and accrued expenses	(2,08)
Income tax payable	-
Accrued interest on stockholders' loans, convertible notes and term loan	31
Deferred revenue	21

Net cash used for operating activities	(5,15)

Cash flows from investing activities:	
Payment from note receivable	
Proceeds from acquisition of Retail Technologies International, Inc., net	56
Purchases of furniture and equipment	(5)
Capitalized software development costs	(35)

Net cash provided by (used for) investing activities	15

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Cash flows from financing activities:	
Sale of common stock, net of offering costs	(30)
Decrease in amount due to stockholders, net	7,00
Proceeds from convertible debts	(8)
Payments on capital leases	(2,77)
Payments on term loans and convertible debentures	(2,77)
<hr/>	
Net cash provided by financing activities	3,84
<hr/>	
Effect of exchange rate changes on cash	
<hr/>	
Net decrease in cash and cash equivalents	(1,14)
Cash and cash equivalents, beginning of period	2,10
<hr/>	
Cash and cash equivalents, end of period	\$ 96
<hr/>	
Supplemental disclosure of cash flow information:	
Interest paid	\$ 27
Income taxes paid	\$
<hr/>	
Supplemental schedule of non-cash investing and financing activities:	
Issued 7,551,696 shares of common stock upon conversion of 2,517,232 shares of Series B Convertible Preferred Stock issued in connection with the acquisition of Retail Technologies International, Inc.	\$ 5,70
Issued 1,546,733 shares of common stock in connection with the acquisition of Retail Technologies International, Inc.	\$ 1,16
Issued promissory notes in connection with the acquisition of Retail Technologies International, Inc.	\$ 3,62
Issued 600,000 shares of common stock as payment for liquidated damages	\$ 24
Issued 223,052 shares of common stock upon cashless exercise of an incentive stock option	\$ 2
Issued 4,103,161 shares of common stock upon conversion of the 9% debentures	-
Issued 2,287,653 shares of common stock upon conversion of the note due to stockholders	-
Issued 500,000 shares of common stock as payment for dividend on preferred stock	-
Retired 10,700,000 shares of treasury stock	-
Issued 84,849 shares of common stock as payments for bonuses and services rendered in prior periods	-

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

5

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

NOTE 1 - ORGANIZATION AND BASIS OF PREPARATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the financial

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

position, results of operations and cash flows at September 30, 2004 and for all the periods presented have been made.

Certain amounts in the prior periods have been reclassified to conform to the presentation for the six months ended September 30, 2004. The financial information included in this quarterly report should be read in conjunction with the consolidated financial statements and related notes thereto in our Form 10-K/A for the year ended March 31, 2004.

The results of operations for the six months ended September 30, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - ACQUISITIONS

PAGE DIGITAL INCORPORATED

Effective January 30, 2004, we acquired all of the issued and outstanding shares of Page Digital Incorporated ("Page Digital"), a Colorado-based developer of multi-channel commerce software, through a merger with our newly-formed wholly-owned subsidiary. The purchase price for the acquisition was \$7.1 million, consisting of \$2.0 million in cash, 2.5 million shares of our common stock valued at \$2.00 per share and acquisition costs of \$138,000. Upon the consummation of this transaction, we entered into two-year employment agreements for executive officer positions with two of the principals of Page Digital and a two-year non-compete agreement with one of the two principals of Page Digital.

The following unaudited pro forma consolidated results of continuing operations for the three and six months ended September 30, 2003 assume the acquisition of Page Digital occurred as of April 1, 2003. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisitions been completed as of the beginning of the period presented, nor are they necessarily indicative of future consolidated results.

	Three Months Ended September 30, 2003 -----
Revenues	\$ 4,307
Net loss	\$ (4,734)
Net loss available to common stockholders	\$ (5,016)
Basic and diluted loss per share of common stock	\$ (0.14)
Basic and diluted loss per share available to common stockholders	\$ (0.15)

RETAIL TECHNOLOGIES INTERNATIONAL, INC.

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").

6

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 occurred 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"). 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".

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.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

We entered into an employment agreement with Michael Tomczak on June 1, 2004. The term of the agreement is two years. Under the agreement, Mr. Tomczak is entitled to \$360,000 in annual compensation. He also received an option to purchase 1,772,354 shares of our common stock. Mr. Tomczak's right to purchase 886,178 of the shares subject to the option shall vest at the first anniversary date of this agreement, thereafter, the remaining option shall vest at the rate of 73,848 shares per month during the second year of this agreement. If Mr. Tomczak's employment with us is terminated without cause during the term of the agreement, he will receive severance in the amount of the lesser of \$360,000 or the balance of compensation payable over the remaining term of the agreement, but in no event should the amount be less than \$180,000. We also entered into non-competition agreement with Mr. Tomczak, pursuant to which Mr. Tomczak agreed not to engage in any business or activity that in any way competes with us for a period of two years after the termination of his employment with us.

7

We entered into an employment agreement with Jeffrey Boone on June 1, 2004. The term of the agreement is two years. Under the agreement, Mr. Boone is entitled to \$240,000 in annual compensation. He also received an option to purchase 1,572,354 shares of our common stock. Mr. Boone's right to purchase 786,179 of the shares subject to the option shall vest at the first anniversary date of this agreement, thereafter, the remaining option shall vest at the rate of 65,514 shares per month during the second year of this agreement. If Mr. Boone's employment with us is terminated without cause during the term of the agreement, he will receive severance in the amount of the lesser of \$240,000 or the balance of his compensation payable over the remaining term of the agreement, but in no event should the amount be less than \$120,000. We also entered into non-competition agreement with Mr. Boone, pursuant to which Mr. Boone agreed not to engage in any business or activity that in any way competes with us for a period of two years after the termination of his employment with us.

The acquisition has been accounted for as a purchase. The results of the operations of RTI have been included in the consolidated financial statements since the date of the acquisition. The excess of purchase price over the fair values of net assets acquired was approximately \$11.3 million and has been recorded as goodwill. The fair value of assets acquired and liabilities assumed were as follows (in thousands):

Cash	\$	672
Accounts receivable		1,348
Prepaid expenses		148
Other receivables		212
Property and equipment		496
Non-compete agreement		29
Software technology		1,410
Customer relationship		1,660
Trademark		800
Capital lease obligation		(11)
Accounts payable and accrued expenses		(1,644)
Deferred revenue		(2,689)
Income tax payable		(127)
Notes due to stockholders		(200)
Notes payable		(1,789)

Net assets		315
Excess of cost over fair value of net assets acquired		11,332

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Total purchase price

\$ 11,647

The following unaudited pro forma consolidated results for the three and six months ended September 30, 2004 and 2003 assume the acquisitions of RTI occurred as of April 1, 2004 and 2003, respectively, and Page Digital occurred as of April 1, 2003. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisitions been completed as of the beginning of the period presented, nor are they necessarily indicative of future consolidated results.

	Three Months Ended		Six Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Revenues	\$ 6,683	\$ 6,488	\$ 13,359	\$ 12,800
Net loss	\$ (5,483)	\$ (4,793)	\$ (10,011)	\$ (9,500)
Net loss available to common stockholders	\$ (5,777)	\$ (5,075)	\$ (10,591)	\$ (9,880)
Basic and diluted loss per share of common stock	\$ (0.10)	\$ (0.14)	\$ (0.18)	\$ (0.15)
Basic and diluted loss per share available to common stockholders	\$ (0.10)	\$ (0.15)	\$ (0.19)	\$ (0.16)

8

NOTE 3 - NOTE RECEIVABLE

Effective April 1, 2003, we sold our wholly-owned subsidiary, SVI Training Products, Inc. ("Training Products"), to its former president, for the sale price of \$180,000 plus earn-out payments equal to 20% of the total gross revenues of Training Products in each of its next two fiscal years, to the extent the revenues in each of those years exceed certain targets. We received a promissory note for the amount of \$180,000 and the earn-out payments, if any, will be made in quarterly installments following each fiscal year, bearing an annual interest rate of 5%. We agreed to postpone the payments due January 2004 and April 2004 until April 2008. The note has a balance of \$153,000 and \$162,000 at September 30, 2004 and March 31, 2004, respectively, of which \$36,000 is current.

NOTE 4 - INVENTORIES

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

NOTE 5 - GOODWILL AND OTHER INTANGIBLES

At September 30, 2004 and March 31, 2004, goodwill and other intangibles consist of the following (in thousands):

SEPTEMBER 30, 2004

MARCH 31, 2004

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization
	-----	-----	-----	-----	-----
Goodwill	\$ 38,431	\$ (6,492)	\$ 31,939	\$ 27,099	\$ (6,492)
Other intangibles:					
Amortized intangible assets					
Software technology	32,071	(14,917)	17,154	30,357	(13,217)
Non-compete agreements	7,014	(6,704)	310	6,986	(6,311)
Customer relationships	2,564	(176)	2,388	904	(311)
Unamortized intangible:					
Trademark	1,085	--	1,085	285	--
	-----	-----	-----	-----	-----
	42,734	(21,797)	20,937	38,532	(19,566)
Less: current portion of non- compete agreements	310	--	310	668	--
	-----	-----	-----	-----	-----
Long-term portion of other Intangibles	42,424	(21,797)	20,627	37,864	(19,566)
	-----	-----	-----	-----	-----
Long-term portion of goodwill and other intangibles	\$ 80,855	\$ (28,289)	\$ 52,566	\$ 64,963	\$ (26,055)
	=====	=====	=====	=====	=====

During the six months ended September 30, 2004, we recorded approximately \$11.3 million in goodwill, \$1.4 million in software, \$1.7 million in customer relationships, \$800,000 in trademarks and \$29,000 in a non-compete agreement in connection with the acquisition of RTI (see Note 2). In addition, we recorded \$97,000 and \$357,000 million in capitalized software during the three and six months ended September 30, 2004, respectively. Software and customer relationships are amortized on a straight-line basis over their useful lives, seven and ten years, respectively. The goodwill and the trademark have indefinite useful lives and are not subject to amortization. The non-compete agreement is being amortized its remaining useful life of seven months.

Transactions in goodwill during the six months ended September 30, 2004 and fiscal year ended March 31, 2004 are as follows (in thousands):

	September 30, 2004	March 31, 2004
	-----	-----
Cost:		
Beginning balance	\$ 27,099	\$ 21,287
Goodwill from acquisition of RTI and Page Digital, respectively	11,332	5,812
	-----	-----
Ending balance	\$ 38,431	\$ 27,099
	=====	=====
Accumulated amortization	\$ 6,492	\$ 6,492
	=====	=====

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

We found no indication of impairment of the goodwill during the six months ended September 30, 2004. Accordingly, absent of future indications of impairment, the next annual impairment test will be performed in fourth quarter of fiscal 2005.

We also evaluated the remaining useful lives of our intangible assets in the quarter ended June 30, 2004 and during the fourth quarter 2004. No adjustments have been made to the useful lives of our intangible assets.

Amortization expense for the three months ended September 30, 2004 and 2003 was \$1.2 million and \$0.8 million, respectively. Amortization expense for six months ended September 30, 2004 and 2003 was \$2.3 million and \$1.7 million. We expect amortization expense for the next five fiscal years to be as follows (in thousands):

March 31,		
2005	\$	2,376
2006	\$	4,047
2007	\$	3,792
2008	\$	3,760
2009	\$	3,613

NOTE 6 - DEBTS

NOTES PAYABLE TO RELATED PARTIES

In connection with the RTI acquisition, we issued promissory notes to RTI's two principal officers totaling \$2.6 million, payable in installments totaling \$20,000 per month for the period of June 1, 2004 through May 1, 2005 and increasing to \$200,000 per month from June 1, 2005 through June 1, 2006, at 6.5% interest per annum. The notes have a balance of \$2.5 million as of September 30, 2004, of which \$982,000 is current. There were no notes payable due to related parties at March 31, 2004.

NOTES PAYABLE

In connection with the acquisition of RTI, we issued a promissory note to Intuit and assumed RTI's obligations totaling \$1,789,000 under certain promissory notes originally issued by RTI and additional notes totaling \$500,000 to the existing note holders of RTI. Notes payable consisted of the following (in thousands):

	September 30, 2004

Notes payable, secured by common stock of our new subsidiary, IP Retail Technologies International, Inc. ("IP RTI"), payable in monthly installments totaling \$197,000 including interest at 6.5% per annum beginning May 31, 2004 through May 31, 2005	\$ 1,542
Note payable, to Intuit, secured by IP RTI's common stock, payable in monthly installments of \$4,000 for the period from June 1, 2004 through December 1, 2004 and \$30,000 from January 1, 2005 through June 1, 2006, including interest at 6.5% per annum	522

Total notes payable	\$ 2,064
	=====
Total notes payable (including accrued interest)	\$ 2,064
Less: current maturities	1,798

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Long-term portion of notes payable	\$	266

10

CONVERTIBLE DEBENTURES

Convertible debentures at September 30, 2004 and March 31, 2004 consist of the following (in thousands):

		September 30, 2004
Convertible note, secured by all of our assets, interest rate of prime plus two percent per annum and matures in July 2007	\$	7,038
Convertible debentures, interest rate of 9% per annum and mature in May 2006		1,209
Total		8,247
Less: debt discount		1,794
	\$	6,453
Total convertible debentures (including accrued interest), net of debt discount	\$	6,453
Less: current maturities		2,294
Long-term portion of convertible debentures	\$	4,159

Pursuant to a Securities Purchase Agreement dated July 12, 2004, we sold and issued to Laurus Master Fund, Ltd. ("Laurus") a secured convertible term note ("Laurus Note") for gross proceeds of \$7.0 million. In addition, we issued to Laurus a warrant to purchase up to 3,750,000 shares of our common stock at a price of \$0.71 per share ("Laurus Warrant"). Our obligations under the Laurus Note are secured by all of our assets. All our wholly owned subsidiaries guaranteed our obligations under the Laurus Note. We also pledged all of our interests in the outstanding stock of our subsidiaries as security for our obligations under the Laurus Note.

The Laurus Note would have originally matured on September 1, 2004; however, the maturity of the Laurus Note was automatically extended to July 12, 2007 ("Maturity Date") upon the stockholders approving an amendment to our Certificate of Amendment to increase our authorized share capital limit to 250 million shares and us filing an amendment to our Certificate of Amendment to effect the increase with the Secretary of State of Delaware by August 31, 2004.

We would have been obligated to make monthly payments in the amount of \$212,000 plus any unpaid interest commencing on August 1, 2004. In August 2004, Laurus agreed to defer the August 1, 2004 payment until the Maturity Date.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

In October 2004, Laurus agreed to amend the Laurus Note and defer the payments due in September 2004 through February 2005 until the Maturity Date. Pursuant to the amendment, we are required to make monthly payments in the amount of \$212,121 commencing on March 1, 2005 with a balloon payment of \$1.1 million in July 2007. We also issued Laurus a warrant to purchase 250,000 shares of our common stock at a price of \$0.41 per share ("October `04 Laurus Warrant").

The Laurus Note accrues interest at a rate per annum (the "Interest Rate") equal to the "prime rate" (4.75% as of October 31, 2004) published in The Wall Street Journal from time to time, plus two percent. Interest under the Laurus Note is payable monthly in arrears commencing on August 1, 2004. The Interest Rate is calculated on the last day of each month (the "Determination Date") and is subject to adjustment as follows: (1) if the shares issuable upon conversion of the Laurus Note or exercise of the Laurus Warrant have been registered with the U.S. Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Securities Act") and the market price of our common stock for the five trading days immediately preceding the Determination Date exceeds the then applicable conversion price for the Laurus Note by at least 25%, then the Interest Rate for the succeeding calendar month shall be reduced by 2% for each incremental 25% increase over the then applicable conversion price or (2) if all of the conditions set forth in subparagraph (1) have been satisfied, except that the shares issuable upon conversion of the Laurus Note or exercise of Warrant have not been registered, then the Interest Rate for the succeeding calendar month shall be reduced by 1% for each incremental 25% increase over the then applicable conversion price. The initial conversion price under the Laurus Note is \$0.56 per share, subject to adjustment upon our issuance of securities at a price per share below the fixed conversion price, a stock split or combination, declaration of a dividend on our common stock or reclassification of our common stock. We have the option to redeem the Laurus Note by paying Laurus 125% of the principal amount due under the Laurus Note together with all accrued and unpaid interest. Pursuant to the Amendment No. 1 to the Laurus Note, the conversion price for \$2.0 million of the \$7.0 million Laurus Note was reduced to \$0.37 per share.

