ISLAND PACIFIC INC
Form 10-K/A
September 24, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 3)

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

FOR THE FISCAL YEAR ENDED MARCH 31, 2002

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

FOR THE TRANSITION PERIOD FROM __________ TO __________.

Commission file number 0-23049

SVI SOLUTIONS, INC.
(Exact Name of Registrant as specified in its charter)

DELAWARE	33-0896617
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5607 PALMER WAY, CARLSBAD, CA	92008
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (877) 784-7978

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

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

Securities registered under Section 12(g) of the Act

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive

proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock (Common Stock) held by non-affiliates* as of June 28, 2002 was approximately $6.1 million, based on the closing sale price on the American Stock Exchange on that date.

The number of shares outstanding of the registrant's Common Stock was 28,454,441 on June 28, 2002.

----

* Excludes the Common Stock beneficially held by executive officers, directors and stockholders whose beneficial ownership exceeds 10% of the Common Stock outstanding at June 28, 2002.

==

PART I

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS. THESE STATEMENTS RELATE TO FUTURE EVENTS OR FUTURE FINANCIAL PERFORMANCE OF THE REGISTRANT, SVI SOLUTIONS, INC. ("WE" OR "US"). IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS THE WORDS MAY, WILL, SHOULD, EXPECT, PLAN, ANTICIPATE, BELIEVE, ESTIMATE, PREDICT, POTENTIAL OR CONTINUE, OR THE NEGATIVES OF SUCH WORDS OR OTHER COMPARABLE TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IMPORTANT FACTORS THAT MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS ARE DESCRIBED IN THE SECTION ENTITLED "BUSINESS RISKS" IN ITEM 7 IN THIS REPORT, AND OTHER RISKS IDENTIFIED FROM TIME TO TIME IN OUR FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, PRESS RELEASES AND OTHER COMMUNICATIONS.

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

ITEM 1. DESCRIPTION OF BUSINESS

INTRODUCTION

We are an independent provider of multi-channel application software technology and associated services for the retail industry including enterprise, direct-to-consumer and store solutions and related training products and professional and support services. Our applications and services represent a full suite of offerings that provide retailers with a complete end-to-end business solution. We also develop and distribute PC courseware and skills assessment products for both desktop and retail applications.

Our offerings consist of the following components:

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

o Merchandising;

- The Eye(TM), datamart, planning and reporting tool;
- Trends, forecasting and dynamic replenishment tool;
- Events;
- Warehouse;
- Ticketing;
- Financials; and
- Sales Audit.

The ISLAND PACIFIC DIRECT SOLUTION supports Web-based and traditional mail order and catalog retailing. Direct allows our customers to offer multi-channel merchandise management within one integrated application tool set to manage order entry, order processing, customer service, purchasing, inventory planning and forecasting, fulfillment and shipping. The core modules are:

- Call Center;
- Customer Relationship Management (CRM);
- Planning and Forecasting; and
- Fulfillment.

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

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

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

We also develop and distribute retail system training products and general computer courseware and computer skills testing products through our SVI Training Products, Inc. subsidiary.

Our executive offices are located at 5607 Palmer Way, Carlsbad, California 92008, telephone number (877) 784-7978.

RECENT DEVELOPMENTS

In October 2001, we completed an analysis of our operations and concluded that it was necessary to restructure the composition of our management and personnel. We were concerned that the new management team appointed during the fourth quarter of fiscal 2001 had not been able to close a number of new business opportunities or to raise capital. We were also concerned with general economic conditions, especially after the terrorist attacks of September 11, 2001, and the resulting ongoing hostilities in the world. Our CEO, Thomas A. Dorosewicz, and our CFO, Kevin M. O'Neill, elected to leave to pursue other interests, and both resigned from our board of directors. We appointed Barry M.

Schechter, our Chairman, as Chief Executive Officer, and Jackie Tran, our Controller, as acting Chief Financial Officer. We also reduced our staff by a total of 20%, and restructured and refocused our sales force toward opportunities available in the current economic climate.

As of April 1, 2002, we have refocused the company into three strategic business units each lead by experienced managers. The units are Island Pacific, SVI Store Solutions, and SVI Training Products, Inc.

In May 2002, we completed an integrated series of transactions with Softline Limited to repay our subordinated note to Softline, to transfer to Softline our note received in connection with the sale of IBIS Systems Limited, and to issue to Softline new preferred securities. Softline also returned to us 10,700,000 shares of our common stock. Steven Cohen, Softline's Chief Operating Officer, and Gerald Rubenstein, a director of Softline, resigned from our board of directors in May 2002. Ivan Epstein, Softline's Chief Executive Officer, continues to serve on our board, and in June 2002, Robert P. Wilkie, Softline's Chief Financial Officer, was appointed to our board of directors. For a further discussion of the terms of transactions with Softline during the 2002 fiscal year, see "Management's Discussion and Analysis of Financial Condition and Results of Operation" under the heading "Financing Transactions -- Softline."

Due to the declining performance of our Australian subsidiary, the subsidiary ceased operations in February 2002. For further details, see "Management's Discussion and Analysis of Financial Condition and Results of Operation" under the heading "Liquidity and Capital Resources -- Contractual Obligations -- National Australia Bank" below.

In May 2002, we entered into a new two-year software development and services agreement with our largest customer, Toys "R" Us, Inc. Toys also agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 common shares. For a further details, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Liquidity and Capital Resources -- Financing Transactions -- Toys "R" Us" below.

We issued a total of $1.25 million in convertible notes to a limited number of accredited investors related to ICM Asset Management, Inc. of Spokane, Washington, a significant beneficial owner of our common stock. We amended these notes to extend the maturity date and other provisions, and we replaced warrants issued to these investors in July 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Financing Transactions -- ICM Asset Management, Inc." below.

We negotiated an extension of our senior bank lending facility to August 31, 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Liquidity and Capital Resources - Contractual Obligations -- Union Bank" below.

INDUSTRY OVERVIEW - RETAIL APPLICATION SOFTWARE

The rapid development of the retail application software market has increasingly allowed the retail industry to track, analyze and implement its information on a virtually real-time basis. Modern applications and technology capture sales information as a sale occurs and quickly provide that information to the enterprise's retail management system. This information is available daily both to local management and to the retailer's headquarters functions for purposes of inventory tracking and sales analysis. These systems have become increasingly important for multi-channel retail enterprises that need to

disseminate sales information throughout the enterprise to better manage inventory, costs, pricing and manufacturing requirements. Multi-channel retailers also require sophisticated, integrated point-of-sale retail management systems that can reliably and efficiently capture and manage large numbers of individual transactions generated from diversified points of sale.

Retail software applications were initially custom-designed to satisfy business needs of individual retailers. These initial applications were proprietary, with software and support services developed either internally or provided by a single supplier. Due to the custom nature of the applications, little opportunity existed for suppliers to leverage their niche success into market-wide success. In addition, custom solutions, whether internally developed by the retailer or offered by external suppliers, often did not provide a long-term return on investment (ROI). However, standard, scalable, extensible applications that are provided by suppliers such as us, offer both near- and long-term ROI, as these solutions are continuously developed and evolve over time. Outside suppliers such as us, with our single version philosophy and built-in upgrade path to the future, provide the retailer with a solution that continues to provide a consistent return on its application investment.

The retail application-specific software industry has developed from proprietary, customized, single platform systems to open architecture systems in which a variety of hardware and software products from different manufacturers can be combined to obtain the mix of features desired by the individual retail enterprise. Correspondingly, application software suppliers can leverage their investment in design, development and expertise across standard platforms and multiple customers. When scalable technology is included in the offering, the result is a growing market for retail applications that includes smaller as well as larger retailers.

The retail industry we serve is currently experiencing significant structural changes. These changes are driven by a variety of factors including evolving consumer preferences, technological advances, globalization and more intense competition. The rapid growth of the Internet as a means of commerce is affecting the retail industry. The Internet is a business-to-consumer (B2C) sales channel and a means of creating and managing customer relationships. The Internet is also transforming business-to-business (B2B) supply chain communications and management. These changes have forced traditional "brick and mortar" retailers to re-evaluate their business models and to also develop e-commerce strategies in order to maximize their competitive position. We believe the industry changes and trends include:

- MULTI-CHANNEL RETAILING. Retailers of all types are changing their business models to service their customers using multiple channels of distribution, including traditional brick and mortar stores, the Web, catalog, and mail order methods. In addition, manufacturers can now directly market their merchandise more efficiently and compete with the retailers who were formerly their partners.

- PRESSURE ON PROFIT MARGINS. The wide availability and accessibility of competitive price quotes on the Internet and intense competition from other retailers places price pressure on both online retailers and brick and mortar retailers, forcing lower profit margins. This pressure on margins has forced retailers to focus on maximizing the cost structure and profit opportunity across their entire enterprise, from the supply chain process, through the enterprise and at the store level.

- CENTRALIZED FULFILLMENT. The emergence of online retailing has created significantly higher demand for centralized on demand, order fulfillment solutions.

- PRODUCT LEVEL INFORMATION. Because of additional retail channels like e-commerce sites, the ability to have a single view of a product across all retail channels is critical for the accuracy of inventory management and maximizing profit opportunities.

- NEED FOR TECHNOLOGY. Traditional retailers have historically been relatively slow to introduce new technologies. Retailers are now moving at a faster pace to utilize technology to compete effectively.

- WIRELESS APPLICATIONS. There is a growing demand for in-store wireless communications based applications, utilizing various handheld and POS devices.

All of these changes are leading to new approaches to retail systems architecture. These approaches include movement away from traditional distributed models and toward more centralized control environments with limited capability in-store devices also known as "thin clients." The thin clients include point-of-sale devices, kiosks and wireless in-store devices.

We believe these changes have accelerated the trend away from internally developed and supported retail application software. The increasingly competitive and technologically evolving environment has made it very difficult for companies that use internal, proprietary or prior generation supplier-provided software to keep up with the rapidly improving products that are available from external suppliers. At the same time, these changes have put pressure on outside suppliers such as us to continuously enhance our existing applications and develop new applications under new technologies on a more rapid timetable. We further believe that as retailers move forward with the selection and implementation of applications such as ours, they will increasingly require expert consulting, system integration, and other technical professional and support services. Further, we see that retailers are increasingly looking to experts, not generalists, to provide these services.

MISSION AND STRATEGY

Our mission is to become the leading global provider of retail application technology and related services using our single version philosophy which offers our customers a built-in upgrade path to the future. To fulfill our mission, our strategy is to provide our current and new customers the tools, infrastructure and expert services necessary for them to compete effectively in the global, multi-channel marketplace. Key elements of our strategy include:

- LEVERAGING OUR RETAIL EXPERIENCE AND PRESENCE IN SELLING TO NEW AND EXISTING CUSTOMERS. Over 200 retailers in the US, Canada, Europe, South America and Australia use some or all of our solutions. Our management, marketing, sales, development, quality assurance, professional services and support teams have an in-depth understanding of the retail industry through having delivered widely accepted products and services for more than 25 years. We believe our single version philosophy, the sophistication and stability of our applications, and our experience and presence in the retail industry give us a significant competitive advantage in marketing new and enhanced applications and services to the industry. Our refocused marketing strategy involves an emphasis on our core competencies, the high degree of customer satisfaction and loyalty of our existing customers and our built-in upgrade path to the future. Our training products subsidiary has also focused development and marketing efforts on producing training products for our retail customer base.

- EXPANDING AND ENHANCING OUR APPLICATIONS. We are engaged in an aggressive application technology development effort to expand and enhance our applications for use both domestically in the US and internationally. We are also continuing our strategy of offering new solutions that are complementary to our applications, primarily through strategic alliances. Our application technology enhancement program is designed to anticipate trends in the retail industry through constant consultation with our customers, strategic alliance partners and research analysts. Our goal is to introduce timely new applications and enhancements to our existing applications that will allow us to better compete for new customers and continued to be attractive to our existing customers.

- INCREASING FOCUS ON THE SMALLER RETAILER. We recently introduced a new standard merchandising management and store solution application set based on our large tier retailer experience and application base. We can supply this application with little or no modification to smaller Tier 2, Tier 3 and Tier 4 retailers at a competitive price point. The application set offers these retailers a fast implementation schedule and short ROI. We intend to market more aggressively to Tier 3 and Tier 4 retailers as part of our strategy to locate and exploit market opportunities available to us in the current economic climate, especially those opportunities which are underserved by our larger competitors.

- EMPHASIZING MULTI-CHANNEL SOLUTIONS. An important part of our application technology enhancement program is the integration of Web-based, catalog and mail order solutions with our historic suite of applications focused on the traditional brick and mortar retail business.

- GROWING PROFESSIONAL SERVICES. An increasingly important part of our solutions are the expert services we provide including retail business consulting, project management, implementation, integration, training and documentation services. We intend to continue to grow and market our Professional Services to support close relationships with our customers and to assist them in successful implementation of both our application technology and that of our strategic partners. We expect, as a result, to receive recurring revenues from our professional service agreements, and application customization services. We believe that an expansion of this revenue base can create a more stable revenue and cash flow base, reducing our reliance on application software license sales, which tend to fluctuate over time based on economic and other conditions.

- GROWING RECURRING REVENUES. Using our single version philosophy and by offering our existing and new customers a built-in upgrade path to the future, we are able and expect to grow our recurring revenue from our maintenance and support agreements. We believe that an expansion of this revenue base can create a more stable revenue and cash flow base, reducing our reliance on application software license sales, which tend to fluctuate over time based on economic and other conditions.

- INCREASING INTERNATIONAL SALES. We intend to increase our international sales efforts, focusing on the European market. Our development efforts with Toys "R" Us, Inc. have added significant functionality to our Island Pacific Merchandise Management suite, making us even more competitive internationally.

APPLICATION TECHNOLOGY AND SERVICES

We have three operating business units: Island Pacific, SVI Store Solutions and SVI Training Products, Inc.

ISLAND PACIFIC

OVERVIEW

Island Pacific is a leading provider of application software solutions and professional services for multi-channel retailers in the specialty, mass merchandising and department store markets. Our applications and services provide retailers with a robust enterprise business solution.

Our Island Pacific applications and services include the following major offerings:

- ISLAND PACIFIC MERCHANDISE MANAGEMENT suite of applications, including Merchandising, The Eye(TM) datamart tool set, Trends forecasting and dynamic replenishment tools, Events, Warehouse, Ticketing, Financials, and Sales Audit.

- ISLAND PACIFIC DIRECT, including support for Web-based, mail-order and traditional catalog retailing, which can be integrated with our Merchandise Management suite or implemented independently.

- ISLAND PACIFIC PROFESSIONAL SERVICES, including retail business consulting, project management, implementation, application training, and technical and documentation services.

- ISLAND PACIFIC DEVELOPMENT, MAINTENANCE AND SUPPORT SERVICES, including custom application development to tailor our software to meet the specific needs of our customers, and Maintenance and Support Services whereby we offer Help Desk, product release upgrades and error correction services to our customer base using our applications.

Our application technology and services provide the following benefits to our customers:

MULTI-CHANNEL RETAILING. Our solutions integrate the various storefronts of retailers, from point-of-sale devices to Web-based storefronts to mail order catalogs.