11

The Laurus Warrant and October `04 Laurus Warrant (collectively "Laurus Warrants") are immediately exercisable and have a seven year term. We have the right to require exercise of the Laurus Warrants in whole or in part if: (1) all of our obligations under the Laurus Note have been irrevocably paid in full, (2) the common stock underlying the Laurus Warrants has been registered on a registration statement declared effective by the SEC, and such registration statement remains effective, and (3) the average closing price of our common stock for the ten (10) trading days immediately prior to the proposed date of the mandatory exercise of the Laurus Warrants is greater than three hundred percent (300%) of the then applicable exercise price.

We were obligated to file a registration statement on Form S-3 (or if Form S-3 is not available another appropriate form) (the "Registration Statement") registering the shares of our common stock issuable upon conversion of the Laurus Note or exercise of the Laurus Warrants (the "Underlying Shares") pursuant to the Registration Rights Agreement between us and Laurus (the "Registration Rights Agreement"). We filed the Registration Statement on September 10, 2004 (the "Filing Date") and we are required to have the Registration Statement declared effective by the SEC no later than 120 days after it is filed (the "Effectiveness Date"). If the Registration Statement is not declared effective by the Effectiveness Date, ceases to be effective for more than 30 days in any calendar year or 10 consecutive calendar days or if our

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

common stock is not listed or traded or is suspended from trading for three consecutive trading days, we are required to pay Laurus liquidated damages equal to 2% of original principal balance on the Laurus Note for each 30 day period (with partial periods prorated) that such event continues. We are obligated to keep the Registration Statement effective until the earlier of when (1) all of the Underlying Shares have been sold or (2) such time as all of the Underlying Shares can be sold without registration or volume restrictions under Rule 144(k) of the Securities Act (the "Effectiveness Period"). If there is not an effective Registration Statement covering the Underlying Shares at any time during the Effectiveness Period and we propose to file a registration statement for our own account or the account of others, we will be obligated to include the Underlying Shares on that registration statement.

In accordance with generally accepted accounting principles, the difference between the original conversion price of \$0.56 and our stock price on the date of issuance of the Laurus Note amounted to \$281,000 and is being amortized over the term of the Laurus Note. We amortized \$20,000 in the three and six months ended September 30, 2004.

We allocated the proceeds received from the Laurus Note with a detachable warrant using the relative fair market value of the individual elements at the time of issuance. The amount allocated to the warrant was \$531,000 and is being amortized as interest expense over the life of the Laurus Note. We amortized \$37,000 in the three and six months ended September 30, 2004.

In connection with the amendment in October 2004, we will compute the difference between the conversion price of \$0.37 for the first \$2.0 million of the Laurus Note and our stock price on the date of issuance of the Laurus Note and will amortize the difference over the remaining term of the Laurus Note.

In connection with the sale of \$7.0 million Laurus Note, we had adjusted the exercise price of outstanding warrants previously issued to certain investors to \$0.56 per share pursuant to the anti-dilution protection provision. Accordingly, we recorded a charge of \$254,000 as interest expense in the quarter ended September 30, 2004.

In March 2004, we entered into a Securities Purchase Agreement for the sale of convertible debentures (the "March '04 Debenture") to Omicron Master Trust ("Omicron") for gross proceeds of \$1.75 million ("Omicron Debenture") and Midsummer Investments, Ltd. ("Midsummer") for gross proceeds of \$1.25 million ("Midsummer Debenture"). The debentures would have matured in May 2006, bore an interest rate of 9% per annum and provided for interest only payments on a quarterly basis, payable, at our option, in cash or shares of our common stock. The debentures would have been convertible into shares of our common stock at a conversion price of \$1.32 per share, subject to adjustment if we offered or sold any securities for an effective per share price that was less than 87% of the then current conversion price, negatively restated any of our financial statements or made any public disclosures that negatively revised or supplemented any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or triggered other customary anti-dilution protections. If certain conditions were met, we would have the option to redeem the March '04 Debentures at 110% of their face value, plus accrued but unpaid interest.

We would have been obligated to redeem the Omicron Debenture and Midsummer Debenture at the initial monthly amounts of \$136,110 and \$97,223, respectively, commencing on February 1, 2005. If the daily volume weighted average price of our common stock on the American Stock Exchange exceeded \$1.15 by more than 200% for 15 consecutive trading days, we would have the option to cause the Purchasers to convert the then outstanding principal amount of March '04 debentures into our common stock at the conversion price then in effect.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

With the proceeds from the sale of the Laurus Note in July 2004 for \$7.0 million as discussed above, we paid off in full the Omicron Debenture with a balance of \$1.75 million plus \$0.2 million in accrued interest, liquidated damages and prepayment penalty.

In accordance with generally accepted accounting principles, the difference between the original conversion price of \$1.32 and our stock price of the date of issuance of the Omicron Debenture amounted to \$155,000 and was being amortized over the term of the debt. A total of \$21,000 had been amortized during the period from the date of issuance to the date the debt was repaid. Upon repayment of the debt, the remaining balance of \$134,000 was expensed.

On July 30, 2004, we also amended the Midsummer Debenture. Pursuant to the amendment agreement, we issued 600,000 shares of common stock which we valued at \$240,000 to Midsummer as payment in liquidated damages and as consideration for Midsummer consenting to the sale of the \$7.0 million Laurus Note.

The amended Midsummer Debenture matures in May 2006 and bears an interest rate of 9% per annum. Interest only payments, payable, at our option, in cash or shares of common stock, are payable on a monthly basis. The amended Midsummer Debenture is convertible into shares of our common stock at a conversion price of \$0.56 per share, subject to adjustment if we offer or sell any securities for an effective per share price that is less than 87% of the then current conversion price, negatively restate any of our financial statement or make any public disclosure that negatively restate any of our financial statement or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections. If certain conditions are met, we have the option to redeem the amended Midsummer Debenture at 100% of its face value, plus accrued but unpaid interest. Triggering events have occurred and we are currently in discussions with Midsummer concerning an adjustment of the current conversion price.

We must redeem the amended Midsummer Debenture at the initial monthly amount of \$50,000 which commenced on September 1, 2004 and increases to \$62,500 starting February 1, 2005. If the daily volume weighted average price of our common stock on the American Stock Exchange exceeds the then current conversion price by more than 200% for 15 consecutive trading days, we have the option to cause Midsummer to convert the then outstanding principal amount of amended Midsummer Debenture into our common stock at the conversion price then in effect.

In accordance with generally accepted accounting principles, the difference between the original conversion price of \$1.32 and our stock price of the date of issuance of the Midsummer Debenture amounted to \$110,000 and was being amortized over the term of the debt. Upon amending the debt, we computed the difference between the amended conversion price of \$0.56 and our stock price of the date of issuance. We recorded an additional maximum charge of \$785,000 and will amortize it over the remaining term of the debt. We had amortized \$115,000 and \$128,000 in the three and six months ended September 30, 2004.

We also issued Omicron and Midsummer two warrants as follows: (1) Series A Warrants to purchase up to an aggregate of 1,043,479 shares of our common stock at an exercise price of \$1.32 per share, which was adjusted to \$0.56 in July 2004 as a result of the sale of \$7.0 Laurus Note, with a five-year term, exercisable at anytime after September 16, 2004, subject to adjustment if we offer or sell any securities for an effective per share price that is less than the then current exercise price, negatively restate any of our financial statements or make any public disclosure that negatively revises or supplements

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections and (2) Series B Warrants to purchase up to 8,500,000 shares of our common stock with an exercise price of \$5 per share, these warrants are immediately exercisable and expire on the earlier of the six-month anniversary of the effective date of the registration statement that is required to be filed or 18 months from March 15, 2004, subject to adjustment upon the issuance or sale of securities in a public offering for an effective per share price that is less than the then-current exercise price and upon the trigger of other customary anti-dilution protections.

For a period of one hundred eighty (180) days following the date the registration statement is declared effective ("Effective Date"), each Purchaser has the right, in its sole discretion, to elect to purchase such Purchaser's pro rata portion of additional Debentures and Series A Warrants for an aggregate purchase price of up to \$2,000,000 in a second closing (the "Second Closing"). The terms of the Second Closing shall be identical to the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional debentures and the exercise price for the additional warrants shall be equal to 115% of the average of the daily volume weighted average price

of our common stock on the American Stock Exchange for the ten (10) days preceding the Second Closing ("Second Closing Price"). The Series A Warrant coverage for the Second Closing shall be 40% of each Purchaser's subscription amount divided by the Second Closing Price.

13

For a period of one hundred eighty (180) days following the Effective Date, if the daily volume weighted average price of our common stock for twenty (20) consecutive trading days exceeds \$2.00, subject to adjustment, we may, on one occasion, in our sole determination, require the Purchasers to purchase each such Purchaser's pro rata portion of additional debentures and Series A Warrants for an aggregate purchase price of up to \$2,000,000. Any such additional investment shall be under the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional Debentures and the exercise price for the additional warrants shall be equal to the then current conversion price and warrant exercise price for the 9% Debentures and warrants purchased on March 15, 2004.

For a period of six (6) months from the Effective Date, the Purchasers have a right of first refusal to participate in certain future financings by us involving the sale of our common stock or equivalent securities. The Purchasers were also granted registration rights under a Registration Rights Agreement dated March 15, 2004, pursuant to which we were required to file a registration statement respecting the common stock issuable upon the conversion of the debentures and exercise of the warrants within thirty (30) days after March 15, 2004, and to use best efforts to have the registration statement declared effective at the earliest date. If a registration statement was not filed within such thirty (30) day period or declared effective within such ninety (90) day period (or within one hundred twenty (120) days in the event of a full review by the SEC), we became obligated to pay liquidated damages to the Purchasers equal to 2% per month of each such Purchasers' subscription amount under the Purchase Agreement plus the value of any warrants issued pursuant to the Purchase Agreement then held by such Purchaser. The registration statement was filed on August 24, 2004, but it has not been declared effective as of November 15, 2004. As a result, liquidated damages in the amounts of \$81,000 and \$120,000 have been recorded in the six months ended September 30, 2004 and the fiscal year ended March 31, 2004, respectively. Outstanding liquidated damages totaling \$201,000

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

were paid in July 2004.

We allocated the proceeds received from convertible debt with detachable warrants using the relative fair market value of the individual elements at the time of issuance and amortize the change over the term of the debt. The amount allocated to the warrants issued to Omicron was \$420,000. A total of \$57,000 had been amortized during the period from the issuance to the date the note was repaid. Upon repayment of the Omicron Debenture, the remaining balance of \$363,000 was expensed. As a result of adjusting the exercise price of Omicron's warrant to \$0.56, we also recorded a charge of \$112,000 as interest expense in the quarter ended September 30, 2004.

The amount allocated to the warrants issued to Midsummer was originally \$300,000. Upon amending the Midsummer Debenture, we recomputed the amount allocated warrants and recorded an additional maximum charge of \$54,000. The additional charge is being amortized over the remaining term of the debt. We amortized \$42,000 and \$76,000 in the three and six months ended September 30, 2004, respectively.

NOTE 7 - CAPITAL LEASES

In connection with the acquisition of Page Digital, we assumed capital lease obligations on certain office equipment and fixtures leases expiring from November 2004 through November 2006. The capital leases bear interest at rates between 7% and 11% per annum and monthly lease payments range between approximately \$1,000 to \$8,000.

In connection with the acquisition of RTI, we assumed a capital lease obligation for certain office equipment, expiring in February 2006. The capital lease bears interest at a rate of approximately 11% per annum and monthly lease payments of approximately \$600.

The balance of capital leases is \$187,000 and \$258,000 at September 30, 2004 and March 31, 2004, respectively, of which the current portion is \$169,000.

NOTE 8 - LINE OF CREDIT

In connection with the acquisition of RTI, we assumed obligation under a line of credit with a balance of \$182,000 at June 30, 2004. The line of credit was paid off in full in July 2004.

14

NOTE 9 - DEFERRED REVENUE

Deferred revenue at September 30, 2004 and March 31, 2004 consists of the following (in thousands):

	June 30, 2004	March 31, 2004
	-----	-----
Prepaid support services	\$ 5,040	\$ 2,528
Customer deposits	518	129
	-----	-----
Total	5,558	2,657
Long-term portion	873	--
	-----	-----
Current portion	\$ 4,685	\$ 2,657
	=====	=====

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

NOTE 10 - PREFERRED STOCK

The Series A Convertible Preferred Stock (the "Series A Preferred") has a stated value of \$100 per share and is redeemed at our option any time prior to the maturity date of December 31, 2006 for 107% of the stated value and accrued and unpaid dividends. The preferred shares are entitled to cumulative dividends of 7.2% per annum, payable semi-annually, and have cumulative dividends of \$2.6 million, or \$18.31 per share, and \$2.0 million, or \$14.19 per share, at September 30, 2004 and March 31, 2004, respectively. The holders may convert each share of Series A Preferred at any time into the number of shares of our common stock determined by dividing the stated value plus all accrued and unpaid dividends, by a conversion price initially equal to \$0.80. The conversion price increases at an annual rate of 3.5% calculated on a semi-annual basis. The conversion price as of July 1, 2004 is \$0.87. The Series A Preferred is entitled upon liquidation to an amount equal to its stated value plus accrued and unpaid dividends in preference to any distributions to common stockholders. The Series A Preferred has no voting rights prior to conversion into common stock, except with respect to proposed impairments of the Series A Preferred rights and preferences, or as provided by law. We have the right of first refusal to purchase all but not less than all of any shares of Series A Preferred or shares of common stock received on conversion which the holder may propose to sell to a third party, upon the same price and terms as the proposed sale to a third party.

On November 14, 2003, the Sage Group plc (the "Sage Group") acquired substantially all the assets of Softline, including Softline's 141,000 shares of our Series A Preferred, 8,923,915 shares of our common stock and options to purchase 71,812 shares of our common stock. On September 17, 2003, 500,000 shares of common stock constituting accrued dividends on our Series A Preferred were issued to various financial institutions.

The Series B Convertible Preferred Stock (the "Series B Preferred") had no stated value and was entitled to cumulative dividends at the rate of \$0.136 per share per annum, payable annually commencing on January 1, 2005. Upon our filing of an amendment to our Certificate of Incorporation increasing the number of shares of common stock in August 2004, all Series B Preferred was converted into 7,551,696 shares of common stock. No dividends had been declared.

NOTE 11 - EQUITY TRANSACTIONS

During the quarter ended September 30, 2004, we had the following equity transactions:

- o Issued 600,000 shares of common stock, with a fair value of \$240,000, to Midsummer as payment for liquidated damages and as consideration for its consent to the sale of the Laurus Note,
- o Issued an aggregate of 7,551,696 shares of common stock, with a fair value of \$5,709,000, to Michael Tomczak, our President and COO, and Jeffrey Boone, our CTO, upon conversion of all of 2,517,232 shares of Series B Preferred Stock,
- o Granted Laurus a warrant to purchase up to 3,750,000 shares of our common stock at an exercise price of \$0.71 in connection with the sale of the Laurus Note,
- o Granted incentive stock options to employees to purchase an aggregate of 3,340,000 shares of common stock at exercise prices ranging from \$0.38 to \$0.48,
- o Granted a consultant a warrant to purchase up to 220,000 shares of common stock at an exercise price of \$0.50 per share, with a fair value of \$37,000, for public relation services, and
- o Granted options to purchase an aggregate of 102,500 shares of common stock at an exercise price of \$0.44 to outside directors of the Board

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

as directors' fees for the quarter ended September 30, 2004.

15

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure." This Statement amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The following table presents pro forma disclosures required by SFAS 123 and SFAS 148 of net loss and basic and diluted loss per share as if stock-based employee compensation had been recognized during the six months ended September 30, 2004 and 2003. The compensation expense for these periods has been determined under the fair value method using the Black-Scholes pricing model, and assumes graded vesting.

	Six Months Ended September 30,	
	2004	2003
	-----	-----
	(in thousands, except per share amounts) (unaudited)	
Net loss as reported	\$ (9,079)	\$ (4,191)
Less: stock-based compensation expense, net of related tax effects	(1,005)	(1,081)
	-----	-----
Pro forma net loss	\$ (10,084)	\$ (5,272)
	=====	=====
Basic and diluted earnings (loss) per share - as reported	\$ (0.16)	\$ (0.13)
Basic and diluted earnings (loss) per share - pro forma	\$ (0.18)	\$ (0.16)

NOTE 12 - EARNINGS (LOSS) PER SHARE

Basic loss per common share are calculated by dividing net loss by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common shares ("diluted EPS") reflect the potential dilutive effect, determined by the treasury method, of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Earnings per share for the three and six months ended September 30, 2004 and 2003 is calculated as follows (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net loss available to common				

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

stockholders	\$	(5,777)	\$	(4,777)	\$	(9,659)	\$	(4,745)
Basic and diluted weighted average shares		57,432		34,417		55,197		33,264
Basic and diluted loss per share	\$	(0.10)	\$	(0.14)	\$	(0.17)	\$	(0.14)

16

The following potential common shares have been excluded from the computation of diluted net loss per share for the six months ended September 30, 2004 and 2003, because the effect would have been anti-dilutive:

	Three Months Ended September 30,	
	2004	2003
	-----	-----
Outstanding options under our stock option plans	8,609,547	4,866,240
Outstanding options granted outside our stock option plans	8,182,274	5,054,312
Warrants issued in conjunction with private placements and financing	17,098,760	6,330,281
Warrants issued for services rendered	1,451,898	748,169
Series A Convertible Preferred Stock	19,124,693	18,444,424
Convertible debt	14,642,857	2,723,214
	-----	-----
Total	69,110,029	38,166,640
	=====	=====

NOTE 13 - RESTRUCTURING CHARGE

We recorded a \$681,000 restructuring charge in the quarter ended September 30, 2004 for one-time termination benefits related to workforce reduction of nine full-time employees including 3 executive officers, 2 in sales and 4 in administrative functions in the Americas. The termination benefits include severance payments and benefits. All workforce reductions associated with this charge were made on or before September 30, 2004. A summary of the restructuring charge included in accrued expenses at September 30, 2004 is as follows (in thousands):

Initial reserve	\$	681
Paid		(320)

Balance	\$	361
		=====

\$156,000 of the remaining balance will be paid in the third quarter of 2005, \$47,000 each in the fourth quarter of 2005 and the first through third quarter of 2006 and \$17,000 in the fourth quarter of 2006.

NOTE 14 - BUSINESS SEGMENTS AND GEOGRAPHIC DATA

We are a provider of software solutions and services to the retail industry. Our solutions and services have been developed specifically to meet the needs of the retail industry. We provide high value innovative solutions that help retailers understand, create, manage and fulfill consumer demand. Our solutions help retailers improve the efficiency and effectiveness of their operations and build

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

stronger, longer lasting relationships with their customers. We acquired Page Digital, which offers multi-channel retail solutions, on January 31, 2004 and RTI, which offers point-of-sale and inventory management solutions, on June 1, 2004.

17

We currently operate in the Americas and Europe. On June 1, 2004, we began to operate in Asia. The geographic distribution of our revenues and long-lived assets are as follows (in thousands):

	Three months ended September 30, 2004		Six months ended September 30, 2004	
	2003	2004	2003	2004
Revenues:				
Americas	\$ 5,538	\$ 2,288	\$ 9,770	\$ 7,214
Europe	993	491	2,006	1,031
Asia	152	--	190	--
Total revenues	\$ 6,683	\$ 2,779	\$11,966	\$ 8,245
Long-lived assets:				
Americas	\$ 54,119	\$ 40,783		
Europe	24	30		
Total identifiable assets	\$ 54,143	\$ 40,813		

In the three months ended September 30, 2004, revenues from three customers represents 9%, 6% and 2%, respectively, of total revenues. In the six months ended September 30, 2004, revenues from these three customers represents 6%, 4% and 6% of total revenues, and accounts receivable balances at September 30, 2004 from these customers represent 3%, 0% and 10%, respectively, of total accounts receivable. In the three and six months ended September 30, 2003, another customer represents 7% and 18%, respectively, of total revenues and its account receivable balance at September 30, 2003 represents 45% of total accounts receivable.

We structure our operations into three business units that have separate reporting infrastructures. Each unit is evaluated primarily based on total revenues and operation income excluding depreciation and amortization. Identifiable assets are also managed by business units. Our three business units are as follows:

- o RETAIL MANAGEMENT SOLUTIONS ("RETAIL MANAGEMENT") - offers suite of applications, which builds on our long history in retail software design and development. We provide our customers with an extremely reliable, widely deployed, comprehensive and fully integrated retail management solutions. Retail Management 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

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

inventory. In addition, Retail Management 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.

- o STORE SOLUTIONS - offers suites of applications built on our long history of providing multi-platform, client server in-store solutions. We market these sets of applications under the name "OnePointe," TM and "Retail Pro"(R). With more than 15 years of development, OnePointe TM is 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. Retail Pro(R) is a leading point-of-sale and inventory management software used by specialty retailers worldwide.

- o 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"(R) 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.

18

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

	Three months ended September 30, 2004		Six months ended September 30, 2004	
	2003	2003	2003	2003
Revenues:				
Retail Management Solutions	\$ 2,063	\$ 2,406	\$ 5,028	\$ 7,470
Store Solutions	2,914	373	4,077	775

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Multi-channel Retail	1,706	--	2,861	--
Total revenues	\$ 6,683	\$ 2,779	\$ 11,966	\$ 8,245
Operating income (loss):				
Retail Management Solutions	\$ (1,375)	\$ (1,344)	\$ (2,066)	\$ (375)
Store Solutions	(468)	(415)	(827)	(639)
Multi-channel Retail	(207)	--	(721)	-
Other (see below)	(1,348)	(981)	(3,176)	(1,715)
Total operating income (loss)	\$ (3,398)	\$ (2,740)	\$ (6,790)	\$ (2,729)
Other operating loss:				
Depreciation	\$ (4)	\$ (8)	\$ (8)	\$ (25)
Administrative costs and other non-allocated expenses	(1,344)	(973)	(3,168)	(1,690)
Total other operating loss	\$ (1,348)	\$ (981)	\$ (3,176)	\$ (1,715)
	September 30, 2004	March 31, 2004		
Identifiable assets:				
Retail Management Solutions	\$ 29,872	\$ 32,757		
Store Solutions	20,448	3,790		
Multi-channel Retail	9,729	10,093		
Total identifiable assets	\$ 60,049	\$ 46,640		
Goodwill, net:				
Retail Management Solutions	\$ 13,903	\$ 13,903		
Store Solutions	12,224	892		
Multi-channel Retail Solutions	5,812	5,812		
Total goodwill, net	\$ 31,939	\$ 20,607		

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

During the six months ended September 30, 2004, the Store Solutions business unit acquired \$11.3 million goodwill in connection with the acquisition of RTI. There are no changes in goodwill of the Retail Management Solutions and Multi-channel Retail Solutions business units.

In addition, during the three months and six month ended September 30, 2004, we

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

recorded restructuring charges in the amount of \$82,000 in Store Solutions, \$10,000 in Retail Management, \$5,000 in Multi-channel Retail and \$584,000 in corporate business units (see Note 13). There were no restructuring charges recorded in the three and six months ended September 30, 2003.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Effective April 1, 2004, we entered into an agreement with a company ("Newco PTY") 100% wholly-owned by QQQ. We previously purchased capitalized software from QQQ, a company affiliated with the former management of our Australian Subsidiary, which was sold in the third quarter of fiscal 2002. Under this agreement, we granted Newco PTY a three year option to purchase our Store Solutions subsidiary for the existing book value at the time of the option exercise. After three years, the agreement automatically renews, but either party may terminate this agreement with one month's written notice. Until the option is exercised, the profit and losses of Newco shall be split as follows: For profit, 50%/50% for the twelve months ended March 31, 2005, 60%/40% (Newco PTY/Island Pacific) for the twelve months ended March 31, 2006 and 70%/30% (Newco PTY/Island Pacific) for the twelve months ended April 1, 2007. Newco PTY may exercise its option at anytime with thirty day written notice. Island Pacific shall bear all losses of Newco until September 30, 2004 and then split any further losses 50/50 for the six months to March 31, 2005, 60/40 (Newco PTY/Island Pacific) for the twelve months ended March 31, 2005 and 70/30 (Newco PTY/Island Pacific) for the twelve months ended April 1, 2007. As of September 30, 2004, we have incurred Newco's total losses of \$56,000. As of September 30, 2004, the book value of the Store Solutions subsidiary was approximately \$2.2 million.

We decided in the third quarter of fiscal 2002 to sell certain assets of our Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was, however, subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for \$300,000 in May 2002 to an entity affiliated with the former management, and actively pursued the collection of receivables. If the sale proceeds plus collections on receivables had been insufficient to discharge the indebtedness to National Australia Bank, we might have been called upon to pay the deficiency under our guarantee to the bank. At March 31, 2004 we accrued \$187,000 as the maximum amount of our potential exposure. In June 2004, we settled this obligation by paying \$69,000 to the bank. As a result, the \$118,000 accrual in excess of settlement amount was written off to the consolidated statement of operations as other income in the quarter ended June 30, 2004.

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. On 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 November 22, 2002, we and Sabica Ventures, Inc. ("Sabica", our wholly-owned

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

subsidiary), were sued in a matter entitled Stemley vs. Shea Homes, Inc. et. al. in San Diego Superior Court Case No. GIC 787680, as Pacific Cabinets. The case dealt with alleged construction defects. Pacific Cabinets was dismissed from the litigation for a waiver of fees and costs. At this time, neither we nor Pacific Cabinets are parties to this action. Because no significant discovery was done, it is not possible at this time to provide an evaluation of potential exposure, though it appears highly unlikely that Pacific Cabinets or we would be brought back into this suit.

On April 2, 2004, we filed a federal court action in the Southern District of California against 5R Online, Inc., John Frabasile, Randy Pagnotta, our former officers, 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 and upon reliance of the representations of the individual defendants that product development was progressing, we paid and expensed \$640,000 in development payments in the fiscal year ended March 31, 2004 but received no product. The amount in controversy is the \$640,000 development payments as well as a claim for punitive damages. Defendants Pagnotta and Buckley have counterclaimed against defendant Frabasile, who has moved to dismiss in light of a parallel action pending in Canada. Frabasile's and 5R Online, Inc.'s response to IPI's complaint was due on August 9, 2004. Settlement negotiations are currently underway.

20

RTI was named as a cross-defendant in an action by General Electric Capital Corporation as plaintiff ("GE Capital"), against San Francisco City Stores LLC, dated May 10, 2004. The cross-complaint filed on behalf of San Francisco City Stores names GE Capital, Big Hairy Dog Information Systems, and RTI as cross-defendants, claiming breach of warranty and unfair competition (against RTI), and makes various other claims against GE Capital and Big Hairy Dog Information Systems. The claim is for approximately \$83,000. However, we believe the claims made against RTI are without merit and we intend to vigorously defend them.

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.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

NOTE 16 - RELATED-PARTY TRANSACTIONS

Included in other receivables at September 30, 2004 and March 31, 2004 are amounts due from our officers and employees in the amount of \$14,000 and \$37,000, respectively.

In connection with the Page Digital acquisition, we assumed a three-party lease agreement for our Colorado offices between CAH Investments, LLC ("CAH"), wholly owned by the spouse of one of our former executive officers, Larry Page, and Southfield Crestone, LLC, whereby Page Digital agreed to lease offices for ten years expiring on December 31, 2013. CAH and Southfield Crestone LLC are equal owners of the leased property. Rent expense related to this lease is \$200,000 and \$0 for the three months ended September 30, 2004 and 2003, respectively, and \$400,000 and \$0 for the six months ended September 30, 2004 and 2003, respectively. A security deposit of \$170,000 relating to this lease is included in other long-term assets at September 30, 2004 and March 31, 2004.

We retained our former CEO and Chairman of the Board, Barry Schechter, to provide consulting services starting August 2003. For three months ended September 30, 2004 and 2003, the expense for this service was \$108,000 and \$0, respectively. For the six months ended September 30, 2004 and 2003, the expense for this service was \$219,000 and \$108,000, respectively.

In fiscal 2004, we retained an entity owned by an immediate family member of our former CEO and Chairman, Harvey Braun, to provide recruiting and marketing services. For the three months ended September 30, 2004 and 2003, the expense for this service was \$0 and \$98,000, respectively. For the six months ended September 30, 2004 and 2003, the expense for this service was \$0 and \$108,000, respectively.

In May 2004, Mr. Braun resigned from his position as Chief Executive Officer. Subsequent to September 30, 2004, we entered into a severance and separation agreement with Mr. Braun. Pursuant to this agreement, we agreed to pay Mr. Braun a total of \$192,000 with \$96,000 payable on October 28, 2004 and the remaining \$96,000 payable on November 28, 2004. In addition, Mr. Braun agreed to forfeit an option for 500,000 shares. We accrued a severance payment of \$192,000 in the six months ended September 30, 2004 and included in accrued expenses at September 30, 2004. As of November 10, 2004, the outstanding balance is \$192,000.

Effective as of July 14, 2004, Steven Beck resigned from our board of directors and effective July 29, 2004, Mr. Beck resigned from his position as executive officer. On July 29, 2004, we entered into an agreement to pay Mr. Beck \$325,000, including \$30,000 of vacation accrual balance, with \$109,000 payable on July 29, 2004 and the balance payable in four monthly installments of \$54,000 commencing on August 15, 2004. We accrued a restructuring charge of \$295,000 in the three and six months ended September 30, 2004. As of November 10, 2004, the outstanding balance is \$54,000.

NOTE 17 - SUBSEQUENT EVENTS

On October 25, 2004, we determined that our financial statements for the fiscal year ended March 31, 2004 and our quarterly financial statements for the second and third quarters of the fiscal year ending March 31, 2003, the first, second and third quarters of the fiscal year ending March 31, 2004 and the first quarter of the fiscal year ending March 31, 2005 needed to be restated in accordance with GAAP. In connection with the restatements, we filed an 8-k on

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

October 29, 2004.

We completed the restatements and made the following revised filings: 10-K/A for the fiscal year ended March 31, 2004; and a 10-Q/A for fiscal quarters ended September 30, 2002, December 31, 2002, June 30, 2003, September 30, 2003, December 31, 2003 and June 30, 2004. We do not intend to file a revised 10K for the year ended March 31, 2003 due to the immateriality of the impact of the restatements in that filing.

We determined that prior presentation of the financial statements as discussed above needed to be restated for the following items, where applicable:

1. Reversal of revenue recognized on a one-time sale of software technology rights;
2. Presentation of net sales and cost of sales as product and services revenues and corresponding costs of revenues;
3. Reversal of a purchase of software technology;
4. Accrual of a royalty liability pursuant to the purchase agreement of software technology;
5. Capitalization and amortization of the beneficial conversion charges related to the March '03 and March '04 convertible debentures;
6. Capitalization of legal fees related to the acquisition of Page Digital Incorporated and Retail Technologies International, Inc.,
7. Reclassification of the unamortized cost of debt discount and beneficial conversion charges from additional paid in capital to interest expense, and
8. Inclusion of the value of options assumed in the acquisition of RTI as a purchase price adjustment.