INTEGRATION. Our solutions are fully integrated applications that address the complete information and management requirements of the retail enterprise. In addition, our applications are designed for ease of implementation and operation. This means that our customers can quickly install, train and become operational with our products, thus minimizing the cost and time required to achieve true return on their investment. All of our applications are open systems, allowing integration with many third-party applications used by our customers.

SERVICES. We are able to provide expert, retail-savvy professional services to plan and implement our application solutions with our customers. We also customize our solutions to the unique needs of particular retailers. In addition, our standard applications contain a number of tools and features that allow our customers to tailor their systems continuously to their changing needs.

MARKETS AND CUSTOMERS

Island Pacific software is installed in over 200 retailers worldwide. Our applications are used by the full spectrum of retailers including specialty goods sellers, mass merchants and department stores. Most of our U.S. customers are in the Tier 1 to Tier 3 retail market sectors.

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

Nike	Limited Brands	American Eagle Outfitters	Disney
Phillips-Van Heusen	Signet (UK)	Shoefayre (UK)	Pacific Sunwear
Toys "R" Us	Timberland	Vodaphone (UK)	Academy Sports

MARKETING AND SALES

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

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

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

We have established a Product Direction Council, comprised of leading executives from our customers. The purpose of this Council is to help guide us in the future development of our applications and services, to maximize our opportunity to meet overall retail market trends and needs for a broad sector of the industry, and to do so well in advance of our competitors.

DESCRIPTION OF APPLICATIONS AND SERVICES

We have carefully assembled our Island Pacific Applications such that the modules work together as a single solution. Our customers can mix and match the modules to create a solution tailored to their businesses. We also offer

comprehensive professional services, custom development, maintenance and support services.

ISLAND PACIFIC ENTERPRISE SOLUTION

Island Pacific's Enterprise Solution application suite provides a methodology for retail chains that integrates the flow of data from the planning phase, through budgeting, to purchasing, allocation and distribution. The application then takes retail sales data for evaluation and feedback to the sales audit and planning phase. This suite of applications operates on the IBM iSeries computing platform, which is widely installed and extremely popular in the retail industry. The diagram below provides a graphic representation of the Island Pacific applications suite, including the integration of the optional Direct and Store Solutions applications.

[Island Pacific Applications Suite Graphic Here]

MERCHANDISING. The Merchandising module is the core of the Island Pacific Enterprise Solution application suite. This extensive module includes management planning and real time open to buy, forecasting, purchase order management, merchandise receiving, allocation, transfers, basic stock replenishment, physical inventory, price management and merchandise stock ledger. Merchandising has multiple language and currency capabilities for international operations.

Merchandising is offered as a single version application. Most modifications we perform on the application are incorporated into future releases of the base. This methodology reduces implementation risks for our customers, shortens the implementation cycle and reduces software bugs. It also reduces training requirements. Moreover, customers who continue to use our services for maintenance of the application are able to take advantage of improvements requested by other retailers. Finally, it gives us the ability to present a very stable application and support it with smaller focused infrastructure.

7

THE EYE(TM) (DATAMART). The Eye complements the Merchandising application by offering user-definable datamarts and information retrieval. The Eye uses innovative storage techniques that provide quick access to data and graphical drag-and-drop movement of elements and data. The Eye can also be used for data generated by applications outside the Island Pacific Enterprise Solution suite.

FINANCIALS. Financials includes accounts payable with automatic invoice matching, general ledger and fixed assets functions.

WAREHOUSE. Warehouse is a user-definable locator application for controlling the physical flow of merchandise. Warehouse employs a number of special features designed for retailers. Warehouse also includes support for radio frequency (RF) technology to allow for access to the application from the warehouse floor using a range of wireless devices.

EVENTS. The Events module plans and analyzes the performance of events and promotions. The module is linked to The Eye datamart application to provide

sophisticated and customizable implementation of an event or promotion and analysis and reports of its success.

Island Pacific Enterprise Solution Suite also includes sales audit, forecast and dynamic replenishment and merchandise ticketing modules.

ISLAND PACIFIC DIRECT SOLUTION

Our Direct application suite provides fully integrated tools including order entry, order processing, customer service, purchasing, inventory planning and forecasting, warehouse management, fulfillment and shipping, as well as marketing and circulation management to support Internet, catalog and mail-order retailing. We support these tools using our single version development philosophy, offering constant evolution and improvement to features and functions. Used in combination with our Island Pacific Merchandise Management suite of applications, Island Pacific Direct provides a system to fully integrate the fulfillment functions of multiple distribution channels, including local outlets, e-commerce and catalog and mail order.

PROFESSIONAL SERVICES

We offer a variety of consulting implementation and upgrade services to our customers. We perform services on an as needed basis and as part of project plans. We typically render services at the customer's site to provide the best overall understanding of the customer's environment and business.

RETAIL BUSINESS CONSULTING. We employ a staff of highly qualified, experienced retailers who provide a variety of business consulting services. Our consulting staff members have an average of over ten years experience in the retail industry as buyers, merchandise planners, store managers, IT managers, and retail business owners. They combine their retail experience with their knowledge of the SVI application solutions to offer advice on how best to integrate our solutions into the latest retail practices for a cost-effective, smooth implementation of change within an organization.

Our RETAIL CONSULTANTS assist with:

- requirements definitions;
- work process re-engineering;
- organizational change management;
- business process review;
- understanding of business benefits;
- job definition and staffing requirem

PROJECT MANAGEMENT. Our experienced project management teams assist with:

- work product definition;
- business and technical coordination;
- application testing and conference room pilots;
- overall implementation planning;
- coordination with suppliers;
- project assessment documentation;
- system integration; and
- project timelines.

APPLICATION TRAINING. We train the customer's internal training staff and we offer training for the customer's end users. Through our SVI Training Products subsidiary, we also offer certain software-training modules for our solutions.

IMPLEMENTATION SERVICES. Our technical experts provide implementation consulting and programming services. Implementation services include:

- interface and conversion between systems;
- testing;
- software installation;
- design, modification and customization;
- problem resolution;
- upgrade planning, testing and implementation;
- programming; and
- system management.

DOCUMENTATION SERVICES. We provide customized documentation for all elements of our solutions.

SVI STORE SOLUTIONS

SVI Store Solutions offers retailers a complete application providing point-of-sale and in-store processor (server) functions through its OnePointe application. OnePointe is a full business-to-consumer (B2C) integrated, in-store application, encompassing a range of integrated store solutions. It can also incorporate a third-party provided retail customer relationship management system and a complete performance measurement system with loss prevention features. The major benefits of OnePointe to a retailer are as follows:

- OnePointe is POS hardware platform independent, functioning on IBM, NCR, Fujitsu, Wincorp or PC-CD platforms.

- Thick or thin client versions of the product are available, allowing retailers to have software continuity as hardware platforms evolve.

- OnePointe's functionality reflects over 15 years of customized development for a wide variety of large and medium retailers.

- OnePointe offers multi-channel applications and hardware. Kiosk and web applications allow retailers to access their customers via several channels.

- OnePointe uses Internet protocol data transfer for peer to peer communications.

- OnePointe includes advanced development toolset, including TAG, a customer useable development environment.

- OnePointe is offered on a variety of hardware configurations, and is able to run on many different operating system platforms. The application employs a graphical user interface, optional touch screen input and wireless communication support. The application also provides an on-demand reference source for employees, including store policies, an on-screen calculator, instructions for forms usage, package pricing, frequent shopper information, gift cards, training mode, auditing features and e-mail. The application is fully customizable, either by the customer using included tools, or by our technical team as part of our implementation and support services.

- OnePointe provides a reliable, high-performance management platform to administer store applications. The architecture is designed to maintain data integrity while allowing full integration with our Island Pacific suite or third-party enterprise software products used

by the individual customer.

SVI TRAINING PRODUCTS, INC.

Our training products subsidiary develops and distributes PC courseware and skills assessment products. The courseware is designed for use in instructor-led and self-study training environments. We sell courseware either as individual manuals and instructor guides, or on a limited site license basis. We have developed more than 210 training courses for desktop and retail applications.

Site licensing allows a customer to print an unlimited number of course manuals for a fixed annual fee, and renewals provide us with a recurring annual revenue stream. In excess of 80% of the annual training site licenses are renewed. We provide the site-licensed courseware on the Internet through our website, or on CD-ROM, allowing customization of the instructor-led course materials.

We use a network of specialized consultants to develop courseware products. We hire consultants on a project basis. This allows for the fast, simultaneous development of multiple courses and gives us access to diverse skills without fixed overhead commitments.

We market training products through a direct sales force. We also advertise and sell the training product range through the Internet, direct mail and trade shows. SVI Training Products uses both in-house and independent representatives, and has representation in California, Texas, Indiana, Florida, New Jersey, Ireland, the United Kingdom and South Africa. Customers include Fortune 1000 corporations, K-12 school districts, universities, military facilities, government agencies and training schools.

Our training subsidiary is also a reseller of multimedia and hardcopy self-study materials for desktop and technical computer software applications. In addition, we resell on-line training products.

We also market the "compAssess On-Line" skills testing administration system and test center. compAssess On-Line is a multi-faceted software product that consists of three main applications. It includes a comprehensive administration system for registering students, assigning tests and monitoring results, a built-in collection of more than 1,500 performance based software test questions, and a facility to develop multiple-choice, true/false, hotspot and simulated questions on any subject regardless of the discipline. The compAssess built-in questions enable employers to evaluate the computer skills of their employees and provides assistance in selecting the appropriate course modules for trainees. We market this package to personnel agencies, universities, schools, training companies and corporations.

Our training subsidiary also provides courseware for our Store Solutions Group. The courseware is designed to provide in store training to all levels of store personnel from management to POS data entry clerks. We also provide custom courseware development services to support additional retail applications.

APPLICATION TECHNOLOGY DEVELOPMENT

We believe it is imperative to our long-term success that we maintain aggressive application technology development programs to improve our existing applications and to develop new applications. We believe that the core functionality that already exists in our technology will continue to serve many of the important retailing functions, but that additional functionality and

flexibility will be required in the constantly challenging, competitive environment.

Our future performance will depend in large part on our ability to enhance our current application technology and develop new applications. In order to achieve market acceptance, these new applications must anticipate and respond to the latest trends in business-to-consumer and business-to-business commerce. Our applications must also offer clearly perceived advantages over the offerings of our competitors.

As of July 29, 2002, 40% of our employees were engaged in application technology development. Most of these employees are located in our southern California offices. Company-sponsored application technology development expenses were $4.1 million, $6.6 million and $6.7 million , respectively, for the fiscal years 2002, 2001 and 2000. Customer-sponsored application technology development expenses were $5.5 million, $5.5 million and $1.5 million, respectively, for the fiscal years 2002, 2001 and 2000.

OUR CURRENT APPLICATION DEVELOPMENT PROJECTS INCLUDE:

- INFOCUS 2.0 OF OUR ISLAND PACIFIC MERCHANDISE MANAGEMENT APPLICATION SUITE. This release will offer significant enhancements to our current release 1.5, which continues to be deployed by the majority of our customers. InFocus 2.0 is expected to be released late in calendar year 2002 and to be generally available at the beginning of calendar 2003.

- DEVELOPMENT OF THE ISLAND PACIFIC APPLICATION ARCHITECTURE USING THE JAVA PROGRAMMING LANGUAGE. Several of our Java-based applications will be able to operate on virtually any hardware platform, and will allow for greater centralization of the control system environment. We are continuing to redevelop other portions and modules of the solution in Java as new features and enhancements are introduced.

- INVISION 1.5. InVision 1.5 is our affordable and scaleable, yet complete merchandise management system designed to meet the needs of the regional retailing entrepreneur. Through the launch of InVision 1.5, Island Pacific will penetrate the Tier 3 and 4 retail sectors, a market that has been typically ignored by the competition due to the size of the businesses.

- THE CONTINUED IMPROVEMENT OF OUR SINGLE VERSION STORE SOLUTION APPLICATION, ONEPOINTE. We introduced this offering in the fourth quarter of fiscal 2000, and we are continuing to enhance its features and functions.

COMPETITION

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

The largest of our competitors offering end-to-end retail solutions is JDA Software Group, Inc. Other suppliers offer one or more of the components of our solution. In addition, new competitors may enter our markets and offer merchandise management systems that target the retail industry. For enterprise

solutions, our competitors include Retek Inc., SAP AG, nsb Retail Systems PLC, Essentus, Inc., GERS, Inc., Marketmax, Inc., Micro Strategies Incorporated and NONSTOP Solutions. For SVI Store Solutions, our competitors include Datavantage, Inc., CRS Business Computers, nsb Retail Systems PLC, Triversity, ICL, NCR and IBM. Our Direct applications compete with Smith Gardner & Associates, Inc., and CommercialWare, Inc. Our professional services offerings compete with the professional service groups of our competitors, major consulting firms associated or formerly associated with the "Big 5" accounting firms, as well as locally based service providers in many of the territories in which we do business. Our strategic partners, including IBM, NCR and Fujitsu, represent potential competitors as well.

We believe the principal competitive factors in the retail solutions industry are price, application features, performance, retail application expertise, availability of expert professional services, quality, reliability, reputation, timely introduction of new offerings, effective distribution networks, customer service, and quality of end-user interface.

We believe we currently compete favorably with respect to these factors. In particular, we believe that our competitive advantages include:

- Proven, single version technology, reducing implementation costs and risks and providing continued forward migration for our customers.
- Extensive retail application experience for all elements of the customer's business, including Professional Services, Development, Customer Support, Sales and Marketing/Technology Management.
- Ability to provide expert Professional Services.

- Large and loyal customer base.
- Hardware platform independent Store Solution (POS) application.
- Breadth of our application technology suite including its multi-channel retailing capabilities.
- Our corporate culture focusing on the customer.

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

Our training products subsidiary competes with a large number of companies offering similar products. The market for courseware and skills assessment products is characterized by low barriers to entry. Many existing and potential competitors have greater financial, technical, production and/or marketing resources than we have. Our training subsidiary competes on the basis of its existing breadth of products, timely introduction of new products and value pricing. We believe that these factors give us an advantage over many of our competitors. We further believe that larger competitors will find it difficult to compete with us on the basis of price due to their higher development costs and larger overhead structures.

PROPRIETARY RIGHTS

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

We hold no patents. Consequently, others may develop, market and sell applications substantially equivalent to our applications, or utilize technologies similar to those used by us, so long as they do not directly copy our applications or otherwise infringe our intellectual property rights.

We integrate widely-available platform technology from third parties for certain of our applications. These third-party licenses generally require us to pay royalties and fulfill confidentiality obligations. Any termination of, or significant disruption in, our ability to license these products could cause delays in the releases of our software until equivalent technology can be obtained and integrated into our applications. These delays, if they occur, could have a material adverse effect on our business, operating results and financial condition.

Intellectual property rights are often the subject of large-scale litigation in the software and Internet industries. We may find it necessary to bring claims or litigation against third parties for infringement of our proprietary rights or to protect our trade secrets. These actions would likely be costly and divert management resources. These actions could also result in counterclaims challenging the validity of our proprietary rights or alleging infringement on our part. We cannot guarantee the success of any litigation we might bring to protect our proprietary rights.