22

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

FORWARD-LOOKING STATEMENTS

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

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES AND OTHER FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS FORM 10-Q/A. READERS ARE ALSO URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY US WHICH ATTEMPT TO ADVISE INTERESTED PARTIES OF THE FACTORS WHICH AFFECT OUR BUSINESS, INCLUDING WITHOUT LIMITATION THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED IN OUR ANNUAL REPORT FILED ON FORM 10-K/A FOR THE YEAR ENDED MARCH 31, 2004, AND THE DISCLOSURES UNDER THE HEADING "RISK FACTORS" IN THE FORM 10-K/A, AS WELL AS OTHER REPORTS AND FILINGS MADE WITH THE SECURITIES AND EXCHANGE COMMISSION.

OVERVIEW

We are a provider of software solutions and services to the retail industry. We provide solutions that help retailers understand, create, manage and fulfill consumer demand. We derive the majority of our revenues from three sources: the initial sale of application software licenses, or license revenues, professional services and support, and maintenance. 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, 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.

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 operations, including:

- o Acquired two complementary companies with substantial revenues and earnings potential;
- o Revamped our management team by adding a new President and COO and CTO, as well as a new CFO;

23

- o Implemented cost containment measures;
- o Improved our IBM-based core products through continuing internal

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

- research and development;
- o 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 are currently offering;
- o Established collaborations 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 will position us to achieve revenue growth and profitability.

RECENT DEVELOPMENTS

- o In June 2004, we completed the acquisition of RTI. See "Acquisition of RTI" below.
- o 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 Chief Technology Officer, was appointed our CTO. Mr. Tomczak replaced Steve Beck, who was serving as our president and Mr. Page, who was serving as our COO. Mr. Boone replaced Mr. Page as our 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.
- o Mr. Beck resigned from the board of directors and the position of executive officer in July 2004. Donald Radcliffe, who previously served as our director from May 1998 to October 2003, was appointed to replace Mr. Beck as a director.
- o Mr. Page resigned from the position of executive officer in September 2004.
- o In July, we sold and issued a secured convertible note for a gross proceed of \$7.0 million. See "Indebtedness - Laurus" below.
- o In November 2004, we completed the restatements and made the following revised filings: 10-K/A for the fiscal year ended March 31, 2004 and 10-Q/A for the fiscal quarter ended September 30, 2002, December 31, 2002, June 30, 2003, September 30, 2003, December 31, 2003 and June 30, 2004.

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 with fair value of \$5.7 million,

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

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; and (iv) the Merger consisted of two steps, first, Merger Sub merged with and into RTI, Merger Sub's separate corporate existence ceased and RTI continued as the surviving corporation, 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.

24

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 occurred when we filed the Certificate of Amendment with the Delaware Secretary of State increasing the authorized number of shares of our common stock. 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.

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 and RTI, 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.

RECENT ACCOUNTING PRONOUNCEMENTS

None.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

QUARTER ENDED SEPTEMBER 30, 2004 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2003

REVENUES

Product revenues increased \$3.1 million, or 172%, to \$4.9 million in the quarter ended September 30, 2004 from \$1.8 million in the quarter ended September 30, 2003, primarily due to the inclusion, in the quarter ended September 30, 2004, of \$2.4 million and \$0.9 million of product revenues for RTI and Page Digital, respectively. Excluding RTI and Page Digital product revenues, product revenues decreased \$0.2 million to \$1.6 million, a 11% decrease, primarily due to a \$0.2 million decrease in sale of partner products as we focused on selling our core products. Services revenues increased by \$0.8 million, or 84% to \$1.8 million in the quarter ended September 30, 2004 from \$1.0 million in the quarter ended September 30, 2003 primarily due to the inclusion of \$0.8 million and \$0.1 million of services revenue for Page Digital and RTI, respectively. Excluding Page Digital and RTI services revenues, services revenues decreased \$0.1 million to \$0.9 million, an 10% decrease. Toys accounted for \$0 and \$0.2 million of services in the quarter ended September 30, 2004 and September 30, 2003, respectively. Total revenues increased \$3.9 million, or 139%, to \$6.7 million in the quarter ended September 30, 2004 from \$2.8 million in the quarter ended September 30, 2003, due primarily to the inclusion of \$2.5 million and \$1.7 million of RTI and Page Digital revenues recognized in the quarter ended September 30, 2004. Excluding Page Digital and RTI, total revenues decreased \$0.3 million to \$2.5 million, a 11% decrease, primarily due to the decrease in sale of partner products and the inclusion, in the prior year quarter, of TRU services revenue.

25

COST OF REVENUES/GROSS PROFIT

Cost of revenues increased by \$1.4 million, or 82%, to \$3.1 million in the quarter ended September 30, 2004 from \$1.7 million in the quarter ended September 30, 2003. Cost of product revenues increased \$0.9 million, or 75%, to \$2.1 million in the quarter ended September 30, 2004 from \$1.2 million in the quarter ended September 30, 2003. Amortization of capitalized software included in cost of product revenues increased to \$0.9 million in the quarter ended September 30, 2004 from \$0.6 million in the quarter ended September 30, 2003. Cost of services revenue increased \$0.5 million, or 100%, to \$1.0 million in the quarter ended September 30, 2004 from \$0.5 million in the quarter ended September 30, 2003. Total gross profit increased \$2.5 million, or 227%, to \$3.6 million in the quarter ended September 30, 2004 from \$1.1 million in the quarter ended September 30, 2003, primarily due to the inclusion of \$2.1 million and \$0.6 million of total gross profit from RTI and Page Digital in the quarter ended September 30, 2004. Excluding RTI and Page Digital, gross profit decreased \$0.2 million to \$0.9 million, a 18% decrease. Total gross profit margin was 54% and 39% for the quarter ended September 30, 2004 and September 30, 2003, respectively. Excluding Page Digital and RTI, gross profit margin decreased to 36%. Gross profit margin on products was 57% and 33% for the quarters ended September 30, 2004 and September 30, 2003, respectively. The increase is due to the inclusion of Page Digital and RTI product revenues which carry higher profit margins. Excluding Page Digital and RTI, gross profit margin on products decreased to 22%, due primarily to a \$0.2 million decrease in product revenues and a \$0.2 million increase in amortization of capitalized software. Gross profit margin on services was 44% and 50% for the quarters ended September 30, 2004 and September 30, 2003, respectively. Excluding Page Digital and RTI, gross profit margin increased to 62% as the percentage of modification revenues, which carry higher margins than typical services, as a percentage of total services

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

revenue increased in the quarter ended September 30, 2004 from the quarter ended September 30, 2003.

APPLICATION DEVELOPMENT EXPENSE

Application development expense increased by \$1.2 million, or 200%, to \$1.8 million in the quarter ended September 30, 2004 from \$0.6 million in the quarter ended September 30, 2003. The increase is primarily due to the inclusion of \$0.4 million of application development expenses from Page Digital and RTI in the quarter ended September 30, 2004 and larger capitalization in the six months ended September 30, 2003.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased to \$0.5 million in the quarter ended September 30, 2004 from \$0.3 million in the quarter ended September 30, 2003, primarily due to the inclusion of Page Digital and RTI.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by \$1.0 million, or 33%, to \$4.0 million in the quarter ended September 30, 2004 from \$3.0 million in the quarter ended September 30, 2003, primarily due to the inclusion of \$2.3 million of SG&A expenses from Page Digital and RTI that are included in the quarter ended September 30, 2004. Excluding Page Digital and RTI, SG&A expenses decreased to \$1.7 million, a 43% decrease, primarily due to reduction in personnel and a focus on cost containment. SG&A expenses as a percent of sales decreased to 57% in the quarter ended September 30, 2004 from 108% in the quarter ended September 30, 2003. We anticipate that SG&A as a percentage of sales will continue to decrease in the future as we anticipate revenues increasing in the future at a faster rate than the growth in SG&A.

RESTRUCTURING EXPENSES

Restructuring expenses were \$0.7 million and \$0 in the three months ended September 30, 2004 and September 30, 2003, respectively. During the quarter ended September 30, 2004, we began a cost reduction program. This program was not contemplated as part of the acquisition of Page Digital or RTI, but rather was implemented in the quarter ended September 30, 2004 after we analyzed our cost structure and determined that we needed to more properly align our operating expense with our current revenue levels. The restructuring expenses are a result of our cost containment measures across all business units and relate to one-time termination costs consisting of severance payments and benefits related to workforce reduction of nine full time employees. All employees impacted by this restructuring were notified of the plan of termination and the related benefits on or before September 30, 2004. As of September 30, 2004, \$0.3 million has been paid with the balance to be paid through the fourth quarter of 2006.

OPERATING LOSS

Operating loss which included depreciation and amortization expense, was \$3.4 million for the quarter ended September 30, 2004, compared to an operating loss of \$2.7 million for the quarter ended September 30, 2003, as the \$2.5 million increase in gross profit, due primarily to the increase in sales, was more than offset by the \$3.1 million increase in total expenses.

INTEREST EXPENSE

Interest expense increased by \$0.1 million, or 7%, to \$1.6 million in the quarter ended September 30, 2004 from \$1.5 million in the quarter ended September 30, 2003. Interest expense in the quarter ended September 30, 2004 was

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

comprised primarily of \$1.2 million financing costs and amortization of debt discount on the Laurus Note, as well as \$0.2 million interest expense on the Laurus Note, the March '04 convertible debentures and notes due to the former RTI note holders. Interest expense in the quarter ended September 30, 2003 was comprised primarily of \$1.4 million amortization of debt discount on the March '04 convertible debentures.

26

PROVISION FOR INCOME TAXES

Provision for income taxes for the quarters ended September 30, 2004 and 2003 are \$6,000 and \$67,000, respectively.

CUMULATIVE PREFERRED DIVIDENDS

Cumulative dividends on the outstanding Series A Preferred attributable to the quarter ended September 30, 2004 and September 30, 2003 were \$0.3 million.

SIX MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO SIX MONTHS ENDED SEPTEMBER 30, 2003

REVENUES

Product revenues increased \$4.4 million, or 88%, to \$9.4 million in the six months ended September 30, 2004 from \$5.0 million in the six months ended September 30, 2003, primarily due to the inclusion, in the six months ended September 30, 2004, of \$3.0 million and \$1.6 million of product revenues for RTI and Page Digital, respectively. Excluding RTI and Page Digital product revenues, product revenues decreased \$0.2 million to \$4.8 million, a 4% decrease. Services revenues decreased by \$0.6 million, or 19% to \$2.6 million in the six months ended September 30, 2004 from \$3.2 million in the six months ended September 30, 2003 primarily due to a decrease to \$1.5 million from Toys R Us., Inc. "(Toys)", a \$0.5 million decrease in services revenues, offset by the inclusion of \$1.3mm of Page Digital and RTI services revenues. 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 increased \$3.8 million, or 46%, to \$12.0 million in the six months ended September 30, 2004 from \$8.2 million in the six months ended September 30, 2003, due primarily to the inclusion of \$3.2 million and \$2.8 million of RTI and Page Digital revenues recognized in the six months ended September 30, 2004, offset by a decrease of \$1.5 million for Toys. Excluding Page Digital and RTI, total revenues decreased \$2.2 million to \$6.0 million, a 27% decrease.

COST OF REVENUES/GROSS PROFIT

Cost of revenues increased by \$1.9 million, or 49%, to \$5.8 million in the six months ended September 30, 2004 from \$3.9 million in the six months ended September 30, 2003. Cost of product revenues increased \$2.0 million, or 83%, to \$4.4 million in the six months ended September 30, 2004 from \$2.4 million in the six months ended September 30, 2003. Amortization of capitalized software included in cost of product revenues increased to \$1.8 million in the six months ended September 30, 2004 from \$1.2 million in the six months ended September 30, 2003. Cost of services revenue decreased \$0.1 million, or 7%, to \$1.4 million in the six months ended September 30, 2004 from \$1.5 million in the six months ended September 30, 2003. Total gross profit increased \$1.9 million, or 44%, to

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

\$6.2 million in the six months ended September 30, 2004 from \$4.3 million in the six months ended September 30, 2003, primarily due to the inclusion of \$2.6 million and \$1.0 million of total gross profit from RTI and Page Digital in the six months ended September 30, 2004. Excluding RTI and Page Digital, gross profit decreased \$1.8 million to \$2.6 million, a 40% decrease. Total gross profit margin remained at 52% for the six months ended September 30, 2004 and September 30, 2003. Excluding Page Digital and RTI, gross profit margin decreased to 44%. Gross profit margin on products was 53% and 52% for the six months ended September 30, 2004 and September 30, 2003, respectively. The increase is due to the inclusion of Page Digital and RTI product revenues which carry higher profit margins. Excluding Page Digital and RTI, gross profit margin on products decreased to 40%, due primarily to a \$0.2 million decrease in product revenues and a \$0.3 million increase in amortization of capitalized software. Gross profit margin on services was 46% and 53% for the six months ended September 30, 2004 and September 30, 2003, respectively. Excluding Page Digital and RTI, gross profit margin decreased to 44%, primarily due to lower product revenues, which carry higher margins and the inclusion of an additional \$0.6 million of amortization of capitalized software costs.

APPLICATION DEVELOPMENT EXPENSE

Application development expense increased by \$2.3 million, or 329%, to \$3.0 million in the six months ended September 30, 2004 from \$0.7 million in the six months ended September 30, 2003. The increase is primarily related to the capitalization of \$2.2 million development for new products in the six months ended September 30, 2003.

27

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased \$0.3 million, or 50%, to \$0.9 million in the six months ended September 30, 2004 from \$0.6 million in the six months ended September 30, 2003, primarily due to an increase of \$0.5 million from Page Digital and RTI for the six months ended September 30, 2004, offset by \$0.1 million of decrease in amortization of a fully amortized asset.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses increased by \$2.5 million, or 43%, to \$8.3 million in the six months ended September 30, 2004 from \$5.8 million in the six months ended September 30, 2003, primarily due to the inclusion of \$3.4 million of SG&A expenses from Page Digital and RTI that are included in the six months ended September 30, 2004. Excluding Page Digital and RTI, SG&A expenses decreased to \$4.9 million, a 16% decrease, primarily due to reduction in personnel and a focus on cost containment. SG&A expenses as a percent of sales decreased to 69% in the six months ended September 30, 2004 from 71% in the six months ended September 30, 2003. We anticipate that SG&A as a percentage of sales will continue to decrease in the future as we anticipate revenues increasing in the future at a faster rate than the growth in SG&A.

RESTRUCTURING EXPENSES

Restructuring expenses were \$0.7 million and \$0 in the six months ended September 30, 2004 and September 30, 2003, respectively. During the quarter ended September 30, 2004, we began a cost reduction program. This program was not contemplated as part of the acquisition of Page Digital or RTI, but rather was implemented in the quarter ended September 30, 2004 after we analyzed our cost structure and determined that we needed to more properly align our

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

operating expense with our current revenue levels. The restructuring expenses are a result of our cost containment measures across all business units and relate to one-time termination costs consisting of severance payments and benefits related to workforce reduction of nine full time employees. All employees impacted by this restructuring were notified of the plan of termination and the related benefits on or before September 30, 2004. As of September 30, 2004, \$0.3 million has been paid with the balance to be paid through the fourth quarter of 2006.

OPERATING LOSS

Operating loss, which included depreciation and amortization expense, was \$6.8 million for the six months ended September 30, 2004, compared to an operating loss of \$2.7 million for the six months ended September 30, 2003, as the \$1.9 million increase in gross profit, due primarily to the increase in sales, was more than offset by the \$5.9 million increase in total expenses.

INTEREST EXPENSE

Interest expense increased by \$0.1 million, or 6%, to \$1.9 million in the six months ended September 30, 2004 from \$1.8 million in the six months ended September 30, 2003. Interest expense in the six months ended September 30, 2004 was comprised primarily of \$1.6 million financing costs and amortization of debt discount on the Laurus Note and the March '04 convertible debentures, as well as \$0.3 million interest expense on the Laurus Note, the March '04 convertible debentures and notes due to the former RTI note holders. Interest expense in the six months ended September 30, 2003 was comprised primarily of \$1.6 million amortization and \$0.1 million of debt discount and interest expense, respectively, on the March '04 convertible debentures.