Although we believe that our application technology does not infringe on any third-party's patents or proprietary rights, we cannot be certain that we will not become involved in litigation involving patents or proprietary rights. Patent and proprietary rights litigation entails substantial legal and other costs, and we do not know if we will have the necessary financial resources to defend or prosecute our rights in connection with any such litigation. Responding to, defending or bringing claims related to our intellectual property

rights may require our management to redirect our human and monetary resources to address these claims. In addition, these actions could cause delivery delays or require us to enter into royalty or license agreements. Royalty or license agreements, if required, may not be available on terms acceptable to us, if they are available at all. Any or all of these outcomes could have a material adverse effect on our business, operating results and financial condition.

EMPLOYEES

At July 29, 2002, we had a total of 168 employees, 153 of which were based in the United States and 15 of which were based in the United Kingdom. Of the total, 14% were engaged in sales and marketing, 40% were engaged in application technology development projects, 29% were engaged in professional services, and 17% were in general and administrative. We believe our relations with our

employees are good. We have never had a work stoppage and none of our employees are subject to a collective bargaining agreement.

ITEM 2. DESCRIPTION OF PROPERTY

Our principal corporate headquarters consists of 13,003 square feet in a building located at 5607 Palmer Way, Carlsbad, California. The lease for this facility is currently being negotiated. The current monthly rent is $13,680. Our primary operational office is in Irvine, California, where we occupy 26,521 square feet in a building located at 19800 MacArthur Blvd. This facility is occupied under a lease that expires on June 30, 2005. The current monthly rent is $55,620. We also occupy premises in the United Kingdom located at The Old Building, Mill House Lane, Wendens Ambo, Essex, England. The lease for this office building expires August 31, 2003. Annual rent is $43,646 (payable quarterly) plus common area maintenance charges and real estate taxes.

ITEM 3. LEGAL PROCEEDINGS

In April of 2002 our former CEO, Thomas A. Dorosewicz, filed a demand with the California Labor Commissioner for $256,250 in severance benefits allegedly due under a disputed employment agreement, plus attorney's fees and costs. On June 18, 2002, we filed an action against Mr. Dorosewicz and an entity affiliated with him in San Diego Superior Court, Case No. GIC790833, alleging fraud and other causes of action relating to transactions Mr. Dorosewicz caused us to enter into with his affiliates and related parties without proper board approval. We expect one or more cross-claims from Mr. Dorosewicz in that action. We do not believe we have any obligation to pay the severance benefits alleged by Mr. Dorosewicz to be due, and we intend to vigorously pursue our causes of action against Mr. Dorosewicz. We cannot at this time predict what will be the outcome of these matters, as discovery has not yet commenced in either action.

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

13

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

may arise from time to time which may harm our business.

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

None.

PART II

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

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

YEAR ENDED MARCH 31, 2002	HIGH	LOW
First Quarter	$ 1.600	$ 0.650
Second Quarter	$ 1.040	$ 0.690
Third Quarter	$ 1.010	$ 0.670
Fourth Quarter	$ 0.920	$ 0.580

YEAR ENDED MARCH 31, 2001	HIGH	LOW
First Quarter	$ 10.250	$ 5.125
Second Quarter	$ 7.063	$ 4.760
Third Quarter	$ 5.000	$ 0.950
Fourth Quarter	$ 2.700	$ 0.910

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

As of June 28, 2002 there were 28,454,441 shares of our common stock outstanding, which were held by approximately 128 stockholders of record.

During the quarter ended March 31, 2002, we issued the following securities without registration under the Securities Act of 1933

- 45,133 shares of common stock to outside service providers for payment of services rendered in previous periods, valued at $36,000.

- In conjunction with the Softline transactions described below under "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Financing Transactions -- Softline," we issued to Softline an aggregate of 141,000 shares of newly-designated Series A Convertible Preferred Stock at a deemed purchase price of $100 per share in exchange for 10,700,000 SVI common shares held by Softline and the discharge of a $12.3 million note payable to Softline. We also transferred to Softline our note received in connection with the sale of IBIS Systems Limited.

The foregoing securities were offered and sold without registration under

the Securities Act to sophisticated investors who had access to all information which would have been in a registration statement, in reliance upon the exemption provided by Section 4(2) under the Securities Act and Regulation D thereunder, and an appropriate legend was placed on the shares.

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

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our consolidated financial statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected consolidated financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for, and as of the end of, each of our last six fiscal years (including the six months ended March 31, 1998) are derived from our consolidated financial statements. The consolidated financial statements as of March 31, 2002, 2001, and 2000 and the independent auditors' report thereon, are included elsewhere in this report.

	YEAR ENDED MARCH 31,			
	2002	2001	2000	1
	(in thousands except for per s			
STATEMENT OF OPERATIONS DATA:				
Net sales	$ 27,109	$ 27,713	$ 26,652	$
Cost of sales	10,036	9,188	6,421	
Gross profit	17,073	18,525	20,231	
Expenses:				
Application development	4,203	5,333	4,877	
Depreciation and amortization	6,723	8,616	7,250	
Selling, general and administrative	13,144	18,037	14,817	
Impairment of intangible assets		6,519		
Impairment of note receivable received in connection with the sale of IBIS Systems Limited		7,647		
Total expenses	24,070	46,152	26,944	
Loss from operations	(6,997)	(27,627)	(6,713)	(
Other income (expense):				
Interest income	10	628	1,074	
Other income (expense)	(46)	63	(206)	
Interest Expense	(3,018)	(3,043)	(1,493)	
Gain on disposals of Softline Limited shares				
Gain (loss) on foreign currency transaction	(9)	2	(10)	
Total other income (expense)	(3,063)	(2,350)	(635)	

Income (loss) before provision (benefit) for income taxes	(10,060)	(29,977)	(7,348)	(
Provision (benefit) for income taxes	39	(4,778)	(2,414)	
Income (loss) from continuing operations	(10,099)	(25,199)	(4,934)	(
Income (loss) from discontinued operations	(4,559)	(3,746)	880	
Net income (loss)	$(14,658)	$(28,945)	$ (4,054)	$
Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.28)	$ (0.72)	$ (0.15)	$
Income (loss) from discontinued operations	(0.13)	(0.11)	0.03	
Net income (loss)	$ (0.41)	$ (0.83)	$ (0.12)	$
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.28)	$ (0.72)	$ (0.15)	$
Income (loss) from discontinued operations	(0.13)	(0.11)	0.03	
Net income (loss)	$ (0.41)	$ (0.83)	$ (0.12)	$
Weighted average common shares:				
Basic	35,698	34,761	32,459	2
Diluted	35,698	34,761	32,459	3
BALANCE SHEET DATA:				
Working capital	$ (5,337)	$ (2,782)	$ 2,628	$ 2
Total assets	$ 40,005	$ 56,453	$ 94,083	$ 5
Long-term obligations	$ 8,013	$ 18,554	$ 21,586	$
Stockholders' equity	$ 21,952	$ 26,993	$ 53,497	$ 4

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

FORWARD-LOOKING STATEMENTS

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS THE WORDS MAY, WILL, SHOULD, EXPECT, PLAN, ANTICIPATE, BELIEVE, ESTIMATE, PREDICT, POTENTIAL OR CONTINUE, OR THE NEGATIVES OF SUCH WORDS OR OTHER COMPARABLE TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IMPORTANT FACTORS THAT MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS ARE DESCRIBED UNDER THE HEADING "BUSINESS RISKS" BELOW, AND MAY BE IDENTIFIED FROM TIME TO TIME IN OUR FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, PRESS RELEASES AND OTHER COMMUNICATIONS.

ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. WE ARE UNDER NO OBLIGATION TO UPDATE ANY

OF THE FORWARD-LOOKING STATEMENTS AFTER THE FILING OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS OR TO CHANGES IN OUR EXPECTATIONS.

OVERVIEW

We are an independent provider of multi-channel application software technology and associated services for the retail industry including enterprise, direct-to-consumer and store solutions and related training products and professional and support services. Our applications and services represent a full suite of offerings that provide retailers with a complete end-to-end business solution. We also develop and distribute PC courseware and skills assessment products for both desktop and retail applications.

We developed our retail application software technology and services business through acquisitions. The largest and most important of these acquisitions were:

- Applied Retail Solutions, Inc. (ARS) in July 1998 for aggregate consideration of $7.9 million in cash and stock paid to the former stockholders; and

- Island Pacific Systems Corporation in April 1999 for $35 million cash.

Island Pacific is one of the leading providers of retail enterprise applications. ARS was one of the leading providers of store applications, and the technology we acquired and have subsequently enhanced now forms the core of our SVI Store Solutions.

We accounted for both the Island Pacific and ARS acquisitions using purchase accounting, which has resulted in the addition of significant goodwill and capitalized software assets on our balance sheet. We amortized capitalized software and goodwill from both of these acquisitions using ten year lives through March 31, 2002. See "Significant Accounting Policies" below.

Effective April 1, 2002, we restructured our operations into three strategic business units lead by experienced managers. The business units are Island Pacific, SVI Store Solutions and SVI Training Products, Inc. Our operations are conducted principally in the United States and the United Kingdom. Prior to February 2002, we also conducted business in Australia.

We currently derive the majority of our revenues from the sale of application software licenses and the provision of related professional and support services. Application software license fees are dependent upon the sales volume of our customers, the number of users of the application(s), and/or the number of locations in which the customer plans to install and utilize the application(s). As the customer grows in sales volume, adds additional users and/or adds additional locations, we charge additional license fees. We typically charge for support, maintenance and software updates 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. Our sales cycles for new license sales historically ranged from three to twelve months, but new license sales were limited during the past two fiscal years and sales cycles are now difficult to estimate. Our long sales cycles have in the past caused our revenues to fluctuate significantly from period to period. The reduction of new license sales caused the revenues of our Australian subsidiary to decrease substantially prior to discontinuation of operations in February 2002, and our sales mix in the US and the UK to shift to lower margin services.

We evaluate local operations primarily based on total revenues and earnings before interest expense, provision for income taxes, depreciation and amortization and impairment charges as shown below.

	YEAR ENDED MARCH 31, 2002		2001	
	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCENTAGE OF REVENUE
Net sales	$ 27,109	100%	$ 27,713	100%
Cost of sales	10,036	37%	9,188	33%
Gross profit	17,073	63%	18,525	67%
Application development expense	4,203	16%	5,333	19%
Selling, general and administration expenses	13,144	48%	18,037	65%
Other income (expense)	(45)	0%	694	3%
Income (loss) before interest expense, provision for income taxes, depreciation and amortization and impairment	(319)	(1)%	(4,151)	(14)%
Depreciation and amortization	(6,723)	(25)%	(8,616)	(31)%
Impairment of intangible assets			(6,519)	(24)%
Impairment of note receivable received in connection with the sale of IBIS Systems Limited			(7,647)	(28)%
Interest expense	(3,018)	(11)%	(3,043)	(11)%
Provision (benefit) for income taxes	39	0%	(4,778)	17%
Loss from continuing operations	(10,099)	(37)%	(25,199)	(91)%
Income (loss) from discontinued operations, net of taxes	(4,559)		(3,746)	
Net loss	$(14,658)		$(28,945)	

We also manage long-lived assets by geographic region. The geographic distribution of our revenues and long-lived assets for the fiscal years ended March 31, 2002, 2001, and 2000 is as follows (in thousands):

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001	YEAR END MARCH 3 2000
		(in thousands)	
Net Sales:			
United States	$ 24,559	$ 25,457	$ 22,
Australia (discontinued operations)	2,363	4,959	8,
South Africa (discontinued operations)			1,

United Kingdom	2,550	2,256	3,
Total net sales	$ 29,472	$ 32,672	$ 36,
Long-lived assets:			
United States	$ 35,280	$ 48,270	$ 60,
Australia (discontinued operations)		1,370	11,
United Kingdom	22	59	
Total long-lived assets	$ 35,302	$ 49,699	$ 72,

Up to March 31, 2002, we classified our operations into two lines of business: retail solutions and training products. As revenues, results of operations and assets related to our training products subsidiary were below the threshold established for segment reporting, we consider our business for the fiscal year ended March 31, 2002 to have consisted of one reportable operating segment. Effective April 1, 2002, we operate under three strategic business units. Each of these units will be measured separately against their individual business plans.

Results of operations for fiscal 2002 reflect continued weakness in new license sales of our application software suites. As a result of our net losses, we experienced significant strains on our cash resources throughout the 2002 fiscal year.

We have taken a number of affirmative steps to address our operating situation and liquidity problems, and to position us for improved results of operations.

- In the third quarter of 2002, we completed an analysis of our operations and concluded that it was necessary to restructure the composition of our management and personnel. We were concerned that the new management team had not been able to close a number of new business opportunities or to raise capital. We were also concerned

  with general economic conditions, especially after the terrorist attacks of September 11, 2001, and the resulting ongoing hostilities in the world. Our CEO, Thomas A. Dorosewicz, and our CFO, Kevin M. O'Neill, elected to leave to pursue other interests, and both resigned from our board of directors. We appointed Barry M. Schechter, our Chairman, as Chief Executive Officer, and Jackie Tran, our Controller, as acting Chief Financial Officer. We also reduced our staff by a total of 20%, and restructured and refocused our sales force toward opportunities available in the current economic climate. This reorganization resulted in costs savings of approximately $3 million per year.

- In the fourth quarter of 2001, we appointed experienced managers to manage our Island Pacific and SVI Store Solutions operations. We also appointed an experienced vice president of sales to the team.

- We developed measurable budgets for each divisional operation so as to measure performance directly and maintain control over expenditures.

- We restructured our application development efforts in concert with our new Marketing and Technology Management team to work more closely with customers for improvements to our offerings. We expect the result will be application technology that more closely meets the needs of our customers. Additionally, more of the costs of development may be offset against customer specific revenues.

- We issued a total of $1.25 million in convertible notes to a limited number of accredited investors related to ICM Asset Management, Inc. of Spokane, Washington, a significant beneficial owner of our common stock. In July 2002, we amended these notes to extend the maturity date and other provisions, and we replaced the warrants issued to these investors. See "Financing Transactions -- ICM Asset Management, Inc." below.

- We relocated our principal executive offices to smaller and less expensive premises in Carlsbad, California.

- We negotiated an extension of our senior bank lending facility to August 31, 2003. See "Liquidity and Capital Resources -- Contractual Obligations -- Union Bank" below.

- We completed an integrated series of transactions with Softline to repay our subordinated note to Softline, to transfer to Softline our note received in connection with the sale of IBIS Systems Limited, and to issue new Series A Convertible Preferred securities in exchange for 10,700,000 SVI common shares. See "Financing Transactions -- Softline" below.

- Our Australian subsidiary ceased operations in February 2002. See "Discontinued Operations" below.

- In May 2002, we entered into a new two-year software development and services agreement with our largest customer, Toys "R" Us, Inc. Toys also agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 common shares. For a further details, see "Financing Transactions -- Toys "R" Us" below.

For a further discussion of our plans to address our net losses and negative working capital, see Note 1 to our Financial Statements included with this report.

DISCONTINUED OPERATIONS

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

monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due. For further details, see "Liquidity and Capital Resources -- Contractual Obligations -- National Australia Bank" below.

18

The disposal of our Australian subsidiary resulted in a loss of $3.2 million. The operating results of the Australian subsidiary are shown on our financial statements as discontinued operations with the prior period results restated.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

  We license software under non-cancelable agreements and provide related services, including consulting and customer support. We recognize revenue in accordance with Statement of Position 97-2 (SOP 97-2), Software Revenue Recognition, as amended and interpreted by Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition, with respect to certain transactions, as well as Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants. We adopted Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements, during the first quarter of 2000. SAB 101 provides further interpretive guidance for public companies on the recognition, presentation, and disclosure of revenue in financial statements. The adoption of SAB 101 did not have a material impact on our licensing or revenue recognition practices.