PROVISION FOR INCOME TAXES

Provision for income tax was \$6,000 for the six months ended September 30, 2004. In the six months ended September 30, 2003, the provision for income taxes represents \$0.6 million income tax refund and \$0.1 million provision for state income taxes. The income tax refund of \$0.6 million at September 30, 2003 results from amending prior years' income tax returns to carry back net operating losses incurred in the past two years.

CUMULATIVE PREFERRED DIVIDENDS

Cumulative dividends on the outstanding Series A Preferred attributable to the six months ended September 30, 2004 and September 30, 2003 were \$0.6 million.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

During the six months ended September 30, 2004, we financed our operations using cash on hand and proceeds from the sale of convertible debt. At September 30, 2004 and March 31, 2004, we had cash of \$1.0 million and \$2.1 million, respectively.

Operating activities used cash of \$5.2 million in the six months ended September 30, 2004 and \$5.6 million in the six months ended September 30, 2003. Cash used for operating activities in the six months ended September 30, 2004 resulted from \$8.6 million net loss and \$1.8 million decrease in accounts payable and

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

accrued expenses which were offset in part by \$2.7 million of non-cash depreciation and amortization, \$1.6 million increase in accounts and other receivables and \$0.7 million amortization of debt discount and conversion option.

Investing activities provided cash of \$0.2 million in the six months ended September 30, 2004 and used cash of \$2.5 million in the six months ended September 30, 2003. Cash provided by investing activities in the six months ended September 30, 2004 resulted primarily from \$0.6 million proceeds from the acquisition of RTI, offset by \$0.4 million of capitalized software development costs. Cash used by investing activities in the six months ended September 30, 2003 resulted primarily from \$2.2 million of capitalized software development costs and \$0.3 million purchase of furniture and equipment.

Financing activities provided cash of \$3.8 million and \$7.8 million in the six months ended September 30, 2004 and 2003, respectively. Cash provided by financing activities in the six months ended September 30, 2004 resulted primarily from the proceeds of a \$7.0 million note payable, offset by \$2.8 million payment on convertible debentures. Cash provided by financing activities in the six months ended September 30, 2003 resulted primarily from net proceeds of \$7.2 million from the sale of common stock and \$0.7 million from the issuance of convertible debentures.

Accounts receivable increased to \$4.8 million at September 30, 2004 from \$4.6 million at March 31, 2004. The increase is primarily to the inclusion of RTI accounts receivable at March 31, 2004, offset by decrease in unbilled accounts receivable.

We believe that our cash and cash equivalent and funds generated from operations will provide adequate liquidity to meet our normal operating requirements for at least the next twelve months. Our future capital requirements depend on many factors, including our application development, sales and marketing activities. In addition, we have incurred losses for the last three fiscal years and we had a negative working capital at September 30, 2004. In the next twelve months, we anticipate raising additional capital through public or private equity or debt financings. In the long-term, we anticipate that cash from operations will be sufficient to provide liquidity for our normal operating requirements. As such, we do not know whether additional financing will be available when needed, or available on terms acceptable to us. We may raise capital through public or private equity or debt financings. If we are unable to raise the needed funds, we may be forced to curtail some or all of our activities and we may not be able to grow.

INDEBTEDNESS

NATIONAL AUSTRALIA BANK LIMITED

We decided in the third quarter of fiscal 2002 to sell certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. The sale 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 actively pursued the collection of receivables. If the sale proceeds plus collections on receivables were insufficient to discharge the indebtedness to National Australia Bank, we might be called upon to pay the deficiency under our guarantee to the bank. We accrued \$187,000 as the maximum amount of our potential exposure as of March 31, 2004. In June 2004, we settled this obligation by paying \$69,000 to the bank. As a result, the \$118,000 accrual in

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

excess of settlement amount was written off to the consolidated statement of operations as other income in the six months ended September 30, 2004.

OMICRON/MIDSUMMER

In March 2004, we entered into a Securities Purchase Agreement for the sale of 9% convertible debentures (the "March '04 Debentures") to Omicron for gross proceeds of \$1.75 million ("Omicron Debenture") and Midsummer for gross proceeds of \$1.25 million ("Midsummer Debenture"). With proceeds from the sale of a secured convertible term note to Laurus in July 2004 for \$7.0 million, the Omicron Debenture with the principal balance of \$1.75 million was paid off in full together with \$0.1 million in accrued interest, liquidated damages and prepayment penalty. We also amended the Midsummer Debenture pursuant to Amendment No. 1 to the 9% Convertible Debenture, Due May 15, 2006 Issued to Midsummer and Waiver dated July 30, 2004 as partial consideration for Midsummer consenting to the transaction with Laurus and issued 600,000 shares of common stock which we valued at \$240,000 to Midsummer as payment liquidated damages and as consideration for Midsummer consenting to the sale of the \$7.0 million note to Laurus.

29

The amended Midsummer Debenture matures in May 2006 and bears an interest rate of 9% per annum. Interest only payments, payable, at our option, in cash or shares of common stock, are payable on a monthly basis. The amended Midsummer Debenture is convertible into shares of our common stock at a conversion price of \$0.56 per share, subject to adjustment if we offer or sell any securities for an effective per share price that is less than 87% of the then current conversion price, negatively restate any of our financial statement or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections. If certain conditions are met, we have the option to redeem the amended Midsummer Debenture at 100% of its face value, plus accrued but unpaid interest. Triggering events have occurred and we are currently in discussions with Midsummer concerning an adjustment of current conversion price.

We must redeem the amended Midsummer Debenture at the initial monthly amount of \$50,000 commencing on September 1, 2004 which increases to \$62,500 as of February 1, 2005. If the daily volume weighted average price of our common stock on the American Stock Exchange exceeds the then current conversion price by more than 200% for 15 consecutive trading days, we have the option to cause Midsummer to convert the then outstanding principal amount of amended Midsummer Debenture into our common stock at the conversion price then in effect.

We also issued Omicron and Midsummer (the "Purchasers") two warrants as follows: (1) Series A Warrants to purchase up to an aggregate of 1,043,479 shares of our common stock at an exercise price of \$1.15 per share, which was reduced to \$0.56 per share as a result of the transaction with Laurus, with a five-year term, exercisable at anytime after September 16, 2004, subject to adjustment if the we offer or sell any securities for an effective per share price that is less than the then current exercise price, negatively restate any of our financial statements or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections and (2) Series B Warrants to purchase up to 8,500,000 shares of our common stock with an exercise price of \$5 per share, these warrants are immediately exercisable and expire on the earlier of the six-month anniversary of the effective date of the registration statement that is required to be filed or 18 months from March 15,

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

2004, subject to adjustment upon the issuance or sale of securities in a public offering for an effective per share price that is less than the then-current exercise price and upon the trigger of other customary anti-dilution protections.

For a period of one hundred eighty (180) days following the date the registration statement is declared effective ("Effective Date"), each Purchaser has the right, in its sole discretion, to elect to purchase such Purchaser's pro rata portion of additional Debentures and Series A Warrants for an aggregate purchase price of up to \$2,000,000 in a second closing (the "Second Closing"). The terms of the Second Closing shall be identical to the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional debentures and the exercise price for the additional warrants shall be equal to 115% of the average of the daily volume weighted average price of our common stock on the American Stock Exchange for the ten (10) days preceding the Second Closing ("Second Closing Price"). The Series A Warrant coverage for the Second Closing shall be 40% of each Purchaser's subscription amount divided by the Second Closing Price.

For a period of one hundred eighty (180) days following the Effective Date, if the daily volume weighted average price of our common stock for twenty (20) consecutive trading days exceeds \$2.00, subject to adjustment, we may, on one occasion, in our sole determination, require the Purchasers to purchase each such Purchaser's pro rata portion of additional debentures and Series A Warrants for an aggregate purchase price of up to \$2,000,000. Any such additional investment shall be under the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional Debentures and the exercise price for the additional warrants shall be equal to the then current conversion price and warrant exercise price for the 9% Debentures and warrants purchased on March 15, 2004.

For a period of six (6) months from the Effective Date, the Purchasers have a right of first refusal to participate in certain future financings by us involving the sale of our common stock or equivalent securities. The Purchasers were also granted registration rights under a Registration Rights Agreement dated March 15, 2004, pursuant to which we were required to file a registration statement respecting the common stock issuable upon the conversion of the debentures and exercise of the warrants within thirty (30) days after March 15, 2004, and to use best efforts to have the registration statement declared effective at the earliest date. If a registration statement was not filed within such thirty (30) day period or declared effective within such ninety (90) day period (or within one hundred twenty (120) days in the event of a full review by the SEC), we became obligated to pay liquidated damages to the Purchasers equal to 2% per month of each such Purchasers' subscription amount under the Purchase Agreement plus the value of any warrants issued pursuant to the Purchase Agreement then held by such Purchaser. The registration statement was not filed as of July 31, 2004; therefore, liquidated damages in the amount of \$201,000 in liquidated damages have been recorded and paid in full in July 2004.

30

In accordance with generally accepted accounting principles, the difference between the original conversion price of \$1.32 and our stock price of the date of issuance of the Omicron Debenture amounted to \$155,000 and was being amortized over the term of the debt. A total of \$21,000 had been amortized during the period from the date of issuance to the date the debt was repaid. Upon repayment of the Omicron Debenture, the remaining balance of \$134,000 was expensed.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

The difference between the original conversion price of \$1.32 and our stock price of the date of issuance of the Midsummer Debenture amounted to \$110,000 and is being amortized over the term of the debt. A total of \$28,000 had been amortized during the period from the date of issuance through September 30, 2004.

We allocated the proceeds received from convertible debt with detachable warrants using the relative fair market value of the individual elements at the time of issuance and amortize the change over the term of the debt. The amount allocated to the warrants issued to Omicron was \$420,000. A total of \$57,000 had been amortized during the period from the issuance to the date the note was repaid. Upon repayment of the Omicron Debenture, the remaining balance of \$363,000 was expensed. The amount allocated to the warrants issued to Midsummer was \$300,000. A total of \$75,000 had been amortized during the period from the date of issuance through September 30, 2004.

The outstanding balance of Midsummer Debenture, including accrued interest, is \$1.2 million at October 31, 2004.

INTUIT

In connection with the RTI acquisition in June 2004, we issued a promissory note to Intuit for \$0.5 million ("Intuit Note"). The Intuit Note is due on June 1, 2006 and payable in monthly installments of \$4,000 from June 1, 2004 through December 1, 2004, increasing to \$30,000 from January 1, 2005. The Intuit Note earns interest at a rate of 6.5% per annum. The balance of the Intuit Note including accrued interest is \$0.5 million at October 31, 2004.

RTI NOTEHOLDERS

In connection with the RTI acquisition in June 2004, we assumed RTI's obligations on notes payable totaling \$1.8 million and issued additional \$0.5 million to the holders of these notes. These notes are secured by common stock of our subsidiary IP Retail Technology International, Inc., formerly known as IPI Merger Sub II, Inc. ("IP RTI"). The notes are due on May 31, 2005 and payable in monthly installments in aggregate of \$197,000 commencing May 31, 2004. These notes earn interest at a rate of 6.5% per annum. The balance of these notes, including accrued interest, is \$1.4 million at October 31, 2004.

TOMCZAK/BOONE

In connection with the RTI acquisition in June 2004, we issued promissory notes to RTI's two principals, Michael Tomczak and Jeffrey Boone, totaling \$2.6 million ("Officers Notes"). The Officers Notes are due on June 1, 2006 and payable in monthly installments in aggregate of \$20,000 from June 1, 2004 through May 1, 2005, increasing to \$200,000 from June 1, 2005. The Officers Notes earn interest at a rate of 6.5% per annum. The balance of the Officers Notes is \$2.5 million at October 31, 2004.

LAURUS

Pursuant to a Securities Purchase Agreement dated July 12, 2004, we sold and issued to Laurus a secured convertible term note ("Laurus Note") for gross proceeds of \$7.0 million. In addition, we issued to Laurus a warrant to purchase up to 3,750,000 shares of our common stock at a price of \$0.71 per share ("Laurus Warrant"). Our obligations under the Laurus Note are secured by all of our assets. All our wholly owned subsidiaries guaranteed our obligations under the Laurus Note. We also pledged all of our interests in the outstanding stock of our subsidiaries as security for our obligations under the Laurus Note.

The Laurus Note would have originally matured on September 1, 2004; however, the maturity of the Laurus Note was automatically extended to July 12, 2007

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

("Maturity Date") upon the filing of an amendment to our Certificate of Incorporation to effect the increase with the Secretary of State of Delaware on August 31, 2004.

We would have been obligated to make monthly payments of \$212,000 commencing August 1, 2004. In August 2004, Laurus agreed to defer the August 1, 2004 payment until the Maturity Date.

In October 2004, Laurus agreed to amend the Laurus Note and defer the payments due in September 2004 through February 2005 until the Maturity Date. Pursuant to the amendment, we are required to make monthly payments in the amount of \$212,121 commencing on March 1, 2005 with a balloon payment of \$1.1 million in July 2007. We also issued Laurus a warrant to purchase 250,000 shares of our common stock at a price of \$0.41 per share ("October '04 Laurus Warrant").

31

The Laurus Note accrues interest at a rate per annum (the "Interest Rate") equal to the "prime rate" (4.75% as of October 31, 2004) published in The Wall Street Journal from time to time, plus two percent. Interest under the Laurus Note is payable monthly in arrears commencing on August 1, 2004. The Interest Rate is calculated on the last day of each month (the "Determination Date") and is subject to adjustment as follows: (1) if the shares issuable upon conversion of the Laurus Note or exercise of the Laurus Warrant have been registered with the U.S. Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Securities Act") and the market price of our common stock for the five trading days immediately preceding the Determination Date exceeds the then applicable conversion price for the Laurus Note by at least 25%, then the Interest Rate for the succeeding calendar month shall be reduced by 2% for each incremental 25% increase over the then applicable conversion price or (2) if all of the conditions set forth in subparagraph (1) have been satisfied, except that the shares issuable upon conversion of the Laurus Note or exercise of Laurus Warrant have not been registered, then the Interest Rate for the succeeding calendar month shall be reduced by 1% for each incremental 25% increase over the then applicable conversion price. The initial conversion price under the Laurus Note is \$0.56 per share, subject to adjustment upon our issuance of securities at a price per share below the fixed conversion price, a stock split or combination, declaration of a dividend on our common stock or reclassification of our common stock. We have the option to redeem the Laurus Note by paying Laurus 125% of the principal amount due under the Laurus Note together with all accrued and unpaid interest. Pursuant to the Amendment No.1 to the Laurus Note, the conversion price for \$2.0 million of the \$7.0 million Laurus Note was reduced to \$0.37 per share.

The Laurus Warrant and the October '04 Laurus Warrant (collectively "Laurus Warrants") are immediately exercisable and has a seven year term. We have the right to require exercise of the Laurus Warrants in whole or in part if: (1) all of our obligations under the Laurus Note have been irrevocably paid in full, (2) the common stock underlying the Laurus Warrants has been registered on a registration statement declared effective by the SEC, and such registration statement remains effective, and (3) the average closing price of our common stock for the ten (10) trading days immediately prior to the proposed date of the mandatory exercise of the Laurus Warrants is greater than three hundred percent (300%) of the then applicable exercise price.

We were obligated to file a registration statement on Form S-3 (or if Form S-3 is not available another appropriate form) (the "Registration Statement") registering the shares of our common stock issuable upon conversion of the Laurus Note or exercise of the Laurus Warrants (the "Underlying Shares")

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

pursuant to the Registration Rights Agreement between us and Laurus (the "Registration Rights Agreement"). We filed the Registration Statement on September 10, 2004 (the "Filing Date") and are required to have the Registration Statement declared effective by the SEC no later than 120 days after it is filed (the "Effectiveness Date"). If the Registration Statement is not declared effective by the Effectiveness Date, ceases to be effective for more than 30 days in any calendar year or 10 consecutive calendar days or if our common stock is not listed or traded or is suspended from trading for three consecutive trading days, we are required to pay Laurus liquidated damages equal to 2% of original principal balance on the Laurus Note for each 30 day period (with partial periods prorated) that such event continues. We are obligated to keep the Registration Statement effective until the earlier of when (1) all of the Underlying Shares have been sold or (2) such time as all of the Underlying Shares can be sold without registration or volume restrictions under Rule 144(k) of the Securities Act (the "Effectiveness Period"). If there is not an effective Registration Statement covering the Underlying Shares at any time during the Effectiveness Period and we propose to file a registration statement for our own account or the account of others, we will be obligated to include the Underlying Shares on that registration statement.

In accordance with generally accepted accounting principles, the difference between the conversion price of \$0.56 and our stock price on the date of issuance of the Laurus Note amounted to \$281,000 and is being amortized over the term of the debt. A total of \$20,000 had been amortized during the period from the date of issuance through September 30, 2004.

We also allocated the proceeds received from the Laurus Note with detachable warrant using the relative fair market value of the individual elements at the time of issuance. The amount allocated to the Laurus Warrant was \$531,000 and is being amortized over the term of the Laurus Note. A total of \$36,000 had been amortized during the period from the date of issuance through September 30, 2004.

In connection with the amendment in October 2004, we will compute the difference between the conversion price of \$0.37 for the first \$2.0 million of the Laurus Note and our stock price on the date of issuance of the Laurus Note and will amortize the difference over the term of the Laurus Note. We will also allocate the proceeds received from the Laurus Note using the relative fair market value of the individual elements at the time of issuance and will amortize the change over the term of the Laurus Note.

32

The balance of the Laurus Note, including accrued interest, is \$7.0 million at July 31, 2004.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations, including purchase commitments at September 30, 2004, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

Contractual Cash Obligations	Total	Payment due by period		3-
		Less than 1	1-3 years	
-----	-----	-----	-----	-----
		year		

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

(in thousands)

Long-term debt obligations	\$ 14,258	\$ 5,942	\$ 8,316	
Capital lease obligations	195	177	18	
Operating leases	10,056	1,877	2,104	\$
Purchase obligations	1,265	1,265	--	
	-----	-----	-----	-----
Total contractual cash obligations	\$ 25,774	\$ 9,261	\$ 10,438	\$
	=====	=====	=====	=====

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

We license software under non-cancelable agreements and provide related services, including consulting, training, customization of software and customer support. We recognize revenue in accordance with Statement of Position 97-2 (SOP 97-2), Software Revenue Recognition, as amended and interpreted by Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition, with respect to certain transactions, as well as Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition", updated by SAB's 103 and 104, "Update of Codification of Staff Accounting Bulletins", and Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants.

Software license revenue, including third party license revenues or partner products, is generally recognized when a license agreement has been signed, the software product has been delivered, there are no uncertainties surrounding product acceptance, the fees are fixed and determinable, and collection is considered probable. If a software license contains an undelivered element, the fair value of the undelivered element is deferred and the revenue recognized once the element is delivered. We can establish vendor specific objective

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

evidence ("VSOE") for all elements and not just undeliverable elements. The undeliverable elements are primarily training, consulting and maintenance services. VSOE of fair value for training and consulting services is based upon hourly rates charges when those services are sold separately. VSOE of fair value for maintenance is the price the customer will be required to pay when it is sold separately (that is the renewal rate). In addition, if a software license contains contingencies, such as specific customer acceptance criteria, right of return or a cancellation right, the software revenue is recognized upon the later of customer acceptance or the expiration of the acceptance period or cancellation right. Typically, payments for our software licenses are due in installments within twelve months from the date of delivery. Where software license agreements call for payment terms of twelve months or more from the date of delivery, revenue is recognized as payments become due and all other conditions for revenue recognition have been satisfied. Deferred revenue consists primarily of prepaid maintenance, support revenues, prepaid services revenue and deferred licenses.

33

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

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

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

- o ACCOUNTS RECEIVABLE. We typically extend credit to our customers. Software licenses are generally due in installments within twelve months from the date of delivery. Billings for customer support and

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

consulting services performed on a time and material basis are due upon receipt. From time to time software and consulting services are provided under fixed price contracts where the revenue is only recognized and the payments are only due upon customer acceptance and the achievement of certain milestones. Management estimates the probability of collection of the receivable balances and provides an allowance for doubtful accounts based upon an evaluation of our customers' ability to pay and general economic conditions.

- o VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL. We do not amortize goodwill, but instead test goodwill for impairment on an annual basis or more frequently if certain events occur. Goodwill is to be measured for impairment by reporting units, which currently consist of our operating segments. At each impairment test for a business unit, we are required to compare the carrying value of the business unit to the fair value of the business unit. If the fair value exceeds the carrying value, goodwill will not be considered impaired. If the fair value is less than the carrying value, we will perform a second test comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The difference, if any, between the carrying amount of that goodwill and the implied fair value will be recognized as an impairment loss, and the carrying amount of the associated goodwill will be reduced to its implied fair value. These tests require us to make estimates and assumptions concerning prices for similar assets and liabilities, if available, or estimates and assumptions for other appropriate valuation techniques.

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

34

- o APPLICATION DEVELOPMENT. The costs to develop new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. Technological Feasibility has occurred when all planning, designing, coding and testing have been completed according to design specifications. Once technological feasibility is established, any additional costs would be capitalized, in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed".
- o STOCK-BASED COMPENSATION. We do not record compensation expense for options granted to our employees as all options granted under our stock option plans have an exercise price equal to the market value of the underlying common stock on the date of grant. In addition, we do not record compensation expense for shares issued under our employee stock purchase plan. As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", we account for costs of stock based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Employees," and accordingly, discloses the pro forma effect on net income (loss) and related per share amounts using the fair-value method defined in SFAS No. 123, updated by SFAS No. 148.

BUSINESS RISKS

INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN OUR FORM 10-K/A FOR THE YEAR ENDED MARCH 31, 2004 AND FORM 10-Q/A FOR THE QUARTER ENDED JUNE 30, 2004. INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THOSE DESCRIBED BELOW, RISKS AND UNCERTAINTIES THAT ARE NOT PRESENTLY KNOWN TO US OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS COULD BE HARMED, THE PRICE OF OUR COMMON STOCK COULD DECLINE AND OUR INVESTORS MAY LOSE ALL OR PART OF THEIR INVESTMENT. SEE THE NOTE REGARDING FORWARD-LOOKING STATEMENTS INCLUDED AT THE BEGINNING OF ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN THIS FORM 10-Q/A.

WE INCURRED LOSSES FOR FISCAL YEARS 2004, 2003 AND 2002.

We incurred losses of \$8.9 million, \$2.7 million and \$14.7 million in the fiscal years ended March 31, 2004, 2003, and 2002 respectively. The losses in the past three years have generally been due to difficulties completing sales for new application software licenses, the resulting change in sales mix toward lower margin services, and debt service expenses. We will need to generate additional revenue to achieve profitability in future periods. If we are unable to achieve profitability, or maintain profitability if achieved, our business and stock price may be adversely effected and we may be unable to continue operations at current levels, if at all.

WE HAD NEGATIVE WORKING CAPITAL AT SEPTEMBER 30, 2004 AND IN THE PRIOR FISCAL YEAR, AND WE HAVE EXTENDED PAYMENT TERMS WITH A NUMBER OF OUR SUPPLIERS.

At September 30, 2004 and March 31, 2004, we had negative working capital of \$7.8 million and \$0.8 million, respectively. We have had difficulty meeting operating expenses, including interest payments on debt, lease payments and supplier obligations. We have at times deferred payroll for our executive officers, and borrowed from related parties to meet payroll obligations. We have extended payment terms with our trade creditors wherever possible.

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

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

Our revenues decreased by 20% in the fiscal year ended March 31, 2004, compared to the fiscal year ended March 31, 2003. Our revenues decreased by 16% in the fiscal year ended March 31, 2003 compared to the fiscal year ended March 31, 2002. We experienced a substantial decrease in application license software sales in fiscal year 2004 and 2003, which typically carry a much higher margin than other revenue sources. We must improve new application license sales to become profitable. We have taken steps to refocus our sales strategy on core historic competencies, but our typically long sales cycles make it difficult to evaluate whether and when sales will improve. We cannot be sure that the decline in sales has not been due to factors which might continue to negatively affect sales.

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

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

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

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

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

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

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

Further, due to these fluctuations, we do not believe period to period comparisons of our financial performance are necessarily meaningful nor should they be relied on as an indication of our future performance.

WE MAY EXPERIENCE SEASONAL DECLINES IN SALES, WHICH COULD CAUSE OUR OPERATING

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

RESULTS TO FALL SHORT OF EXPECTATIONS IN SOME QUARTERS.

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

OUR DEBT COULD ADVERSELY AFFECT US.

As of October 31, 2004, our debt, including any accrued interest, is as follows:

- o \$1.2 million in convertible debenture issued in March 2004 to Midsummer Investment, Ltd. due in full in May 2006, with monthly redemptions to commence in September 2004.
- o \$0.5 million in promissory note issued in June 2004 to Intuit Inc. due in full on June 1, 2006, payable in monthly installments.
- o \$1.4 million in promissory notes issued in June 2004 to RTI's noteholders due on May 1, 2005, payable in monthly installments.

36

- o \$2.5 million in promissory notes issued in June 2004 to Michael Tomczak and Jeffrey Boone due on June 1, 2006, payable in monthly installments.
- o \$7.0 million in a secured convertible term note issued to Laurus in July 2004, matures on July 12, 2007.

The substantial amount of our indebtedness impacts us in a number of ways:

- o We have to dedicate a portion of cash flow from operations to principal and interest payments on the debt, which reduces funds available for other purposes.
- o We may not have sufficient funds to pay principal and/or interest when they become due resulting in a default, which could lead to our debt holders exercising rights under their respective debt instruments, including, without limitation, declaring debt immediately due and payable or taking possession or control of the assets that secure the respective debt instruments.

These are just some factors pertaining to our debt that generally place us at a disadvantage to our less leveraged competitors. Any or all of these factors could cause our stock price to decline.

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

We may need to raise further capital to:

- o pay our debts outstanding as set forth above;
- o support unanticipated capital requirements;
- o take advantage of acquisition or expansion opportunities;
- o continue our current development efforts;

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

- o develop new applications or services; or
- o address working capital needs.

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

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

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

Goodwill, capitalized software, non-compete agreements and other intangible assets represent approximately 87% of our total assets as of September 30, 2004. We may have to impair or write-off these assets, which will cause a charge to earnings and could cause our stock price to decline. Any such impairment will also reduce our assets, as well as the ratio of our assets to our liabilities. These balance sheet effects could make it more difficult for us to obtain capital, and could make the terms of capital we do obtain more unfavorable to our existing stockholders.

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

Fluctuations in currency exchange rates affect the prices of our applications and services and our expenses, and foreign currency losses will negatively affect profitability or increase losses. Approximately 81%, 17 % and 2% of our revenues were in the Americas, Europe and Asia, respectively, in the six months ended September 30, 2004. Approximately 87%, 13% and 0% of our revenues were in the Americas, Europe and Asia, respectively, in the six months ended September 30, 2003. Many of our expenses related to foreign sales, such as corporate level administrative overhead and development, are denominated in U.S. dollars. When accounts receivable and accounts payable arising from international sales and services are converted to U.S. dollars, the resulting gain or loss contributes to fluctuations in our operating results. We do not hedge against foreign currency exchange rate risks.

37

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

Gabriel Brothers, Inc. and Charming Shoppes of Delaware, Inc. accounted for 6% each of our consolidated revenues in the six months ended September 30, 2004. Toys accounted for 18% in the six months ended September 30, 2003.

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

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

We are heavily dependent on our President, Chief Operating Officer and Director, Michael Tomczak, and our Chief Technology Officer, Jeffrey Boone. We are also heavily dependent on our former Chairman, Barry Schechter, who remains a consultant to us. We also believe our future success will depend largely upon our ability to attract and retain highly-skilled software programmers, managers, and sales and marketing personnel. Competition for personnel is intense, particularly in international markets. The software industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. We compete against numerous companies, including larger, more established companies, for our personnel. We may not be successful in attracting or retaining skilled sales, technical and managerial personnel. The loss of key employees or our inability to attract and retain other qualified employees could negatively affect our financial performance and cause our stock price to decline.

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

Our future growth is critically dependent on increased sales to the retail industry. We derive the substantial majority of our revenues from the licensing of software applications and the performance of related professional and consulting services to the retail industry. The retail industry as a whole is currently experiencing increased competition and weakening economic conditions that could negatively impact the industry and our customers' ability to pay for our products and services. In addition, the retail industry may be consolidating, and it is uncertain how consolidation will affect the industry. Such consolidation and weakening economic conditions have in the past, and may in the future, negatively impact our revenues, reduce the demand for our products and may negatively impact our business, operating results and financial condition. Specifically, uncertain economic conditions and the specter of terrorist activities have adversely impacted sales of our software applications, and we believe mid-tier specialty retailers may be reluctant during the current economic climate to make the substantial infrastructure investment that generally accompanies the implementation of our software applications, which may adversely impact our business.

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

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

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

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

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

- o introduce new technologies that render our existing or future products obsolete, unmarketable or less competitive;
- o make strategic acquisitions or establish cooperative relationships among themselves or with other solution providers, which would increase the ability of their products to address the needs of our customers; and
- o establish or strengthen cooperative relationships with our current or future strategic partners, which would limit our ability to compete through these channels.

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

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

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

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

- o Fail to respond to technological changes in a timely or cost-effective manner;
- o Encounter applications, capabilities or technologies developed by others that render our applications and services obsolete or non-competitive or that shorten the life cycles of our existing applications and services;
- o Experience difficulties that could delay or prevent the successful development, introduction and marketing of these new applications and services; or

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

- o Fail to achieve market acceptance of our applications and services.

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

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

Our success and competitive position is dependent in part upon our ability to develop and maintain the proprietary aspects of our intellectual property. Our intellectual property includes our trademarks, trade secrets, copyrights and other proprietary information. Our efforts to protect our intellectual property may not be successful. Effective copyright and trade secret protection may be unavailable or limited in some foreign countries. We hold only one patent. Consequently, others may develop, market and sell applications substantially equivalent to ours or utilize technologies similar to those used by us, so long as they do not directly copy our applications or otherwise infringe our intellectual property rights.

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

39

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

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

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

Since we do not possess all of the technical and marketing resources necessary to develop and market our offerings to target markets, our business strategy substantially depends on our strategic relationships. While some of these relationships are governed by contracts, most are non-exclusive and all may be terminated on short notice by either party. If these relationships terminate or

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

fail to deliver the intended benefits, our development and marketing efforts will be impaired and our revenues may decline. We may not be able to enter into new strategic relationships, which could put us at a disadvantage to those of our competitors, who do successfully exploit strategic relationships.

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

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

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

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

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

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

Our customers typically use our applications to perform mission-critical functions. As a result, the defects and problems discussed above could result in

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

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

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

The Sage Group beneficially owns approximately 34.3 % of our outstanding common stock, including shares the Sage Group has the right to acquire upon conversion of its Series A Preferred and exercise of its outstanding options. Although the Series A Preferred is non-voting as to most matters and is redeemable by us, if the Sage Group converts its Series A Preferred to common stock, it may have effective control over all matters affecting us, including:

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

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

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

OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE.

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

WE HAVE NEVER PAID A DIVIDEND ON OUR COMMON STOCK NOR DO WE INTEND TO PAY

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

DIVIDENDS ON OUR COMMON STOCK IN THE FORESEEABLE FUTURE.