  Software license revenue 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. In addition, if a software license contains

customer acceptance criteria or a cancellation right, the software revenue is recognized upon the earlier 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 deferred license, prepaid services revenue and maintenance support revenue.

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. On 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. We have from time to time provided software and consulting services under fixed price contracts that require the achievement of certain milestones. The revenue under such arrangements is recognized as the milestones are achieved.

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

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

- VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL. We assess the impairment of identifiable intangibles, long-lived assets and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When we determine that the carrying value of intangibles, long-lived assets and related goodwill 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. Net intangible assets, long-lived assets, and

goodwill amounted to $35.5 million as of March 31, 2002.

In our 2003 fiscal year, Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets became effective and as a result, we will cease to amortize approximately $14.8 million of goodwill. We had recorded approximately $2.2 million of amortization during fiscal 2002 and would have recorded approximately $2.2 million of amortization during fiscal 2003.

FINANCING TRANSACTIONS

AMRO INTERNATIONAL, S.A.

On October 24, 2000, the SEC declared effective a registration statement registering up to 700,000 shares of our common stock for resale by AMRO International, S.A. AMRO purchased 344,948 shares in March 2000 for approximately $2.9 million, and under the terms of the purchase agreement, was entitled to receive additional shares of our common stock if the average of the closing price of our stock for the five days preceding the effective date of the registration statement was less than $10.34. Pursuant to the repricing formula, we issued to AMRO 375,043 additional shares of common stock. We became obligated to pay to AMRO liquidated damages for late effectiveness of the registration statement in the amount of $286,000. AMRO agreed in March 2001 to accept 286,000 shares of common stock in satisfaction of the liquidated damages, and agreed to purchase an additional 214,000 shares of common stock for $214,000. In connection with this agreement, we issued AMRO a two-year warrant to purchase up to 107,000 shares of common stock at $1.50 per share. We may call the warrant for $0.001 per share if our common stock trades above $2.00 per share for twenty consecutive trading days and the warrant shares are registered with the SEC for resale or otherwise salable by AMRO without restriction. AMRO will have thirty days after the call to exercise the warrant, after which time the warrant will expire.

We agreed to register all of the shares sold in March 2001, and those that we may sell under the warrant, with the SEC. We became obligated to pay to AMRO as liquidated damages the amount of $60,000. In April 2002, AMRO agreed to accept 140,000 shares of common stock in satisfaction of the liquidated damages.

ICM ASSET MANAGEMENT, INC.

In December 2000, we entered into an agreement to sell up to 2,941,176 common shares to a limited number of accredited investors related to ICM Asset Management, Inc. for cash at $0.85 per share. We sold 1,764,706 of such shares in December 2000, for gross proceeds of $1.5 million, and an additional 588,235 shares in January 2001, for additional gross proceeds of $0.5 million. Two of the investors exercised a right to purchase an additional 588,235 shares in February 2001 for additional gross proceeds of $0.5 million.

We also agreed to issue to each investor a warrant to purchase one common share at $1.50 for each two common shares purchased in the private placement (aggregate warrants exercisable into 1,470,590 option shares). We had the right to call 50% of the warrants, subject to certain conditions, if our common shares traded at a price above $2.00 per share for thirty consecutive days. We had the right to call the remaining 50% of the warrants, subject to certain conditions, if our common shares traded at a price above $3.00 per share for thirty consecutive days.

We agreed to register all of the shares sold under the purchase agreement

or the warrants with the SEC. Our agreement with the investors provided that if a registration statement was not effective on or before April 21, 2001, we would be obligated to issue two-year warrants to each investor, entitling the investor to purchase additional shares of our common stock at $0.85 per share. We filed a registration statement in January 2001 to register these shares, but it did not become effective. As of June 28, 2002, we had issued the investors warrants to purchase 1,249,997 common shares under this agreement.

In May and June 2001, we issued a total of $1.25 million in convertible notes to a limited number of accredited investors related to ICM. The notes were originally due August 30, 2001, and required interest at the rate of 12% per annum to be paid until maturity, with the interest rate increasing to 17% after maturity. Any portion of the unpaid amount of principal and interest was convertible at any time by the investors into common shares valued at $1.35 per share. We also agreed to issue to the investors three-year warrants to purchase 250 common shares for each $1,000 in notes purchased, at an exercise price of $1.50 per share.

In July 2002, we agreed to amend the terms of the notes and warrants issued to the investors related to ICM. The investors agreed to replace the existing notes with new notes having a maturity date of September 30, 2003. The interest rate on the new notes was reduced to 8% per annum, increasing to 13% in the event of a default in payment of principal or interest. We are required to pay accrued interest on the new notes calculated from July 19, 2002, in quarterly installments beginning September 30, 2002. The investors agreed to reduce accrued interest and late charges on the original notes by up to $85,000, and to accept the reduced amount in shares of our common stock valued at the average closing price of our shares on the American Stock Exchange for the 10 trading days prior to July 19, 2002. The new notes are convertible at the option of the holders into shares of our common stock valued at $0.60 per share. We do not have a right to prepay the notes.

We also agreed that the warrants previously issued to the investors to purchase an aggregate of 3,033,085 shares at exercise prices ranging from $0.85 to $1.50, and expiring on various dates between December 2002 and June 2004, would be replaced by new warrants to purchase an aggregate of 1,600,000 shares at $0.60 per share, expiring July 19, 2007. The replacement warrants are not callable by us.

We also agreed to file a registration statement for the resale of all shares held by or obtainable by these investors. In the event such registration statement is not declared effective by the SEC within 120 days after July 17, 2002, we will be obligated to issue five-year penalty warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. We will be obligated to issue additional penalty warrants for each 30 day period after such date in which the registration statement is not effective. No further penalty warrants will accrue from our original registration obligation.

SOFTLINE

In May 2002, we entered into an integrated series of transactions with Softline by which:

1. We transferred to Softline the note received in connection with the sale of IBIS Systems Limited.

2. We issued to Softline 141,000 shares of newly-designated Series A Convertible Preferred Stock.

3. Softline released us from approximately $12.3 million in indebtedness due to Softline under a promissory note.

4. Softline surrendered 10,700,000 shares of our common shares held by Softline.

The Series A Preferred Stock has a stated value of $100 per share and is redeemable 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 shares are entitled to cumulative dividends of 7.2% per annum, payable semi-annually when, as and if declared by the board of directors. Softline may convert each share of Series A Preferred Stock at any time into the number of common shares determined by dividing the stock 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 Series A Preferred Stock is entitled upon liquidation to an amount equal to its stated value plus accrued and unpaid dividends in preference to any distributions to our common stockholders. The Series A Preferred Stock 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 Stock or common shares received on conversion which Softline may propose to sell to a third party, upon the same price and terms as the proposed sale to a third party. We also granted Softline certain registration rights for the common shares into which the Series A Preferred Stock is convertible, including the right to demand registration on Form S-3 if such form is available to us and Softline proposes to sell at least $5 million of registrable common shares, and the right to include shares obtainable upon conversion of the Series A Preferred Stock in other registration statements we propose to file.

These transactions were recorded for accounting purposes on January 1, 2002, the date when Softline took effective control of the IBIS note and we ceased accruing interest on the Softline note. We did not recognize any gain or loss in connection with the disposition of the IBIS note or the other components of the transactions.

TOYS "R" US

In May 2002, Toys "R" Us agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 common shares. The purchase price is payable in installments through September 27, 2002. The note is non-interest bearing, and the face amount is payable in shares of our stock valued at $0.553 per share. The note is due May 29, 2009, or if earlier than that date, three years after the completion of the development project contemplated in the development agreement between us and Toys entered into at the same time. We do not have the right to prepay the convertible note before the due date, but upon the due date, we may at our option pay the principal amount in cash rather than shares to the extent Toys did not earlier convert the note to shares. The face amount of the note is 16% of the $1.3 million purchase price as of May 29, 2002, and increases by 4% of the $1.3 million purchase price on the last day of each succeeding month, until February 28, 2004, when the face amount is the full $1.3 million purchase price. The face amount will cease to increase if Toys terminates its development agreement with us for a reason other than our breach. The face amount will be zero if we terminate the development agreement due to an uncured breach by Toys of the development agreement.

The warrant entitles Toys to purchase up to 2,500,000 of our common shares at $0.553 per share. The warrant is initially vested as to 400,000 shares as of May 29, 2002, and vests at the rate of 100,000 shares per month until February

28, 2004. The warrant will cease to vest if Toys terminates its development agreement with us for a reason other than our breach. The warrant will become entirely non-exercisable if we terminate the development agreement due to an uncured breach by Toys of the development agreement. Toys may elect a "cashless exercise" where a portion of the warrant is surrendered to pay the exercise price.

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

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the relative percentages that certain income and expense items bear to net sales:

	YEAR ENDED MARCH 31			
	2002		2001	
	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCENTA OF REVEN
Net sales	$ 27,109	100%	$ 27,713	10
Cost of sales	10,036	37%	9,188	3
Gross profit	17,073	63%	18,525	6
Expenses:				
Application development	4,203	16%	5,333	1
Depreciation and amortization	6,723	25%	8,616	3
Selling, general and administration	13,144	48%	18,037	6
Impairment of intangible assets			6,519	2
Impairment of note receivable received in connection with the sale of IBIS Systems Limited			7,647	(2
Total expenses	24,070	89%	46,152	16
Loss from operations	(6,997)	(26)%	(27,627)	(10
Other income (expense)				
Interest income	10	0%	628	
Other income (expense)	(46)	0%	63	
Interest expense	(3,018)	(11)%	(3,043)	(1

Gain (loss) on foreign currency translation	(9)	0%	2	
Total other expense	(3,063)	(11)%	(2,350)	(
Loss before provision (benefit) for income taxes	(10,060)	(37)%	(29,977)	(10
Provision (benefit) for income taxes	39	0%	(4,778)	1
Loss from continuing operations	(10,099)	(37)%	(25,199)	(9
Income (loss) from discontinued operations, net of taxes	(4,559)		(3,746)	
Net loss	$(14,658)		$(28,945)	

FISCAL YEAR ENDED MARCH 31, 2002 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2001

NET SALES

Net sales decreased slightly by $0.6 million, or 2%, to $27.1 million in the fiscal year ended March 31, 2002 from $27.7 million in the fiscal year ended March 31, 2001. Fiscal year 2001 revenues included recognition of $2.0 million in revenue from a one-time sale of technology rights which was signed in fiscal 2000.

Fiscal 2002 was a challenging year in which to close new application license sales. We believe our difficulties initially arose from insufficient staffing of our sales force. Although we significantly increased the staffing of our sales force in the first quarter of fiscal 2002, the economic slowdown and the terrorist attacks of September 11, 2001, and the ongoing hostilities in the world increased the challenges faced by our sales force. In addition, our financial condition may have interfered with our ability to sell new application software licenses, as implementation of our applications generally requires extensive future services and support, and some potential customers have expressed concern about our financial ability to provide these ongoing services. We believe strongly that we provide and will continue to provide excellent support to our customers, as demonstrated by the continuing upgrade purchases by our top-tier established customer base. Significant sales growth may however depend in part on our ability to improve our financial condition.

In October 2001, we took aggressive steps designed to improve sales of new application software licenses, and to streamline our operations around services to our existing customers. These steps included a restructuring of our operations and repositioning of the sales force to better focus on the historical markets of our retail enterprise solution and our retail store solution. This strategy has permitted us to reduce overhead expenses, while allowing us to target those markets most likely to result in sales in the current economic climate. Our newly focused sales force has also begun to aggressively market individual modules within our suites. These modules have been improved through modification services performed for existing customers, and may now be marketed as separate applications to new customers. These modules are suited to those potential customers looking for incremental upgrades to their systems at a substantially lower cost, and with a substantially reduced implementation commitment, than an upgrade to our full suite would require. We intend to add additional sales personnel at such time as the economic climate and market for our products permits.

In July 2001, we entered into an agreement to expand our current professional services activities with Toys "R" Us significantly through September 2003. In May 2002, we entered into a new development agreement with Toys for the provision of development services through February 2004. We expect the overall dollar amount of professional services we perform for Toys in 2003 to be comparable to fiscal 2002, and to continue to be a significant source of professional services revenues in fiscal 2004. Toys accounted for 42% of our net sales in fiscal 2002 compared to 29% of net sales in fiscal 2001.

COST OF SALES/GROSS PROFIT

Cost of sales increased $0.8 million, or 9%, to $10.0 million in the fiscal year ended March 31, 2002 from $9.2 million in the fiscal year ended March 31, 2001. Gross profit as a percentage of net sales decreased to 63% in fiscal 2002 from 67% in fiscal 2001. The decrease in gross profit margin was due to a further shift in the sales mix from high margin application licenses to lower margin software modification and professional services. During fiscal 2002, application technology license revenues represented 17% of net sales and related services represented 76% of net sales, compared to 25% and 69% of net sales, respectively, of net sales during fiscal 2001.

Cost of sales for fiscal 2002 and 2001 included $3.6 million and $3.4 million, respectively, in costs associated with the development or modification of modules for Toys "R" Us, including the use of higher cost outsource development services (subcontractors) for certain components of the overall project. These costs are neither capitalized nor included in application technology development expenses, but we consider them to be part of our overall application technology development program.

APPLICATION DEVELOPMENT EXPENSE

Application development expense for the fiscal year ended March 31, 2002 was $4.2 million as most development expenditures were client funded compared to $5.3 million for the fiscal year ended March 31, 2001, a decrease of 21%. The decrease reflects a shift toward customer-funded development expenses. For a further discussion of our application technology development program, see "Description of Business" under the heading "Application Technology Development" above.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by $4.9 million, or 27%, to $13.1 million compared to $18.0 million in the fiscal year ended March 31, 2001. The decrease was due to the following:

- Personnel reduction implemented in the fourth quarter of 2001 and third quarter of 2002 and control of expenditures.

- A $0.9 million reserve for bad debts in fiscal 2001.

During the third quarter of 2002, we completed an analysis of our operations and concluded that it was necessary to restructure the composition of our management and personnel. We anticipated that the restructuring would result in an approximately $3.0 million annual reduction in our expense levels compared to expenses prior to implementation of the plan. To the extent resources are available, we expect to slowly increase our expense levels in fiscal 2003 from the reduced level after the reductions in the third quarter of fiscal 2002.

Additional planned expenditures are for the building of our sales force and for additions to our Professional Services group for US and UK retail operations as new licenses and services are sold.