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

41

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

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

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

Our stock is currently traded on the American Stock Exchange. The Exchange has published certain guidelines it uses in determining whether a security warrants continued listing. Pursuant to these guidelines the Exchange will consider suspending trading in a listed security or delisting a security when, in the opinion of the Exchange: (i) the financial condition and/or operating results of the issuer appear to be unsatisfactory; (ii) the aggregate market value of the security has become so reduced as to make further dealings on the Exchange inadvisable; (iii) the issuer has sold or otherwise disposed of its principal operating assets, or has ceased to be an operating company; (iv) the issuer has failed to comply with its listing agreements with the Exchange; or (v) any other event shall occur or any condition shall exist which makes further dealings on the Exchange unwarranted. As a result of our financial condition or other factors, the American Stock Exchange could in the future determine that our stock does not merit continued listing. If our stock were delisted from the American Stock Exchange, the ability of our stockholders to sell our common stock could become limited, and we would lose the advantage of some state and federal securities regulations imposing lower regulatory burdens on exchange-traded issuers.

SHARES ISSUABLE UPON THE EXERCISE OF OPTIONS, WARRANTS, DEBENTURES AND CONVERTIBLE NOTES OR UNDER ANTI-DILUTION PROVISIONS IN CERTAIN AGREEMENTS COULD DILUTE YOUR STOCK HOLDINGS AND ADVERSELY AFFECT OUR STOCK PRICE.

We have issued options and warrants to acquire common stock to our employees and certain other persons at various prices, some of which are or may in the future have exercise prices at below the market price of our stock. We currently have outstanding options and warrants for 34,858,451 shares. Of these options and warrants, as of October 31, 2004, 29,955,484 have exercise prices above the recent market price of \$0.35 per share, and 4,902,967 have exercise prices at or

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

below that recent market price. If exercised, these options and warrants will cause immediate and possibly substantial dilution to our stockholders.

Our existing stock option plan currently has approximately 6,619,500 shares available for issuance as of October 31, 2004. Future options issued under the plan may have further dilutive effects.

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

WE MAY BE UNABLE TO SUCCESSFULLY INTEGRATE OUR OPERATIONS WITH PAGE DIGITAL OR RTI OR REALIZE ALL OF THE ANTICIPATED BENEFITS OF THESE ACQUISITIONS.

On January 30, 2004, we acquired Page Digital and on June 1, 2004, we acquired RTI. (see "Recent Transactions" below). These acquisitions involve integrating two companies that previously operated independently. These integrations may be complex, costly and time-consuming processes. The difficulties of combining these companies' operations include, among other things:

- o Coordinating geographically disparate organizations, systems and facilities;
- o Strain on management resources due to integration demands;
- o Integrating personnel with diverse business backgrounds;
- o Consolidating corporate and administrative functions;
- o Coordinating product development;

42

- o Coordinating sales and marketing functions;
- o Retaining key employees; and
- o Preserving relationships with key customers.

BUSINESS RISKS FACED BY PAGE DIGITAL COULD DISADVANTAGE OUR BUSINESS.

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

- o LONG AND VARIABLE SALES CYCLES MAKE IT DIFFICULT TO PREDICT OPERATING RESULTS - Historically, the period between initial contact with a prospective customer and the licensing of Page Digital's products has ranged from one to twelve months. Page Digital's average sales cycle is currently three months. The licensing of Page Digital's products is often an enterprise wide decision by customers that involves a significant commitment of resources by Page Digital and its prospective customer. Customers generally consider a wide range of issues before committing to purchase Page Digital's products, including product benefits, cost and time of implementation, ability to operate with existing and future computer systems, ability to

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

accommodate increased transaction volume and product reliability. As a part of the sales process, Page Digital spends a significant amount of resources informing prospective customers about the use and benefits of Page Digital products, which may not result in a sale, therefore increasing operating expenses. As a result of this sales cycle, Page Digital's revenues are unpredictable and could vary significantly from quarter to quarter causing our operating results to vary significantly.

- DEFECTS IN PRODUCTS COULD DIMINISH DEMAND FOR PRODUCTS AND RESULT IN LOSS OF REVENUES - From time to time errors or defects may be found in Page Digital's existing, new or enhanced products, resulting in delays in shipping, loss of revenues or injury to Page Digital's reputation. Page Digital's customers use its products for business critical applications. Any defects, errors or other performance problems could result in damage to Page Digital's customers' businesses. These customers could seek significant compensation from Page Digital for any losses. Further, errors or defects in Page Digital's products may be caused by defects in third-party software incorporated into Page Digital products. If so, Page Digital may not be able to fix these defects without the assistance of the software providers.
- FAILURE TO FORMALIZE AND MAINTAIN RELATIONSHIPS WITH SYSTEMS INTEGRATORS COULD REDUCE REVENUES AND HARM PAGE DIGITAL'S ABILITY TO IMPLEMENT PRODUCTS - A significant portion of Page Digital's sales are influenced by the recommendations of systems integrators, consulting firms and other third parties who assist with the implementation and maintenance of Page Digital's products. These third parties are under no obligation to recommend or support Page Digital's products. Failing to maintain strong relationships with these third parties could result in a shift by these third parties toward favoring competing products, which could negatively affect Page Digital's software license and service revenues.
- PAGE DIGITAL'S PRODUCT MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, SO PAGE DIGITAL'S SUCCESS DEPENDS HEAVILY ON ITS ABILITY TO DEVELOP AND INTRODUCE NEW APPLICATIONS AND RELATED SERVICES - The retail software industry is characterized by rapid technological change, evolving standards and wide fluctuations in supply and demand. Page Digital must cost-effectively develop and introduce new applications and related services that keep pace with technological developments to compete. If Page Digital fails to gain market acceptance for its existing or new offerings or if Page Digital fails to introduce progressive new offerings in a timely or cost-effective manner, our financial performance may suffer.
- FAILURE TO PROTECT PROPRIETARY RIGHTS OR INTELLECTUAL PROPERTY, OR INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS AGAINST PAGE DIGITAL COULD RESULT IN PAGE DIGITAL LOSING VALUABLE ASSETS OR BECOMING SUBJECT TO COSTLY AND TIME-CONSUMING LITIGATION - Page Digital's success and ability to compete depend on its proprietary rights and intellectual property. Page Digital relies on trademark, trade secret and copyright laws to protect its proprietary rights and intellectual property. Page Digital also has one issued patent. Despite Page Digital's efforts to protect intellectual property, a third party could obtain access to Page Digital's software source code or other proprietary information without authorization, or could independently duplicate Page Digital's software. Page Digital may need to litigate to enforce intellectual property rights. If Page Digital is unable to protect its intellectual property it may lose a valuable asset. Further, third parties could claim Page Digital has infringed their

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

intellectual property rights. Any claims, regardless of merit, could be costly and time-consuming to defend.

43

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

BUSINESS RISKS FACED BY RTI COULD DISADVANTAGE OUR BUSINESS.

RTI is a provider of retail management store solutions to small through mid-tier retailers via an international network of retailers and faces several business risks that could disadvantage our business. These risks include many of the

risks that we face, described above, as well as:

- o RTI FACES INTENSE COMPETITION IN THE RETAIL POINT OF SALE INDUSTRY - RTI operates in an extremely competitive industry, which is subject to rapid technological and market changes. We anticipate that the competition will increase as more companies focus on providing technology solutions to small and mid-tier retailers. Many of our current and potential competitors, such as Microsoft, have more resources to devote to product development, marketing and distribution. While RTI believes that it has competitive strengths in its market, there can be no assurance that RTI will continue to compete successfully against larger more established competitors.
- o RTI IS DEPENDENT ON THEIR VALUE-ADDED RESELLERS (VARs) - RTI does not have a direct sales force and relies on VARs to distribute and sell its products. RTI currently has approximately 67 VARs - 27 in North America, 7 in South America, 11 in Asia, 19 in Europe and the Middle East, 1 in Africa, and 1 each in Australia and New Zealand. Combined, RTI's four largest VARs account for approximately 35% of its revenues, although no one is over 15%. RTI's VARs are independently owned businesses and there can be no assurance that one or more will not go out of business or cease to sell RTI products. Until a replacement VAR could be recruited, and trained, or until an existing VAR could expand into the vacated territory, such a loss could result in a disruption in RTI's revenue and profitability. Furthermore, there can be no assurance that an adequate replacement could be located.
- o A PROLONGED SLOWDOWN IN THE GLOBAL ECONOMY COULD ADVERSELY IMPACT RTI'S REVENUES - A slowdown in the global economy might lead to decreased capital spending, fewer new retail business start ups, and slower new store expansion at existing retail businesses. Such conditions, even on a regional basis could severely impact one or more of RTI's VARs and result to a disruption in RTI's revenues, and profitability.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

- o RTI'S PRODUCT MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, SO RTI'S SUCCESS DEPENDS HEAVILY ON ITS ABILITY TO DEVELOP AND INTRODUCE NEW APPLICATIONS AND RELATED SERVICES - We believe RTI's ability to succeed in its market is partially dependent on its ability to identify new product opportunities and rapidly, cost-effectively bring them to market. However, there is no guarantee that they will be able to gain market acceptance for any new products. In addition, there is no guarantee that one of RTI competitors will not be able to bring competing applications to market faster or market them more effectively. Failure to successfully develop new products, bring them to market and gain market acceptance could result in decreased market share and ultimately have a material adverse affect on RTI.

- o RTI DOES NOT HOLD ANY PATENTS OR COPYRIGHTS, ANY TERMINATION OF OR ADVERSE CHANGE TO RTI'S LICENSE RIGHTS COULD HAVE A MATERIAL ADVERSE EFFECT ON ITS BUSINESS - RTI has a license to develop, modify, market, sell, and support its core technology from a third party. Any termination of, or disruption in this license could have a material adverse affect on RTI's business. Further, we believe that most of the technology used in the design and development of RTI's core products is widely available to others. Consequently, there can be no assurance that others will not develop, and market applications that are similar to RTI's, or utilize technologies that are equivalent to RTI's. Likewise, while RTI believes that its products do not infringe on any third party's intellectual property, there can be no assurance that they will not become involved in litigation involving intellectual property rights. If such litigation did occur, it could have a material adverse affect on RTI's business.

44

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, results of operations or cash flows. We are exposed to market risks, which include changes in foreign currency exchange rate as measured against the U.S. dollar.

INTEREST RATE RISK

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

FOREIGN CURRENCY EXCHANGE RATE RISK

We conduct business in various foreign currencies, primarily in Europe. Sales are typically denominated in the local foreign currency, which creates exposures to changes in exchange rates. These changes in the foreign currency exchange rates as measured against the U.S. dollar may positively or negatively affect our sales, gross margins and retained earnings. We attempt to minimize currency exposure risk through decentralized sales, development, marketing and support operations, in which substantially all costs are local-currency based. There can be no assurance that such an approach will be successful, especially in the event of a significant and sudden decline in the value of the foreign currency. We do not hedge against foreign currency risk. Approximately 19% and 18% of our total revenues were denominated in currencies other than the U.S. dollar for the three months ended September 30, 2004 and 2003, respectively. Approximately 19% and 13% of our total revenues were denominated in currencies other than the U.S. dollar for the six months ended September 30, 2004 and 2003, respectively.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

EQUITY PRICE RISK

We have no direct equity investments.

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our principal executive officer and principal financial and accounting officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that were in effect at the end of the period covered by this report. Based on their evaluation, our principal executive officer and principal financial and accounting officer have concluded that our disclosure controls and procedures that were in effect on September 30, 2004 were effective to ensure that all material information relating to us that is required to be included in the reports that we file with the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. There have been no changes in internal controls over financial reporting that were identified during the evaluation that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as discussed in the footnotes to our interim financial statements (see Note 15), 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.

45

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended September 30, 2004, we issued:

- o In July 2004, 600,000 shares of common stock, with a fair value of \$240,000, to Midsummer as payment for liquidated damages and as consideration for its consent to the sale of the Laurus Note,
- o In August 2004, an aggregate of 7,551,696 shares of common stock, with a fair value of \$5,709,000, to Michael Tomczak, our President and COO, and Jeffrey Boone, our CTO, upon conversion of all of 2,517,232 shares of Series B Preferred Stock,
- o In July 2004, a warrant to Laurus to purchase up to 3,750,000 shares of our common stock at an exercise price of \$0.71 in connection with the sale of the Laurus Note, and
- o In September 2004, a warrant to purchase up to 220,000 shares of common stock, with a fair value of \$37,000, at an exercise price of \$0.50 per share to a consultant for public relation services, and

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

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Our 2004 Annual Meeting of Stockholders was held on August 11, 2004 at our corporate headquarters at 19800 MacArthur Boulevard, Suite 1200, Irvine, California 92612. Five proposals were voted on at the Annual Meeting and the results of the voting are as follows:

1. To elect five directors to serve until the next Annual Meeting of Stockholders and until their successors are elected and qualified. The Director nominees received the following votes:

Nominees -----	For ---	Against -----	Abstain -----
Michael Silverman	24,339,577	871,567	117,531
Michael Tomczak	24,851,443	359,701	117,531
Donald Radcliffe	25,149,875	62,269	116,531
Lawrence Page	24,413,689	797,889	117,097
Ian Bonner	24,417,339	793,805	117,531

2. To amend and restate our Amended and Restated Certificate of Incorporation to increase the authorized shares of common stock from 100,000,000 to 250,000,000. The measure passed with 53,556,200 votes for, 3,200,128 votes against and 86,027 votes abstained.
3. To adopt the 2004 Equity Incentive Plan ("2004 Plan"). The measure passed with 24,015,851 votes for, 1,224,767 votes against and 88,057 votes abstained.
4. To ratify the sale and issuance of a Secured Convertible Term Note and accompanying warrant to purchase shares of common stock to Laurus for \$7,000,000. The measure passed with 24,649,944 votes for, 636,362 votes against and 42,369 votes abstained.
5. To ratify the appointment of Singer Lewak Greenbaum & Goldstein LLP as our independent public accountants for the fiscal year ended March 31, 2005. The measure passed with 25,227,197 votes for, 48,771 votes against and 52,707 votes abstained.

ITEM 5. OTHER INFORMATION

Not applicable

46

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

Exhibit	Description
---------	-------------

- | | |
|-----|--|
| 2.1 | Purchase and Exchange Agreement dated as of January 1, 2002 between the Company and Softline Limited, incorporated by reference to exhibit 2.1 to the Company's 8-K filed May 16, 2002. Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K, but a copy will be furnished supplementally to the Securities and Exchange Commission upon request. |
| 2.2 | Deed of Appointment dated February 20, 2002 between the bank and the |

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

receivers of SVI Retail (Pty) Limited, incorporated by reference to exhibit 2.2 to the Company's 10-K for fiscal year ended March 31, 2002.

- 2.3 Business Sale Agreement dated May 3, 2002 among the receivers and managers of the assets of SVI Retail (Pty) Limited and QQQ Systems PTY Limited, incorporated by reference to exhibit 2.3 to the Company's 10-K for fiscal year ended March 31, 2002.
- 2.4 Securities Purchase Agreement dated March 31, 2003 by and among the Company, Midsummer Investment, Ltd., Omicron Master Trust, and Islandia, L.P., incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed April 15, 2003.
- 2.5 Securities Purchase Agreement dated April 1, 2003 by and among the Company and MBSJ Investors, LLC, incorporated by reference to exhibit 2.2 to the Company's Form 8-K filed on April 15, 2003.
- 2.6 Agreement dated May 6, 2003 by and among the Company, Crestview Capital Fund I, L.P., Crestview Capital Fund II, L.P. and Crestview Capital Offshore Fund, Inc., incorporated by reference to exhibit 2.12 to the Company's Form S-1 filed on May 12, 2003.
- 2.7 Stock Purchase Agreement effective April 1, 2003 between SVI Solutions, Inc. and Arthur Klitofsky, incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on May 21, 2003.
- 2.8 Pledge Agreement effective April 1, 2003 between SVI Solutions, Inc. and Arthur Klitofsky, incorporated by reference to exhibit 4.2 to the Company's Form 8-K filed on May 21, 2003.
- 2.9 Securities Purchase Agreement dated June 27, 2003 by and among the Company and the purchasers named therein, incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed on July 2, 2003.
- 2.10 Securities Purchase Agreement dated November 7, 2003 by and among the Company and the purchasers named within, incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed on November 12, 2003.
- 2.11 Agreement of Merger and Plan of Reorganization dated November 20, 2003 by and among the Company, Page Digital Incorporated and IPI Acquisition, Inc, incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed on November 24, 2003.
- 2.12 Agreement of Merger and Plan of Reorganization dated March 12, 2004 by and among the Company, Retail Technologies International, Inc. and IPI Merger Sub, Inc., incorporated by reference to the Company's Form 8-K filed on March 17, 2004.
- 2.13 Amended and Restated Agreement of Merger and Plan of Reorganization dated June 1, 2004 by and between Island Pacific, Inc., Retail Technologies International, Inc., IPI Merger Sub, Inc., IPI Merger Sub II, Inc., Michael Tomczak and Jeffrey Boone, incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed on June 14, 2004.
- 2.14 Agreement of Merger dated June 1, 2004 between IPI Merger Sub II,

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Inc. and Retail Technologies International, Inc., incorporated by reference to exhibit 2.2 to the Company's Form 8-K filed on June 14, 2004.