EARNINGS (LOSS) FROM CONTINUING OPERATIONS AND BEFORE INTEREST EXPENSE, INCOME TAXES, DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

The loss from continuing operations and before interest expense, income taxes, depreciation, amortization, and impairments of intangible assets and notes receivable was $0.3 million for the year ended March 31, 2002 as compared to a comparable loss from continuing operations of $4.2 million in the year ended March 31, 2001, representing an improvement of $3.9 million. The gross profit for the year decreased by $1.5 million and other income by $3.9 million, but was offset by improvements primarily from reduced application development expenses in the amount of $1.1 million, and reduced selling, general and administrative expenses of $4.9 million.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by $1.9 million, or 22%, to $6.7 million in the fiscal year ended March 31, 2002 from $8.6 million in the fiscal year ended March 31, 2001. The decrease reflected the reduction in the base amounts of goodwill and capitalized software assets resulting from the recognition of impairments of those assets in the fourth quarter of fiscal 2001. As a result of the implementation of SFAS No. 142, we will not amortize goodwill in fiscal 2003. We will however record in the first quarter of fiscal 2003 a $0.6 million impairment charge based upon the transitional analysis of goodwill impairment required by SFAS 142, and we may record impairment charges based upon the impairment testing procedures required by SFAS 144 (see "Recent Accounting Pronouncements" below).

INTEREST INCOME AND EXPENSE

Interest expense was $3.0 million in the fiscal years ended March 31, 2002 and 2001.

Interest income decreased $0.6 million to $0.1 million in fiscal 2002, compared to $0.7 million in fiscal 2001 due to cessation of the accrual of interest income on the note receivable received in connection with the sale of IBIS after the second quarter of fiscal 2001.

DISCONTINUED OPERATIONS

Loss from discontinued operations in fiscal 2002 was $4.6 million, which included $1.4 million of net loss from Australian operations and $3.2 million of loss on disposal. Loss from discontinued operations in fiscal 2001 was $3.7 million. Net sales from Australian operations decreased from $5.0 million in fiscal 2001 to $2.4 million in fiscal 2002.

FISCAL YEAR ENDED MARCH 31, 2001 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2000

NET SALES

Net sales increased by $1.0 million, or 4%, to $27.7 million in the fiscal year ended March 31, 2001 from $26.7 million in the fiscal year ended March 31, 2000. Fiscal year 2001 revenues included recognition of $2.0 million in revenue from a one-time sale of technology rights which was signed in fiscal 2000. In addition to those factors, the decrease in net sales was principally due to a

$1.6 million decrease in revenue from our United Kingdom retail operations reflecting a substantial decrease in new application license sales. The substantial decrease in new application license sales was due in part to our inability to close several larger application license transactions in our sales pipeline.

COST OF SALES/GROSS PROFIT

Cost of sales increased $2.8 million, or 43%, to $9.2 million in the fiscal year ended March 31, 2001 from $6.4 million in the fiscal year ended March 31, 2000. Gross profit as a percentage of net sales decreased to 67% in fiscal 2001 from 76% in fiscal 2000. The decrease in gross profit margin was due to a shift in the sales mix from high margin application licenses to lower margin software modification and professional services. During fiscal 2001, application technology license revenues represented 23% of net sales and related services represented 77% of net sales, compared to 30% and 70% of net sales, respectively, of net sales during fiscal 2000.

Cost of sales for fiscal 2001 included $4.9 million in costs associated with the development or modification of modules for Toys "R" Us, including the use of higher cost outsource development services (subcontractors) for certain components of the overall project. These costs are neither capitalized nor included in application technology development expenses, but we consider them to be part of our overall application technology development program.

APPLICATION DEVELOPMENT EXPENSE

Application development expense for the fiscal year ended March 31, 2001 was $5.3 million compared to $4.9 million for the fiscal year ended March 31, 2000, an increase of 8%. During fiscal 2001, we continued our application technology development program begun in fiscal 2000 to improve and integrate our application software. For a further discussion of our application technology development program, see "Description of Business" under the heading "Application Technology Development" above.

25

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $3.2 million, or 22%, to $18.0 million compared to $14.8 million in the fiscal year ended March 31, 2000. The increase was due to the following:

- One-time personnel reduction charge of $0.9 million in the fourth quarter associated with the reorganization of our SVI Retail operations in Irvine and San Diego, California.
- An increase in professional fees and allowances of $1.1 million.
- Increased personnel expense, in part due to our acquisition of MarketPlace Systems Corporation.

EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INTEREST EXPENSE, INCOME TAXES, DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

The loss from continuing operations before interest expense, income taxes, depreciation, amortization and impairments of intangible assets and notes receivable was $4.2 million for the year ended March 31, 2001 as compared to a comparable profit from continuing operations of $1.4 million in the year ended March 31, 2000, representing a reduction of $5.6 million. The gross profit for the year decreased by $1.7 million and other income by $0.2 million; application

development expenses increased by $0.5 million and selling, general and administrative expenses increased by $3.2 million.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $1.3 million, or 18%, to $8.6 million in the fiscal year ended March 31, 2001 from $7.3 million in the fiscal year ended March 31, 2000. The increase was due to the amortization of software purchased in connection with the acquisition of MarketPlace Systems Corporation in March 2000, and to amortization of capitalized software that was made available for sale in fiscal 2001.

IMPAIRMENT OF ASSETS

Our March 31, 2001 balance sheet includes a $7.0 million note receivable. This note was secured by 1,536,000 shares or approximately 11% of the outstanding common stock of Integrity Software, Inc. We do not believe the obligor under the note has significant assets other than the Integrity shares securing the note. The obligor is an entity affiliated with Integrity, and its ability to sell the Integrity shares to repay the note is limited by law and by market conditions. During the fiscal year ended March 31, 2001, we determined that the value of this note receivable was impaired, and we wrote off a total of $7.6 million as a valuation allowance. We obtained an independent valuation of the Integrity shares securing the note at March 31, 2001, which supported the value shown on our March 31, 2001 balance sheet. This note and the shares securing it were transferred to Softline effective January 1, 2002. See "Financing Transactions -- Softline" above.

We also recorded in the fourth quarter of fiscal 2001 an impairment of $6.5 million in capitalized software and goodwill associated with Australian operations. In determining the amount of impairment, we compared the net book value of the long-lived assets associated with the Australian subsidiary, primarily consisting of recorded goodwill and software intangibles, to their estimated fair values. Fair values were estimated based on anticipated future cash flows of the Australian operations, discounted at a rate commensurate with the risk involved.

INTEREST INCOME AND EXPENSE

Interest expense increased $1.5 million, or 100%, to $3.0 million in the fiscal year ended March 31, 2001 from $1.5 million in the fiscal year ended March 31, 2000. The increase was due to inclusion for the full 2001 fiscal year of interest from indebtedness incurred in June 1999 to purchase Island Pacific, and an increase in our average interest rate to 12% in fiscal 2001 compared to 9% in fiscal 2000. The increase also included $0.5 million in amortized loan refinancing costs, including $0.2 million of amortized loan cost reimbursement to Softline.

Interest income decreased $0.5 million to $0.6 million in fiscal 2001, compared to $1.1 million in fiscal 2000 due to decreased cash and cash equivalents.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

During the fiscal year ended March 31, 2002, we financed our operations using cash on hand, internally generated cash, cash from the issuance of convertible notes and loans from an entity affiliated with Donald S. Radcliffe, a director. During the fiscal year ended March 31, 2001, we financed our operations using cash on hand, internally generated cash, cash from the sale of

common stock, proceeds from the exercise of options, lines of credit and loans from each of Softline, a subsidiary of Softline and Barry M. Schechter, our Chairman. During the fiscal year ended March 31, 2000, we financed our operations through internally generated cash, proceeds from bank and other loans (including a loan from a major stockholder), proceeds from the sale of common stock and the exercise of options, and bank lines of credit. At March 31, 2002 and 2001, we had cash of $1.3 million.

Operating activities provided cash of $1.6 million in the fiscal year ended March 31, 2002 and used cash of $2.4 million in the fiscal year ended March 31, 2001 and $2.3 million in the fiscal year ended March 31, 2000. Cash provided for operating activities in fiscal 2002 resulted primarily from $2.5 million decrease in accounts receivable and other receivables, $1.6 million increase in deferred revenue, $7.1 million in non-cash depreciation and amortization, $3.2 million of loss on disposal of Australian operations, $2.3 million increase in interest payable and $1.0 million in non-cash charges for stock-based compensation and interest related to convertible notes due stockholders; offset by $14.7 million of net losses and $1.9 million decrease in accounts payable and accrued expenses. Cash used for operating activities in fiscal 2001 resulted primarily from $28.9 million of net losses, a $4.4 million decrease in net deferred tax liability and a $4.4 million decrease in deferred revenue; offset by $16.5 million in non-cash impairments of assets, $9.5 million in non-cash depreciation and amortization, a $5.1 million decrease in accounts receivable, and a $4.4 million increase in accounts payable and accrued expenses. Cash used for operating activities during fiscal year 2000 primarily resulted from a $4.1 million net loss, a $4.6 million increase in accounts receivable and other receivables, a $0.6 million decrease in accounts payable and accrued expenses, a $0.8 million increase in interest receivable, a $2.6 million decrease in income tax payable, and a $2.6 million increase in deferred income taxes liability; offset in part by $7.9 million of non-cash depreciation and amortization expense and a $5.0 million increase in deferred revenue.

Accounts receivable decreased during fiscal year 2002 primarily due to a write-off of $367,000 in receivables in connection with the discontinuation of Australian operations in February 2002 and a significant improvement in collection efforts. Accounts receivable decreased during fiscal year 2001 primarily due to payment during fiscal 2001 of $2.0 million from the one-time sale of technology rights during fiscal 2000, the write-off during the fourth quarter of fiscal 2001 of the $1.6 million outstanding balance remaining from the one-time sale of technology rights and a decrease in trade receivables aged over 30 days as a result of improvement in collection efforts. Accounts receivable increased during fiscal year 2000 primarily due to the inclusion of Island Pacific accounts receivable of $4.0 million at March 31, 2000 and the $3.3 million total receivable associated with the non-recurring sale of technology rights. Accounts receivable balances fluctuate significantly due to a number of factors including acquisitions and dispositions, seasonality, shifts in customer buying patterns, contractual payment terms, the underlying mix of applications and services sold, and geographic concentration of revenues.

Investing activities used cash of $0.7 million, $3.0 million, and $36.5 million in the fiscal years ended March 31, 2002, 2001 and 2000. Investing activities during fiscal 2002 included a $0.4 million increase in capitalized software development costs and $0.3 million in furniture and equipment purchases. Investing activities during fiscal year 2001 included a $2.5 million increase in purchase of software and capitalized software development costs and $0.5 million in furniture and equipment purchases. Investing activities during fiscal year 2000 included a $33.8 million net cash payment for the acquisition of Island Pacific, $1.8 million in software purchases and capitalized software

development costs and $0.8 million in capital expenditures.

Financing activities used cash of $0.8 million in the fiscal year ended March 31, 2002 and provided cash of $1.9 million and $30.9 million in the fiscal years ended March 31, 2001 and 2000. Financing activities during fiscal year 2002 included $1.2 million in note payments and $0.8 million decrease in amounts due to stockholders; offset in part by $1.3 million in proceeds from issuance of convertible notes. Financing activities during fiscal year 2001 included $3.8 million in proceeds from the sale of common stock, $9.9 million increase in amounts due to stockholders and $1.6 million in proceeds from lines of credit, offset by $13.2 million in note payments. Financing activities during fiscal year 2000 included $18.5 million in proceeds from loans obtained to acquire Island Pacific, $9.6 million in proceeds from the exercise of options and private sale of common stock and $2.3 million in proceeds from lines of credit, offset in part by $1.5 million in loan payments.

Changes in the currency exchange rates of our foreign operations had the effect of decreasing cash by $0.1 million in the fiscal years ended March 31, 2002 and 2001 and $0.3 million in the fiscal year ended March 31, 2000.

27

CONTRACTUAL OBLIGATIONS

THE FOLLOWING TABLE SUMMARIZES OUR CONTRACTUAL OBLIGATIONS, INCLUDING PURCHASE COMMITMENTS AT MARCH 31, 2002, AND THE EFFECT SUCH OBLIGATIONS ARE EXPECTED TO HAVE ON OUR LIQUIDITY AND CASH FLOW IN FUTURE PERIODS.

		For the fiscal years ending March 31,		
Contractual Cash Obligations	2003	2004	2005	2006
			(in thousands)	
Operating leases	$ 752	$ 724	$ 704	$ 19
Capital leases	$ 73	$ 18		
Term loans	$ 833	$7,345		
Convertible notes due stockholders	$	$1,421		
Demand loans due stockholders	$ 618			
Payables aged over 90 days	$ 449			
Other long-term obligations	$ 200			
Total contractual cash obligations	$2,925	$9,508	$ 704	$ 19

		For the fiscal years ending March 31,		
Other Commercial Commitments	2003	2004	2005	2006
			(in thousands)	
Guarantees	$ 187			
Total commercial commitments	$ 187			

UNION BANK

On June 29, 2001, we entered into an amended and restated loan agreement with Union Bank with respect to the $7.4 million owing under the our term loan. The maturity date under the restated agreement was May 1, 2002, but we had a right to extend that date to November 1, 2002 if we satisfied certain conditions, including our achieving certain earnings targets. We are required to pay monthly interest at 5% over the bank reference rate, increased by an additional 2% for late payments of principal and interest. We were required to make an initial $210,000 principal payment in August 2001, and monthly principal payments of $50,000 beginning October 1, 2001. Monthly principal payments were to increase to $100,000 on May 1, 2002 upon an extension of the maturity date. We had difficulty making both interest and principal payments during fiscal 2002, and the bank extended on several occasions the due dates for required payments. We are required to use any proceeds in excess of $6 million we receive from private equity placements to reduce principal under the loan. We are also prohibited from making any payments on certain subordinated obligations, including the ICM convertible notes. The entire amount owed to the bank is secured by substantially all of our assets and those of our subsidiaries and 10,700,000 shares of our treasury stock. The restated agreement also contains limitations on acquisitions, investments and other borrowings.

We agreed to pay the bank a loan restructuring fee of $200,000, originally due May 1, 2002 (or if the maturity date is extended, $150,000 on May 1, 2002 and $50,000 on November 1, 2002), but the fee would be waived if we discharged the loan before May 1, 2002. We are also required to reimburse the bank for certain other expenses incurred during the term of the loan.

On March 18, 2001, the loan agreement was amended to release certain collateral from the pledge to Union Bank, and to instead pledge to the bank the 10,700,000 shares of our common stock surrender by Softline in the related recapitalization transactions with Softline described above under the heading "Financing Transactions -- Softline." The released collateral was our shares in our Australian subsidiary, and the IBIS note and related shares of Integrity Software.

On May 21, 2002, the bank further amended the agreement to extend the maturity date to May 1, 2003 and to revise other terms and conditions. We agreed to pay to the bank $100,000 as a loan extension fee, payable in four monthly installments of $25,000 each commencing on June 30, 2002. If we failed to pay any installment when due, the loan extension fee was to increase to $200,000, and the monthly payments were to increase accordingly. We also agreed to pay all overdue interest and principal by June 30, 2002, and to pay monthly installments of $24,000 commencing on June 30, 2002 and ending April 30, 2003 for the bank's legal fees.

We were not able to make the payments required in June 2002. We were also out of compliance with certain financial covenants as of June 28, 2002. Effective July 15, 2002, the bank further amended the restated term loan agreement, and waived the then existing defaults. Under this third amendment to the restated agreement, the bank agreed to waive the application of the additional 2% interest rate for late payments of principal and interest, and to waive the additional $100,000 refinance fee required by the second amendment. The bank also agreed to convert $361,000 in accrued and unpaid interest and fees to term loan principal, and we executed a new term note in total principal amount of $7.2 million. We are required to make a principal payment of $35,000 on October 15, 2002, principal payments of $50,000 on each of November 15, 2002 and December 15, 2002, and consecutive monthly principal payments of $100,000

each on the 15th day of each month thereafter through August 15, 2003. The entire amount of principal and accrued interest is due August 31, 2003. The bank also agreed to eliminate certain financial covenants and to ease others, and we are in compliance with the revised covenants.

We also agreed to issue a contingent warrant to an affiliate of the bank to purchase up to 4.99% of the number of outstanding common shares on January 2, 2003 for $0.01 per share. The warrant will be issued and exercisable for shares equal to 1% of our outstanding common stock on January 2, 2003, and will become exercisable for shares equal to an additional 0.5% of our outstanding common stock on the first day each month thereafter, until it is exercisable for the full 4.99% of our outstanding common stock. The warrant will not become exercisable to the extent that we have discharged in full our bank indebtedness prior to a vesting date. Accordingly, the warrant will not become exercisable for any shares if we discharge our bank indebtedness in full prior to January 2, 2003; and if the warrant does become partially exercisable on such date, it will cease further vesting as of the date we discharge in full the bank indebtedness.

NATIONAL AUSTRALIA BANK LIMITED

Our Australian subsidiary maintained an AUS$1,000,000 (approximately US$510,000) line of credit facility with National Australia Bank Limited. The facility was secured by substantially all of the assets of our Australian subsidiary, and we have guaranteed all amounts owing on the facility. In April 2001, we received a formal demand under our guarantee for the full AUS$971,000 (approximately US$495,000) then alleged by the bank to be due under the facility. Due to the declining performance of our Australian subsidiary, we decided in the third quarter of fiscal 2002 to sell certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was however subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to the entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. We have accrued $187,000 as the maximum amount of our potential exposure. The receiver has also claimed that we are obligated to it for inter-company balances of $636,000, but we do not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due.

OTHER INDEBTEDNESS, INCLUDING RELATED PARTIES

In connection with our acquisition of Island Pacific, we also borrowed $2.3 million with no stated maturity date from three entities in June 1999. $1.5 million of such amount was borrowed from Claudav Holdings Ltd. B.V., a significant stockholder. The balance due on these loans at March 31, 2002 was $0.6 million. The loans bear interest at the prime rate and are due upon demand.

We issued convertible notes to entities related to ICM Asset Management, Inc., which notes are to be amended in July 2002. See "Financing Transactions -- ICM Asset Management, Inc." above.

In May 2001, December 2001 and May 2002, we borrowed $50,000, $125,000 and $70,000 from World Wide Business Centres, a company affiliated with Donald S. Radcliffe, a director, to meet payroll expenses. These amounts were repaid together with interest at the then-effective prime rate, promptly as revenues

were received, and are paid in full as of the date of this report.

CASH POSITION

As a result of our indebtedness and net losses for the past three years, we have experienced significant strains on our cash resources. In order to manage our cash resources, we reduced expenses and discontinued our Australian operations. We have also extended payment terms with many of our trade creditors wherever possible, and we have diligently focused our collection efforts on our accounts receivable. We had a negative working capital of $5.3 million and $2.8 million at March 31, 2002 and 2001, respectively.

We were unable to make timely, monthly rent payments due for our Irvine and Carlsbad facilities during the first quarter of fiscal 2003. We renegotiated rent terms with the landlords of our Irvine and Carlsbad facilities in June 2002, and we are currently in compliance with the renegotiated terms.

As discussed above, we renegotiated on several occasions our agreements with Union Bank after we were unable to make payments which would have otherwise been required under these agreements. Other than cash on hand, we have no unused sources of liquid assets.

Management has been actively engaged in attempts to resolve our liquidity problems. We negotiated extensions of the maturity of our major indebtedness to the second quarter of fiscal 2004, and as a result, we believe we will have sufficient cash to remain in compliance with our debt obligations, and meet our critical operating obligations, for the next twelve months. We are nonetheless actively seeking a private equity placement to help discharge aged payables, pursue growth initiatives and prepay bank indebtedness. We have no binding commitments for funding at this time. Financing may not be available on terms and conditions acceptable to us, or at all.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The adoption of SFAS 141 did not have a significant impact on our financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives but requires that these assets be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that their value has diminished or been impaired. Other intangible assets will continue to be amortized over their estimated useful lives. We evaluate the remaining useful lives of these intangibles on an annual basis to determine whether events or circumstances warrant a revision to the remaining period of amortization. Pursuant to SFAS 142, amortization of goodwill and assembled workforce intangible assets recorded in business combinations prior to June 30, 2001 ceased effective March 31, 2002. Goodwill resulting from business combinations completed after June 30, 2001, will not be amortized. We recorded amortization expense of approximately $2.2 million on goodwill during the fiscal year ended March 31, 2002. We currently estimate that application of the non-amortization provisions of SFAS 142 will reduce amortization expense and increase net income by approximately $2.2 million in fiscal 2003.

We tested goodwill for impairment during the 2003 fiscal year, and the resulting impairment of $0.6 million will be recorded as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2003.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations." This statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of long-lived assets, except for certain obligations of lessees. The adoption of SFAS No. 143 did not have a significant impact on our consolidated financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends APB Opinion 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value cost to sell. Additionally SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The accounting prescribed in SFAS 144 was applied in connection with the disposal of our Australian subsidiary.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions to be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. We do not expect adoption of SFAS No. 145 to have material impact, if any, on our financial position or results of operations.

In November 2001, the FASB issued a Staff Announcement Topic D-103 ("Topic D-103"), "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred". Topic D-103 establishes that reimbursements received for out-of-pocket expenses should be reported as revenue in the income statement. Currently, we classify reimbursed out-of-pocket expenses as a reduction in cost of consulting services. We are required to adopt the guidance of Topic D-103 in the first quarter of fiscal year 2003 and our consolidated statements of operations for prior periods will be reclassified to conform to the new presentation. The adoption of Topic D-103 will result in an increase in reported net sales and cost of sales; however, it will not affect net income or

loss in any past or future periods.

BUSINESS RISKS

Investors should carefully consider the following risk factors and all other information contained in this Form 10-K. 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 this Form 10-K.

WE INCURRED LOSSES IN FISCAL YEARS 2002, 2001 AND 2000.

We incurred losses of $14.7 million, $28.9 million and $4.1 million in the fiscal years ended March 31, 2002, 2001 and 2000. The losses in the past two 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. Failure to achieve profitability, or maintain profitability if achieved, may have a material adverse effect on our business and stock price.

WE HAVE NEGATIVE WORKING CAPITAL, AND WE HAVE EXTENDED PAYMENT TERMS WITH A NUMBER OF OUR SUPPLIERS.

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

31

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.

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

Our net sales decreased by 2% in the fiscal year ended March 31, 2002 compared to the fiscal year ended March 31, 2001. Net sales for the fiscal year ended March 31, 2001 decreased 4% compared to the fiscal year ended March 31, 2000. We experienced a substantial decrease in application license software sales, which typically carry a much higher margin than other revenue sources. We must improve new application license sales to become profitable. We have taken steps to refocus our sales strategy on core historic competencies, but our typically long sales cycles make it difficult to evaluate whether and when sales will improve. We cannot be sure that the decline in sales has not been due to factors which might continue to negatively affect sales.

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

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

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

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

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

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

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

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

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

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

The factors within our control include:

- o acquisitions and dispositions of businesses;
- o changes in our strategies; and
- o non-recurring sales of assets and technologies.

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

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

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

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

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

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

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

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

WE HAVE SUBSTANTIAL DEBT WHICH ADVERSELY AFFECTS US.

We have a substantial amount of debt, including the following as of July 15, 2002:

- o A $7.2 million term loan from Union Bank due August 31, 2003. The term loan is secured by substantially all of our assets and 10,700,000 shares of our treasury stock.

- o $0.6 million due to stockholders on demand.

- $1.25 million in convertible notes reissued in July 2002 to entities related to ICM Asset Management due September 30, 2003.

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

- 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.

- We may not have sufficient funds to pay monthly principal and interest payments, which could lead to a default.

- The existing debt makes it difficult for us to obtain additional financing for working capital or other purposes.

- The debt detracts from our ability to successfully withstand downturns in our business or in the economy.

- If we default on our Union Bank indebtedness, the bank could take control of the substantial majority of our assets.

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

During the past three fiscal years, we renegotiated on several occasions our agreements with Union Bank after we were unable to make payments required under these agreements. Union Bank may not be willing to renegotiate our indebtedness in the future if we are unable to make required payments. We will likely need outside sources of capital to pay our Union Bank obligations upon maturity.

OUR BANK LOAN IMPOSES RESTRICTIONS ON US AND ON OUR ABILITY TO TAKE IMPORTANT ACTIONS. THESE RESTRICTIONS MAY AFFECT OUR ABILITY TO SUCCESSFULLY OPERATE OUR BUSINESS.

We are restricted by the terms of our outstanding Union Bank loan agreement from taking various actions, such as incurring additional indebtedness, paying dividends, paying subordinated obligations, entering into transactions with affiliates, merging with other entities and selling all or substantially all of our assets. These restrictions could also limit our ability to obtain future

financing, make needed capital expenditures, withstand a future downturn in our business or the economy in general, or otherwise conduct our business. We may also be prevented from taking advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants under the Union Bank loan. A breach of any of these provisions could result in a default under the loan agreement, and upon a default, Union Bank could declare all indebtedness immediately due and payable. If we were unable to pay those amounts, Union Bank could take control of the substantial majority of our assets.

FLUCTUATIONS IN INTEREST RATES COULD INCREASE OUR INTEREST EXPENSE AND REDUCE CASH AVAILABLE FOR OTHER PURPOSES.

Our indebtedness with Union Bank and some of our other indebtedness require us to pay interest based on a rate which floats with market interest rates. If market interest rates increase, our interest expense will increase, which will reduce our earnings and reduce cash available for other purposes. At March 31,

2002, our total borrowings subject to variable interest rates was $7.5 million. Based on this balance, a one percent increase in interest rates would cause a change in interest expense of approximately $75,000 on an annual basis.

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

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

We may not be able to obtain capital from related parties in the future. Neither Softline, Mr. Schechter, Mr. Radcliffe nor any other officers, directors, stockholders or related parties are under any obligation to continue to provide cash to meet our future liquidity needs.

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

We need to raise capital to discharge our aged payables and grow our business. We will also likely need to raise capital to pay our Union Bank obligations upon maturity in August 2003. We may also need to raise further capital to:

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

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

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

35

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

Goodwill, capitalized software, non-compete agreements and other intangible assets represent 89% of our total assets as of March 31, 2002 and represent more than our stockholders' equity. We may have to impair or write-off these assets, which will cause a charge to earnings and could cause our stock price to

decline.

Any such impairments will also reduce our assets, as well as the ratio of our assets to our liabilities. These balance sheet effects could make it more difficult for us to obtain capital, and could make the terms of capital we do obtain more unfavorable to our existing stockholders.

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

Fluctuations in currency exchange rates affect the prices of our applications and services and our expenses, and foreign currency losses will negatively affect profitability or increase losses. Approximately 17%, 22% and 37% of our net sales were outside North America, principally in Australia and the United Kingdom, in the fiscal years ended March 31, 2002, 2001 and 2000, respectively. Many of our expenses related to foreign sales, such as corporate level administrative overhead and development, are denominated in U.S. dollars. When accounts receivable and accounts payable arising from international sales and services are converted to U.S. dollars, the resulting gain or loss contributes to fluctuations in our operating results. We do not hedge against foreign currency exchange rate risks.

IF WE CANNOT MANAGE ADDITIONAL CHALLENGES PRESENTED BY OUR INTERNATIONAL OPERATIONS, OUR REVENUES AND PROFITABILITY MAY SUFFER.

A portion of our net sales are outside the United States and part of our growth strategy depends on increasing international sales. If we cannot increase our international sales, we may not be able to achieve our business objectives. We have already devoted resources to, and expect to continue to devote resources to, our expansion into foreign countries, particularly to expand our sales force. To increase international sales in the future, we must establish additional foreign operations, hire additional personnel and further exploit strategic relationships. The countries in which we operate may not have a sufficient pool of qualified personnel from which to hire, and we may not be successful at hiring, training or retraining personnel.

There are many risks inherent in our international business activities. For example:

- we are subject to many foreign regulatory requirements which may change without notice;
- our expenses related to sales and marketing and development may increase;
- localizing products for foreign countries involves costs and risks of non-acceptance;
- we are subject to various export restrictions, and export licenses may not always be available;
- we are subject to foreign tariffs and other trade barriers;
- we may become subject to higher tax rates or taxation in more than one jurisdiction;
- some of the foreign countries that we deal with suffer from political and economic instability;
- we may have less protection for our intellectual property rights;
- consulting, maintenance and service revenues may have lower margins in foreign countries;
- we may not be able to move earnings back to the United States;
- it can be more difficult to staff and manage our foreign operations; and
- we may have difficulty collecting accounts receivable.

Any of these factors could negatively affect our financial performance and results of operations and cause our stock price to decline.

WE HAVE A SINGLE CUSTOMER REPRESENTING A SIGNIFICANT AMOUNT OF OUR BUSINESS.

Toys "R" Us, accounted for 42%, 29% and 15% of our net sales for the fiscal years ended March 31, 2002, 2001 and 2000, respectively. While we have a development agreement with this customer, Toys has the right to terminate the agreement without cause with limited advance notice. A reduction, delay or cancellation of orders from Toys "R" Us would significantly reduce our revenues

and force us to substantially curtail operations. We cannot provide any assurances that Toys "R" Us or any of our current customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

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

We are heavily dependent on Barry M. Schechter, our CEO, and on other key management personnel. Mr. Schechter has an employment agreement with us. Mr. Schechter's employment agreement expires September 30, 2003 and may be terminated on 14 days notice. 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 DECLINE, OUR REVENUES MAY DECLINE. RETAIL SALES MAY BE SLOWING.

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

The success of our customers is directly linked to economic conditions in the retail industry, which in turn are subject to intense competitive pressures and are affected by overall economic conditions. In addition, the retail industry may be consolidating, and it is uncertain how consolidation will affect the industry. The retail industry as a whole is currently experiencing increased competition and weakening economic conditions that could negatively impact the industry and our customers' ability to pay for our products and services. Such consolidation and weakening economic conditions have in the past, and may in the future, negatively impact our revenues, reduce the demand for our products and may negatively impact our business, operating results and financial condition. Weakening economic conditions and the September 11, 2001 terrorist attack have

adversely impacted sales of our software applications, and we believe mid-tier specialty retailers may be reluctant during the current economic slowdown to make the substantial infrastructure investment that generally accompanies the implementation of our software applications.

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

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

OUR GROWTH IS DEPENDENT ON DEVELOPING OUR DIRECT SALES OR EXPANDING INTO OTHER DISTRIBUTION CHANNELS. OTHER DISTRIBUTION CHANNELS CREATE RISKS THAT WE MAY NOT MANAGE SUCCESSFULLY.

In order to grow, we may find it necessary to expand our distribution channels beyond direct sales, which constitute the majority of our sales. If we begin to use resellers, they may compete with our direct sales. If we cannot expand our direct sales, develop additional distribution channels, or manage any potential channel conflicts, our sales may not grow.