- 2.15 Securities Purchase Agreement dated March 15, 2004 by and among the Company, Omicron Master Trust and Midsummer Investments, Ltd, incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on March 17, 2004.
- 2.16 Amendment No. 1 to the 9% Convertible Debenture, Due May 16, 2006 Issued to Midsummer Investment, Ltd. and Waiver dated July 30, 2004 by and among the Company and Midsummer Investments, Ltd., incorporated by reference to exhibit 2.16 to the Company's Form 10-Q for the quarter ended September 30, 2004 filed on November 15, 2004.
- 3.1 Amended and Restated Certificate of Incorporation, incorporated by reference to exhibit 3.1 to the Company's Form 10-K for the fiscal year ended March 31, 2001.
- 3.2 Certificate of Designation for Series A of Convertible Preferred Stock, incorporated by reference to exhibit 4.1 of the Company's Form 8-K filed May 16, 2002.
- 3.3 Certificate of Designation for Series B of Convertible Preferred Stock, incorporated by reference to exhibit 3.1 to the Company's Form 8-K filed on June 14, 2004.
- 3.4 Restated Bylaws, incorporated by reference to exhibit 3.2 to the Company's Form 10-K for the fiscal year ended March 31, 2001.
- 4.1 Registration Rights Agreement dated as of March 31, 2003 by and among the Company, Midsummer Investment, Ltd., Omicron Master Trust and Islandia, L.P., incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed April 15, 2003.
- 4.2 Registration Rights Agreement dated as of April 1, 2003 between the Company and MBSJ Investors LLC, incorporated by reference to exhibit 4.2 to the Company's Form 8-K filed April 15, 2003.
- 4.3 Registration Rights Agreement dated June 27, 2003 by and among the Company and the parties named therein, incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on July 2, 2003.
- 4.4 Registration Rights Agreement dated November 7, 2003 by and among the Company and the parties named therein, incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on November 12, 2003.
- 4.5 Settlement Agreement, Mutual Release and Covenant Not to Sue by and among the Company and Cord Camera Centers, Inc. dated September 30, 2003, incorporated by reference to exhibit 4.5 to the Company's Form S-1 filed on December 8, 2003.
- 4.6 Registration Rights Agreement dated March 15, 2004 by and among the Company, Omicron Master Trust and Midsummer Investments, Ltd., incorporated by reference to exhibit 4.2 to the Company's Form 8-K filed on March 17, 2004.
- 4.7 Security Agreement as of June 1, 2004 between Island Pacific, Inc., IPI Merger Sub II, Inc., Retail Technologies International, Inc., and Nathaniel F. Jessup, an individual, Kathleen M. Leacox, an individual, and Glenn Swenson, an individual, the Lumsden Real Estate Defined Benefit Plan, Mace and Shirley Lumsden as co-trustees of the

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Mace Lumsden and S.K. Lumsden Trust of January 19, 1995, and Merry Youle, an individual (individually, a "Secured Party), and collectively, the "Secured Parties"), incorporated by reference to exhibit 4.7 to the Company's Form 10-Q filed on August 12, 2004.

48

- 4.8 Registration Rights Agreement dated June 1, 2004 by and between Island Pacific, Inc., Michael Tomczak, Jeffrey Boone and Intuit, Inc., incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on June 14, 2004.
- 4.9 Form of Voting Agreement, incorporated by reference to exhibit 4.2 to the Company's Form 8-K filed on June 14, 2004.
- 4.10 Securities Purchase Agreement dated July 12, 2004 between Island Pacific, Inc. and Laurus Master Fund, Ltd., incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed on July 21, 2004.
- 4.11 Secured Convertible Term Note issued by Island Pacific, Inc. in favor of Laurus Master Fund. Ltd., incorporated by reference to exhibit 4.2 to the Company's Form 8-K filed on July 21, 2004.
- 4.12 Common Stock Purchase Warrant dated July 12, 2004 issued by Island Pacific, Inc., incorporated by reference to exhibit 4.2 to the Company's Form 8-K filed on July 21, 2004.
- 4.13 Registration Rights Agreement dated July 12, 2004 between Island Pacific, Inc. and Laurus Master Fund, Ltd., incorporated by reference to exhibit 4.4 of the Company's Form 8-k filed on July 21, 2004.
- 4.14 Amendment No. 1 to the 9% Convertible Debenture, Due May 15, 2006 Issued to Midsummer and Waiver dated July 30, 2004.
- 4.15 Amended and Restated Secured Convertible Term Note dated October 29, 2004 issued by Island Pacific, Inc. in favor of Laurus Master Fund, Ltd., incorporated by reference to exhibit 4.1 of the Company's Form 8-k filed on November 2, 2004.
- 4.16 Common Stock Purchase Warrant dated October 29, 2004 issued by Island Pacific, Inc., incorporated by reference to exhibit 4.2 of the Company's Form 8-k filed on November 2, 2004.
- 4.17 Amended and Restated Registration Rights Agreement dated October 29, 2004 between Island Pacific, Inc. and Laurus Master Fund, Ltd., incorporated by reference to exhibit 4.3 of the Company's Form 8-k filed on November 2, 2004.
- 10.1 Letter Agreement between the Company and Union Bank of California, N.A. dated April 24, 2001, incorporated by reference to exhibit 10.18 to the Company's Form 10-K for the fiscal year ended March 31, 2001.
- 10.2 Letter Agreement between the Company and Union Bank of California, N.A. dated June 22, 2001, incorporated by reference to exhibit 10.19 to the Company's Form 10-K for the fiscal year ended March 31, 2001.
- 10.3 Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of June 29, 2001, incorporated by reference to exhibit 10.20 to the Company's Form 10-K

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

for the fiscal year ended March 31, 2001.

- 10.4 First Amendment to Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of March 18, 2002, and First Amendment to Amended and Restated Pledge Agreement between the Company, Sabica Ventures, Inc., SVI Retail, Inc., SVI Training Products, Inc., and Union Bank of California, N.A. dated as of March 18, 2002, incorporated by reference to exhibit 10.4 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.5 Second Amendment to Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of May 21, 2001, incorporated by reference to exhibit 10.5 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.6 Third Amendment to Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of July 15, 2002, incorporated by reference to exhibit 10.6 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.7 Fourth Amendment to Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of November 15, 2002, incorporated by reference to exhibit 10.3 to the Company's 10-Q filed on February 14, 2003.
- 10.8 Warrant in favor of UNIONBANCAL EQUITIES, Inc. dated January 2, 2003, incorporated by reference to exhibit 10.4 to the Company's 10-Q filed on February 14, 2003.
- 10.9 Discounted Loan Payoff Agreement dated March 31, 2003 by and among Union Bank of California, N.A., SVI, SVI Retail, Inc., Sabica Ventures, Inc. and SVI Training Products, Inc., incorporated by reference to exhibit 10.3 to the Company's Form 8-k filed on April 15, 2003.
- 10.10 Unsecured Promissory Note dated March 31, 2003 in favor of Union Bank of California, incorporated by reference to exhibit 10.47 to the Company's Form S-1 filed on May 12, 2003.
- 10.11 Amended and Restated Subordinated Promissory Note of the Company in favor of Softline Limited dated June 30, 2001, incorporated by reference to exhibit 10.26 to the Company's Form 10-K for the fiscal year ended March 31, 2001.
- 10.12 Investor Rights Agreement between the Company and Softline Limited dated as of January 1, 2002, incorporated by reference to exhibit 4.2 of the Company's Form 8-K filed May 16, 2002.
- 10.13 Investors' Rights Agreement between the Company, Koyah Leverage Partners, L.P. and Koyah Partners, L.P., incorporated by reference to exhibit 10.3 to the Company's Form 8-K filed January 8, 2001.
- 10.14 Investors' Rights Agreement among SVI Holdings, Inc., Koyah Leverage Partners, L.P. and Koyah Partners, L.P. dated July 19, 2002, incorporated by reference to exhibit 10.25 to the Company's Form S-1 filed on May 12, 2003.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

- 10.15 Form of Convertible Promissory Note, incorporated by reference to exhibit 10.31 to the Company's Form 10-K for the fiscal year ended March 31, 2001.
- 10.16 Amendment Agreement to between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated July 15, 2002, incorporated by reference to exhibit 10.11 to the Company's 10-K for fiscal year ended March 31, 2002.
- 10.17 First Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated December 5, 2002, incorporated by reference to exhibit 10.6 to the Company's 10-Q filed on February 14, 2003.
- 10.18 Second Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., and Raven Partners, L.P. dated March 14, 2003, incorporated by reference to exhibit 10.29 to the Company's Form S-1 filed on May 12, 2003.
- 10.19 Third Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., and Raven Partners, L.P. dated March 28, 2003, incorporated by reference to exhibit 10.30 to the Company's Form S-1 filed on May 12, 2003.
- 50
- 10.20 Fourth Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., and Raven Partners, L.P. dated April 3, 2003, incorporated by reference to exhibit 10.31 to the Company's Form S-1 filed on May 12, 2003.
- 10.21 Fifth Amendment to Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., and Raven Partners, L.P. dated June 27, 2003, incorporated by reference to exhibit 10.21 to the Company's Form 10-K filed on June 29, 2004.
- 10.22 Professional Services Agreement between SVI Retail, Inc. and Toys "R" Us dated July 10, 2001, incorporated by referenced to exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2001. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.23 Purchase Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.14 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.24 Convertible Note in favor of Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.15 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.25 Warrant in favor of Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.16 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.26 Development Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.17 to the Company's form 10-K for fiscal year ended March 31, 2002.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

- 10.27 Summary of lease terms for Carlsbad facility, incorporated by reference to exhibit 10.20 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.28 Termination Agreement between the Company and Toys "R" Us, Inc. dated November 13, 2003, incorporated by reference to exhibit 10.28 to the Company's Form 10-K filed on June 29, 2004.
- 10.29 Option Agreement between Softline Ltd. and Steven Beck, as trustee of a certain management group of Island Pacific, Inc., incorporated by reference to exhibit 10.29 to the Company's Form 10-K filed on June 29, 2004.
- 10.30 Employment Agreement dated January 30, 2004 by and between Island Pacific, Inc. and Larry Page, incorporated by reference to exhibit 10.30 to the Company's Form 10-K filed on June 29, 2004.
- 10.31 Employment Agreement dated January 30, 2004 by and between Island Pacific, Inc. and David Joseph, incorporated by reference to exhibit 10.31 to the Company's Form 10-K filed on June 29, 2004.
- 10.32 Employment Agreement dated June 1, 2004 by and between Island Pacific, Inc. and Michael Tomczak, incorporated by reference to exhibit 10.1 to the Company's form 8-K filed on June 14, 2004.
- 10.33 Employment Agreement dated June 1, 2004 by and between Island Pacific, Inc. and Jeffrey Boone, incorporated by reference to exhibit 10.2 to the Company's form 8-K on June 14, 2004.
- 10.34 Option Agreement dated September 3, 2003 by and between SVI Solutions, Inc. and Harvey Braun, incorporated by reference to exhibit 10.34 to the Company's Form 10-K filed on June 29, 2004.
- 51
- 10.35 Option Agreement dated September 3, 2003 by and between SVI Solutions, Inc. and Steven Beck, incorporated by reference to exhibit 10.35 to the Company's Form 10-K filed on June 29, 2004.
- 10.36 Retail Pro Software License Agreement by and between Retail Technologies International, Inc. and Intuit Inc. dated December 6, 2002 incorporated by reference to exhibit 10.36 to the Company's Form 10-Q for the quarter ended September 30, 2004 filed on November 15, 2004.
- 10.37 Summary of loan transactions between the Company and World Wide Business Centres, incorporated by reference to exhibit 10.12 to the Company's form 10-K for fiscal year ended March 31, 2002.
- 10.38 Master Security Agreement between Island Pacific, Inc., Page Digital Incorporated, IPI Merger Sub II, Inc., Sabica Ventures, Inc. and Laurus Master Fund, Ltd. dated July 12, 2004, incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed on July 21, 2004.
- 10.39 Subsidiary Guaranty executed by Page Digital Incorporated, IPI Merger Sub II, Inc. and Sabica Ventures, Inc., incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed on July 21, 2004.

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

- 10.40 Stock Pledge Agreement dated July 12, 2004 between Island Pacific, Inc. and Laurus Master Fund, Ltd., incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed on July 21, 2004.
- 10.41 Separation Agreement and General Release of Claims between Island Pacific, Inc. and Steven Beck dated July 29, 2004, incorporated by reference to exhibit 10.42 to the Company's Form 10-Q filed on August 12, 2004.
- 10.42 Severance and Release Agreement between Island Pacific, Inc. and Harvey Braun dated October 28, 2004 incorporated by reference to exhibit 10.42 to the Company's Form 10-Q for the quarter ended September 30, 2004 filed on November 15, 2004.
- 14.1 Code of Ethics and Business Conduct, incorporated by reference to exhibit 10.36 to the Company's Form 10-K filed on June 29, 2004.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(B) REPORTS ON FORM 8-K

On July 21, 2004, we filed a Form 8-K dated July 1, 2004 disclosing as Item 5 the sale of secured convertible term note for a gross proceed of \$7.0 million.

On August 5, we filed a Form 8-K/A dated June 1, 2004 disclosing as Item 7 financials statements and exhibits related to the acquisition of Retail Technologies International, Inc.

On August 16, 2004, we filed a Form 8-K dated August 11, 2004 disclosing as Item 5 the adjournment of our Annual Stockholders' meeting until August 27, 2004 to provide us additional time to secure sufficient votes to authorize the increase to its authorized common stock from 100,000,000 to 250,000,000 shares.

On August 27, 2004, we filed a Form 8-K dated August 27, 2004 disclosing as Item 5 the conclusion of our Annual Meeting.

On October 7, 2004, we filed a Form 8-K dated September 30, 2004 disclosing as Item 5.02 the departure of Larry Page as our Executive Vice President of Special Projects.

On October 28, 2004, we filed a Form 8-K dated October 25, 2004 disclosing as Item 4.02 the restatements of financial statements for the fiscal years ended March 31, 2004 and March 31, 2003 and our quarterly financial statements for the second and third quarters of the fiscal year ending March 31, 2003, the first, second and third quarters of the fiscal year ending March 31, 2004 and the first quarter of the fiscal year ending March 31, 2005.

On November 2, 2004, we filed a Form 8-K dated October 29, 2004 disclosing as Item 3.03 the Amended and Restated Secured Convertible Term Note, an Amended and Restated Registration Rights Agreement and Common Stock Purchase Warrant

Edgar Filing: ISLAND PACIFIC INC - Form 10-Q/A

Agreement with Laurus Master Fund, Ltd.

SIGNATURES

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

Island Pacific, Inc.
Registrant

/S/ Corinne Bertrand

Corinne Bertrand
Chief Financial Officer
(Principal Financial and Accounting
Officer)

Date: February 10, 2005

Signing on behalf of the registrant