IF WE CANNOT EXPAND INTO CERTAIN MARKET SECTORS, WE MAY NOT BE ABLE TO GROW OUR BUSINESS.

In order to grow our business, we need to expand our customer base and the types and size of retailers we serve. We currently serve only the specialty goods, mass merchants and department store markets. Our applications and services may not gain acceptance in or meet the expectations and needs of other types and size of retailer or other sectors.

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

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

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

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

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

We could be forced to reduce prices and suffer reduced margins and market share due to increased competition from providers of offerings similar to, or competitive with, our applications, or from service providers that provide services similar to our services. Competition could also render our technology obsolete. For a further discussion of competitive factors in our industry, see "Description of Business" above under the heading "Competition."

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

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

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

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

38

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

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

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

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

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

COSTLY LITIGATION TO PROTECT OUR PROPRIETARY RIGHTS.

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

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

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

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

IF OUR APPLICATIONS ARE NOT COMPATIBLE WITH HARDWARE OR SOFTWARE PRODUCTS, OUR SALES COULD SUFFER.

Software sales can often be driven by advances in hardware or operating system technology. If providers do not, or are unable to, continue to provide state-of-the-art POS and enterprise hardware which runs our applications, our financial performance may suffer. We do not develop hardware or operating systems, so we are dependent upon third-party providers to develop the hardware platforms and operating systems on which our applications run.

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

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

We may not be able to enter into new strategic relationships, which could put us at a disadvantage to those of our competitors which do successfully exploit strategic relationships.

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

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

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

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

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

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

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

applications or the performance of our services. Our product liability insurance may not cover all claims brought against us.

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

Softline Limited beneficially owns 57.0% of our outstanding common stock, including shares Softline has the right to acquire upon conversion of its Series A Convertible Preferred Stock. Ivan M. Epstein, Softline's Chief Executive Officer, and Robert P. Wilkie, Softline's Chief Financial Officer, serve on our board of directors. If Softline converts its Series A Preferred Stock, it may have effective control over all matters affecting us, including:

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

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

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

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

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

OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE, AND HAS RECENTLY DECLINED.

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

WE HAVE NEVER PAID A DIVIDEND ON OUR COMMON STOCK AND WE DO NOT INTEND TO PAY DIVIDENDS 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. Our agreement with Union Bank prohibits us from paying dividends, and Softline is entitled to dividends on its Series A Convertible Preferred Stock in preference and priority to common stockholders. Future equity financing(s) may further restrict our ability to pay dividends.

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

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

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

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

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

Special meetings of our stockholders may be called only by the Chairman of the Board, the Chief Executive Officer or the Board of Directors. Stockholders have no right to call a meeting and may not act by written consent. Stockholders must also comply with advance notice provisions in our bylaws in order to nominate directors or propose matters for stockholder action. These provisions of our charter documents, as well as certain provisions of Delaware law, could delay or make more difficult certain types of transactions involving a change in control of the company or our management. Delaware law also contains provisions that could delay or make more difficult change in control transactions. As a result, the price of our common stock may be adversely affected.

SHARES ISSUED UPON THE EXERCISE OF OPTIONS AND WARRANTS 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 be below the market price of our stock. If exercised in the money, these options and warrants will cause immediate and possibly substantial dilution to our stockholders. We currently have all of the outstanding options and warrants for 12,282,838 million shares at prices above the recent market price of $0.50 per share, and if the current market price increases, these options and warrants could have a dilutive effect on stockholders if exercised. Our existing stock option plan currently has approximately 689,000 shares available for issuance. Future options issued under the plan may have further dilutive effects.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

INTEREST RATE RISK

Our exposure to market risk for changes in interest rates relates to our variable rate term loans, which totaled $7.5 million at March 31, 2002. Based on this balance, a change in one percent in the interest rate would cause a change in interest expense of approximately $75,000 or less than $0.01 per basic and diluted share, on an annual basis.

These instruments were not entered into for trading purposes and carry interest at a pre-agreed upon percentage point spread from the bank's prime interest rate. Our objective in maintaining these variable rate borrowings is the flexibility obtained regarding early repayment without penalties and lower overall cost as compared with fixed-rate borrowings.

FOREIGN CURRENCY EXCHANGE RATE RISK

We conduct business in various foreign currencies, primarily in Europe and until February 2002, Australia. 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 17%, 22%, and 37% of our total net sales were denominated in currencies other than the U.S. dollar for the periods ended March 31, 2002, 2001 and 2000, respectively.

EQUITY PRICE RISK

We have no direct equity investments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements at March 31, 2001, March 31, 2000, and March 31, 1999 and the reports of Singer Lewak Greenbaum & Goldstein LLP and Deloitte & Touche LLP, independent accountants, are included in this report on pages beginning F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On November 30, 2001, Deloitte & Touche LLP notified us that they were resigning as our independent certified public accountants. On December 5, 2001, we engaged Singer Lewak Greenbaum & Goldstein LLP ("Singer Lewak") as our new independent auditors. Singer Lewak previously audited our financial statements for the fiscal years ended March 31, 1998 and September 30, 1997, 1996, 1995 and 1994. The decision to engage Singer Lewak was recommended by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Deloitte & Touche's reports on the financial statements for the fiscal years ended March 31, 2001 and 2000 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except as noted in the following sentence. Deloitte & Touche's audit report on the financial statements for the year ended March 31, 2001, dated July 13, 2001, expressed an unqualified opinion and included an explanatory paragraph relating to substantial doubt about our ability to continue as a going concern. Further, in connection with its audits of our financial statements for the past two fiscal years and the subsequent interim period immediately preceding the date of resignation of Deloitte & Touche, we had no disagreements with Deloitte & Touche on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte & Touche, would have caused them to make a reference to the subject matter of the disagreements in connection with their reports on our consolidated financial statements.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our directors and executive officers, and their ages as of June 28, 2002, are as follows:

NAME	AGE	TITLE	DIRECT
Barry M. Schechter	48	Chief Executive Officer, Chairman of the Board and Director	1
Arthur S. Klitofsky	48	Vice President and Director	1
Coleen K. McNally	43	Chief Operating Office of Island Pacific	
Jackie O. Tran	33	Acting Chief Financial Officer	
Donald S. Radcliffe (1)	57	Director	1
Michael Silverman (1) (2)	57	Director	2

Ian Bonner (1) (2)	47	Director	1
Ivan M. Epstein	41	Director	1
Robert P. Wilkie	32	Director	2

----
(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Barry M. Schechter has been our Chairman of the Board since February 1994. He has been our Chief Executive Officer since October 2001 and also held such position from February 1994 to January 2001. He also has been Chief Executive Officer of our predecessor and wholly-owned subsidiary, Sabica Ventures, Inc., from its inception in February 1990. Mr. Schechter is a director of Integrity Software, Inc. Mr. Schechter is a Chartered Accountant (South Africa).

Arthur S. Klitofsky has been Vice President and a director since February 1994. He has been President of our SVI Training Products, Inc. subsidiary since 1991. Mr. Klitofsky has a Bachelor of Science Degree in Electrical Engineering from the University of Witwatersrand, Johannesburg, South Africa and a Bachelor in Accounting Science Degree from the University of South Africa.

44

Coleen K. McNally became Chief Operating Officer of our Island Pacific business unit in January 2002. Prior to such appointment, Ms. McNally held various positions within Island Pacific since 1989. Prior to joining Island Pacific, Ms. McNally held retail industry positions with retailers including Software Etc., Maurice's (a division of Amcena Corporation of New York) and B. Dalton Bookseller. Ms. NcNally has a B.S. in Business from St. Cloud State University.

Jackie O. Tran became our Acting Chief Financial Officer in October 2001. She has been our Controller since 1998. From November 1993 to March 1998, Ms. Tran was controller of JMC Group, Inc., a financial services company. Ms. Tran has a B.S. in Business from San Diego State University and is a certified public accountant.

Donald S. Radcliffe became a director in May 1998. He has been President of Radcliffe & Associates since 1991. Radcliffe & Associates provides financial consulting services to public companies, and currently provides financial advisory services to us. Since 1984 he has also been Executive Vice President and Chief Operating and Financial Officer of World-Wide Business Centres, which is a privately held operator of shared office space facilities. Mr. Radcliffe also serves as a director of Complete Wellness Centers, Inc. Mr. Radcliffe received a B.S. from Lehigh University and an M.B.A. from Dartmouth College. He is a certified public accountant and a member of the Audit Committee.

Michael Silverman became a director in January 2001. Mr. Silverman founded Advanced Remote Communication Solutions, Inc. (formerly known as Boatracs, Inc.) in 1990. He served as its Chairman until May 2002, and as Chief Executive Officer and President until October 1997, and from November 1999 to May 2002. Mr. Silverman is a Chartered Accountant (South Africa) and has an M.B.A. from Stanford University. Mr. Silverman is a member of the Audit and Compensation Committees.

Ian Bonner became a director in May 1998. He is President and Chief Executive Officer of Terraspring, Inc., a software and Internet infrastructure company. From 1993 until April 2001, he held various positions with IBM Corporation, including Vice President of Partner Marketing and Programs for the IBM/Lotus/Tivoli Software Group. His responsibilities included the development and implementation of marketing campaigns and programs designed to serve the business partners of IBM, Lotus and Tivoli, including major accounts, independent software vendors and global systems integrators. He also oversaw the IBM BESTeam and the Lotus Business Partner programs which are designed to provide enhanced opportunities, including education, marketing and training support, to qualified providers of IBM's and Lotus's portfolio of network solutions. Mr. Bonner received a Bachelor of Commerce from the University of the Witwatersrand in 1976 and a graduate degree in Marketing Management and Market Research and Advertising from the University of South Africa in 1978. Mr. Bonner is a member of the Audit and Compensation Committees.

Ivan M. Epstein became a director in May 1998. He is the Chairman and Chief Executive Officer of Softline Limited, which he co-founded in 1988. Softline is listed in the Information Technology sector of the Johannesburg Stock Exchange (JSE:SFT) and is one of the leading accounting software vendors in the world. Softline beneficially owns 57.0% of our common stock.

Robert P. Wilkie became a director in June 2002. He is the Group Financial Director and director of Softline, which he joined in 1997 as controller. Mr. Wilkie is responsible for operational fiscal discipline, group treasury and financial reporting across Softline. Mr. Wilkie received a Bachelor of Commerce from the University of Cape Town in 1989 and Bachelor of Accounting from the University of Witwatersrand in 1992. Mr. Wilkie is a Chartered Accountant (South Africa).

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and persons who own more than 10% of a class of our securities registered under Section 12 of the Exchange Act to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended March 31, 2002, we believe that all persons subject to the reporting requirements of Section 16(a) filed the required reports on a timely basis with the SEC, except Kevin O'Neill, Jackie Tran, Coleen McNally and Graham Brown, each of whom were late in filing initial Form 3 reports; Ivan Epstein, Steven Cohen, Ian Bonner and Michael Silverman, each of whom were late in filing Form 5 reports reporting a single grant of an option to each such individual; ICM Asset Management, Inc., which filed late one Form 4 report covering two transactions; and Softline Limited, which has not to date filed a Form 4 reflecting the recapitalization transactions described above under "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Financing Transactions -- Softline."

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth summary information concerning the compensation for the last three fiscal years received by each person who served as Chief Executive Officer during the last completed fiscal year, the four other most highly compensated persons serving as executive officers at the end of the last completed fiscal year who earned more than $100,000 in salary and bonus in the last completed fiscal year, and two other persons who were executive officers during the last completed fiscal year and earned more than $100,000 in salary and bonus, but who were not executive officers at the end of the last completed fiscal year. We refer to these individuals as the "named executive officers."

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation	
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation($)	Securities Underlying Options/SARs	Al Compen
Barry M. Schechter Chief Executive Officer and Chairman of the Board	2002	337,486	--	--	505,000	
	2001	312,492	--	--	321,429	
	2000	270,000	--	--	24,750	
Thomas A. Dorosewicz Former Chief Executive Officer	2002	144,826	20,193	46,139(2)	--	
	2001	55,929	37,500		550,000	
Arthur S. Klitofsky President of SVI Training	2002	168,000	14,700		5,000	
	2001	152,400	--		90,000	
	2000	140,400	--		12,700	
Coleen K. McNally Chief Operating Officer of Island Pacific	2002	175,442	33,963		85,000	
Jackie O. Tran Acting Chief Financial Officer	2002	120,000	38,306		50,000	
Graham Brown Chief Executive Officer of SVI Store Solutions	2002	114,863	--		75,000	
Kevin M. O'Neill Former Chief Financial Officer	2002	133,779	19,104		125,000	
William Farrant Former Executive Vice President	2002	185,455	17,500		75,000	
	2001	11,410	--		50,000	

and General
Manager of SVI
Retail Inc.

(1) Consists of 401(k) matching contributions.

(2) Includes $37,401 for San Diego housing expenses.

We also provide certain compensatory benefits and other non-cash compensation to the named executive officers. Except as set forth above, our incremental cost of all such benefits and other compensation paid in the years indicated to each such person was less than 10% of his reported compensation and also less than $50,000.

The following table sets forth the information concerning individual grants of stock options during the last fiscal year to the named executive officers.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants					Potential Reali Value at Assu Annual Rates Stock Pric Appreciation Option Term	
Name	Date of Grant	Options Granted (#)	% of Total	Exercise or Base Price ($/Sh.)	Expiration Date	5%	
Barry M. Schechter	10/1/01	26,223(1)	0.6%	0.77	10/1/11	9,708	27
	10/1/01	473,777(1)	10.4%	0.77	10/1/11	175,405	495
	1/30/02	5,000(2)	0.1%	0.95	1/30/12	2,254	6
Arthur S. Klitofsky	1/30/02	5,000(2)	0.1%	0.86	1/30/12	2,704	6
Coleen K. McNally	1/30/02	85,000(2)	1.9%	0.86	1/30/12	45,972	116
Graham Brown	1/2/02	75,000(3)	1.7%	0.90	1/2/12(3)	42,450	107
Jackie O. Tran	1/30/02	50,000(2)	1.1%	0.86	1/30/12	27,042	68
Kevin M. O'Neill	4/2/01	50,000(2)	1.1%	0.97	4/2/11(4)	0	
	7/12/01	75,000(2)	1.7%	0.98	7/12/11(4)	0	
William Farrant	7/12/01	75,000(2)	1.7%	0.98	7/12/11(5)	0	

(1) Options vest on the date of grant and are subject to continuing service.

(2) Options vest as to one-third of the shares on the first anniversary of the grant and the remaining two-thirds of the shares in 24 equal monthly installments after the first vesting date, subject to

continuing service.

(3) Options originally vested as to one-half of the shares on the first anniversary of the grant and the remaining one-half of the shares in 12 equal monthly installments after the first vesting date, subject to continuing service. Pursuant to our severance agreement with Mr. Brown dated July 2, 2002, we agreed that these options would became fully vested and would be exercisable until July 2, 2004.

(4) Mr. O'Neill resigned from his position on October 21, 2001. As a result, none of these options vested and they were terminated at fiscal year end.

(5) Mr. Farrant resigned from his position effective December 3, 2001. As a result, none of these options vested and they were terminated at fiscal year end.

The potential realizable value is calculated based on the term of the option at its time of grant and the number of shares underlying the grant at fiscal year end. It is calculated based on assumed annualized rates of total price appreciation from the market price at the date of grant of 5% and 10% (compounded annually) over the full term of the grant with appreciation determined as of the expiration date. The 5% and 10% assumed rates of appreciation are mandated by SEC rules and do not represent our estimate or projections of future common stock prices. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock and overall stock market conditions. The amounts reflected in the table may not be achieved.

48

The following table sets forth the information concerning the fiscal year end value of unexercised options held by the named executive officers. None of the named executive officers exercised options during the last fiscal year.

FISCAL YEAR END OPTION VALUES

Name	Number of Securities Underlying Unexercised Options at FY End (#) Exercisable/Unexercisable	Value of Unexercised In-The-M Options at FY End ($) Exercisable/Unexercisable (
Barry M. Schechter	749,711/262,143	0/0
Thomas A. Dorosewicz	0/0	0/0
Arthur S. Klitofsky	135,080/84,620	0/0
Coleen K. McNally	13,805/111,195	0/0
Graham Brown	32,500/100,000	0/0
Jackie O. Tran	23,916/67,584	0/0
Kevin M. O'Neill	0/0	0/0
William Farrant	0/0	0/0

(1) Based upon the market price of $0.67 per share, determined on the basis of the closing sale price per share of our common stock on the American Stock Exchange on the last trading day of the 2002 fiscal year, less the option exercise price payable per share.

LONG-TERM INCENTIVE PLANS

We do not have any long-term incentive plans, as those terms are defined in SEC regulations. During the fiscal year ended March 31, 2002, we did not adjust or amend the exercise price of stock options awarded to the named executive officers. We have no defined benefit or actuarial plans covering any named executive officer.

STOCK INCENTIVE PLANS

We have two stock incentive plans. Our Incentive Stock Option Plan (1989 plan) terminated in October 1999. It provided for issuance of incentive stock options to purchase up to 1,500,000 shares of common stock to employees. 627,235 of such shares remain subject to option as of June 28, 2002. The 1989 plan was administered by the Board of Directors, which established the terms and conditions of each option grant.

Our 1998 Incentive Stock Plan (1998 plan) authorizes the issuance of shares of common stock through incentive stock options, non-statutory options, stock bonuses, stock appreciation rights and stock purchase agreements. The 1998 plan was amended in August 2000 to increase the number of shares reserved from 3,500,000 to 4,000,000. The August 2000 amendments authorized a further automatic annual increase in reserved shares to take place on the first trading day of each fiscal year. The amount of the annual increase is 2% of the total number of shares of common stock outstanding on the last trading day of the immediately prior fiscal year. The annual increase cannot however be more than 600,000 shares, and the Board may in its discretion provide for a lesser increase. The August 2000 amendments also implemented a limit on stock awards to any one person in excess of 500,000 shares in any calendar year. Our

stockholders approved the amendments at our annual meeting held November 16, 2000. On April 1, 2002, the automatic increase of 567,872 shares was effected, so that the total number of shares reserved under the 1998 plan is currently 5,167,872. The exercise price of options is determined by the Board of Directors, but the exercise price may not be less than 100% of the fair market value on the date of the grant, in the case of incentive stock options, or 85% of the fair market value on the date of the grant, in the case of non-statutory stock options.

EMPLOYMENT AGREEMENTS

We entered into an employment agreement with Barry M. Schechter effective October 1, 2000. This agreement will continue until September 30, 2003 unless earlier terminated for cause. Under the agreement Mr. Schechter has the right to annual compensation of $325,000 for the first year of the agreement, $350,000 for the second year of the agreement and $375,000 for the third year of the agreement. In addition, Mr. Schechter is entitled to receive options on each anniversary of the agreement to purchase the number of shares equal to 150% of his annual compensation for the prior year divided by the market price on the anniversary date. The agreement states that options will be fully vested when issued and exercisable for ten years after the date of the grant.

We entered into an employment agreement with Thomas A. Dorosewicz effective January 10, 2001. Under the agreement, Mr. Dorosewicz was paid base annual compensation of $250,000. For fiscal year 2001, he was entitled to earn a guaranteed bonus of $18,750 and an additional $18,750 performance bonus. Mr. Dorosewicz earned the full $37,500 bonus for fiscal 2001, and agreed to accept payment in shares of our common stock. We agreed to pay the withholding taxes which were due upon this stock grant. We agreed that Mr. Dorosewicz would be

entitled to a cash bonus of up to 75% of his base salary upon achievement of performance targets in fiscal 2002. We also agreed to issue Mr. Dorosewicz 250,000 options priced at fair market value on his start date, vesting over five years, and an additional 300,000 special stock options priced at 85% of fair market value, vesting 100,000 immediately, 100,000 after six months and 100,000 after 24 months. We had agreed to issue additional options to Mr. Dorosewicz during fiscal 2002 based on various performance criteria. We also agreed to pay Mr. Dorosewicz certain relocation expenses. The agreement could be terminated by us or by Mr. Dorosewicz with 30 days advanced notice. If we terminated the agreement without cause, the agreement provided that Mr. Dorosewicz would be entitled to severance equal to six months' base salary plus the pro-rated portion of his bonus. If we terminated the agreement without cause after one year, the agreement provided that Mr. Dorosewicz would be entitled to additional severance of one month's base salary for each year of service completed, up to a maximum of six additional months. Effective October 21, 2001, Mr. Dorosewicz resigned from his position. As a result of his resignation, we did not pay severance to Mr. Dorosewicz. Mr. Dorosewicz has filed a demand with the California Labor Commissioner for $256,250 in alleged unpaid severance benefits (see "Legal Proceedings" above). Mr. Dorosewicz received no bonuses or additional stock options for fiscal 2002.

On July 2, 2002, we entered into a separation agreement with Graham Brown. Under the terms of the agreement, Mr. Brown will remain employed by us through September 30, 2002 at full salary, but with reduced duties. We also agreed that unvested options issued to Mr. Brown to purchase 75,000 shares at $0.90 per share would fully vest, and would remain exercisable until July 2, 2004. We also agreed to assume Mr. Brown's automobile lease obligation and to pay Mr. Brown $8,000 for relocation costs. Mr. Brown released us from all claims arising from his employment.

On February 27, 2002, we entered into a severance agreement with Kevin O'Neill. We agreed to pay Mr. O'Neill $16,667 in severance, and Mr. O'Neill agreed to release us from all claims arising from his employment.

On December 3, 2001, we entered into a severance agreement with William Farrant. We agreed to pay Mr. Farrant his salary and health benefits through February 28, 2002, and Mr. Farrant agreed to release us from all claims arising from his employment.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Ian Bonner and Michael Silverman served as members of the Compensation Committee during all of fiscal 2002. Neither Mr. Bonner nor Mr. Silverman has ever been an officer of SVI or any of its subsidiaries. During fiscal 2002, none of our executive officers served as a member of a compensation committee or board of directors of any entity that has one or more if its executive officers serving as a member of our Compensation Committee.

DIRECTOR COMPENSATION

During fiscal 2002, we issued options to purchase 5,000 shares of our common stock at an exercise price of $0.86 each to Barry Schechter, Arthur Klitofsky, Ian Bonner, Donald Radcliffe, Michael Silverman, Ivan Epstein and Steven Cohen in connection with their service on the board. We also issued options to purchase 50,000 shares of our common stock at an exercise price of $0.86 to each of Ian Bonner, Donald Radcliffe and Michael Silverman for committee service. The options each expire on January 30, 2012 and will vest at a rate of one-third of the shares on the first anniversary of the grant, and the remaining two-thirds of the shares in 24 equal monthly installments after the first vesting date, subject to continuing service.

On January 30, 2002, the board adopted a plan to issue to each director who attends a board meeting an option under our 1998 plan to purchase 5,000 shares at the fair market value on the date of the meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows beneficial ownership of shares of our common stock as of June 28, 2002 (except as otherwise stated below) (i) by all persons known by us to beneficially own more than 5% of such stock and (ii) by each director, each of the named executive officers, and all directors and executive officers as a group. Except as otherwise specified, the address for each person is 5607 Palmer Way, Carlsbad, California 92007. As of June 28, 2002, there were 28,454,441 shares of common stock outstanding. Each of the named persons has sole voting and investment power with respect to the shares shown (subject to community property laws), except as stated below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)		Percent of Class
Softline Limited 16 Commerce Crescent Eastgate Extension 13 Sandton 2148 South Africa	26,650,027	(2)	57.0%
Claudav Holdings Ltd. B.V. 9 Rue Charles Humbert 1205 Geneva Switzerland	5,143,548	(3)	17.6%
The Ivanhoe Irrevocable Trust	5,143,548	(3)	17.6%
Barry M. Schechter	5,143,548	(3)	17.6%
ICM Asset Management, Inc. 601 W. Main Ave., Suite 600 Spokane, WA 99201	7,224,922	(4)	22.5%
Thomas A. Dorosewicz	36,407		<1%
Arthur S. Klitofsky	397,980	(5)	1.4%
Coleen K. McNally	14,639	(6)	<1%
Graham Brown	132,500	(6)	<1%
Jackie O. Tran	36,916	(7)	<1%
Kevin M. O'Neill	0		0.0%
William Farrant	0		0.0%
Donald S. Radcliffe 575 Madison Avenue New York, NY 10022	769,900	(8)	2.7%

Michael Silverman 10675 Sorrento Valley Road, Suite 200 San Diego, CA 92121	16,000	(9)	<1%

Ian Bonner 5527 Inverrary Court Dallas, Texas 75287	32,000	(6)	<1%
Ivan M. Epstein 2 Victoria Eastgate Extension 13 Sandton 2148 South Africa	105,000	(6)	<1%
Robert P. Wilkie 16 Commerce Crescent Eastgate Extension 13 Sandton 2148 South Africa	0		0.0%
All directors and executive Officers as a group (10 persons)	6,648,483	(10)	22.2%

(1) This table is based on information supplied by officers, directors and principal stockholders, except for information concerning Mr. Dorosewicz, which is based on information from our transfer agent. The inclusion in this table of such shares does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of, or receives the economic benefit of, such shares.

(2) Includes 61,812 shares pursuant to outstanding options exercisable within 60 days of June 28, 2002 and 18,259,500 shares obtainable upon conversion of Series A Convertible Preferred Stock. The nine directors of the Softline Limited board are Ivan M. Epstein, Steven Cohen, Carlos Soares dos Santos, Eric Ellerine, Mac Maharaj, Robert Wilkie, Gerald Rubenstein, John Copelyn and Marcel Golding. Mr. Epstein serves as Chairman and Chief Executive Officer, Mr. Cohen serves as Chief Operating Officer, and Mr. Wilkie serves as Group Financial Director. Each of the foregoing persons disclaims beneficial ownership of the shares and options held by Softline.

(3) Claudav Holdings Ltd. B.V., the Ivanhoe Irrevocable Trust and Barry M. Schechter may be deemed a group pursuant to Rule 13d-5 promulgated under the Exchange Act. Claudav holds 2,224,500 shares, for which it shares voting power with Mr. Schechter pursuant to a proxy. Claudav is managed by Erwin Wachter, Trustee. Mr. Wachter therefore shares beneficial ownership with Mr. Schechter of the shares held by Claudav. Ivanhoe holds 2,167,337 shares for which it shares voting and investment power with Mr. Schechter pursuant to Mr. Schechter's position as a trustee. Includes 2,000 shares held by Mr. Schechter's minor children and 749,711 shares issuable upon exercise of options of Mr. Schechter exercisable within 60 days of June 28, 2002. Excludes 10,000 shares held by Mr. Schechter's spouse, for which Mr. Schechter disclaims beneficial ownership.

(4) Represents holdings as of July 19, 2002. Includes 2,590,321 shares held

by Koyah Leverage Partners, L.P., 36,710 shares held by Raven Partners, L.P. and 634,136 shares held by Koyah Partners, L.P. Also includes 1,257,925 shares pursuant to outstanding warrants and 1,562,500 shares obtainable upon conversion of convertible notes held by Koyah Leverage Partners, L.P., 309,784 shares pursuant to outstanding warrants and 312,500 shares obtainable upon conversion of convertible notes held by Koyah Partners, L.P., and 12,535 shares pursuant to outstanding warrants and 208,334 shares obtainable upon conversion of convertible notes held by Raven Partners, L.P. Koyah Ventures, LLC is the general partner of Koyah Leverage Partners, L.P., Koyah Partners, L.P. and Raven Partners, L.P., and as a result has shared voting and investment power over shares held by all three entities. ICM Asset Management, Inc. is the investment advisor to Koyah Leverage Partners, L.P., Koyah Partners, L.P. and Raven Partners, L.P., and as a result has shared voting and investment power over shares held by all three entities. Also includes 300,717 shares held by other clients of ICM Asset Management, Inc. ICM Asset Management, Inc. has discretionary authority over shares held by these other clients and as a result has shared voting and investment power over these shares. James M. Simmons is the managing member of Koyah Ventures, LLC and the chief investment officer

and controlling shareholder of ICM Asset Management, Inc. and as a result has shared voting and investment power over shares held by Koyah Leverage Partners, L.P., Koyah Partners, L.P., Raven Partners, L.P., ICM Asset Management, Inc. and the other clients of ICM Asset Management, Inc. Each of these entities or persons disclaims beneficial ownership in these securities except to the extent of such entity's or person's pecuniary interest in these securities and disclaims membership in a group with any other entity or person within the meaning of Rule 13d-5(b)(1) under the Securities Exchange Act of 1934.

(5) Includes 135,080 shares pursuant to outstanding options exercisable within 60 days of June 28, 2002.

(6) Consists of outstanding options exercisable within 60 days of June 28, 2002.

(7) Includes 26,416 shares pursuant to outstanding options exercisable within 60 days of June 28, 2002.

(8) Includes 320,000 shares pursuant to outstanding options exercisable within 60 days of June 28, 2002. Also includes 11,500 shares held by an entity for which Mr. Radcliffe has sole voting and investment power. Also includes an aggregate of 82,100 shares held by three entities for which Mr. Radcliffe has shared voting and investment power. Excludes 121,500 shares held by Mr. Radcliffe's spouse, for which Mr. Radcliffe disclaims beneficial ownership.

(9) Includes 10,000 shares pursuant to outstanding options exercisable within 60 days of June 28, 2002.

(10) Includes 1,525,346 shares pursuant to outstanding options exercisable within 60 days of June 28, 2002.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

We have two equity incentive plans under which our equity securities are or have been authorized for issuance to our employees or directors: the Incentive Stock Option Plan (1989 plan), which terminated in October 1999, but under which

options remain outstanding, and the 1998 Incentive Stock Plan (1998 plan). Both the 1989 plan and the 1998 plan have been approved by our stockholders. In addition, from time to time we issue non-employee options and warrants to service providers to purchase shares of our common stock, and these grants have not been approved by our stockholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	f
	(a)	(b)	
Equity compensation plans approved by security holders	4,485,889	$2.05	
Equity compensation plans not approved by security holders	2,092,481(2)	$2.68	
Total	6,578,370	$2.25	

(1) Does not include an automatic increase of 567,872 shares available for issuance under the 1998 plan, which occurred April 1, 2002. After such increase, we had 1,278,663 shares available for grant under our 1998 plan.

(2) Consists of individual non-employee option and warrant grants to service providers approved by the board from time to time. Includes warrants to purchase 291,667 shares which were cancelled in April 2002 due to termination of a service contract.

53

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following is a description of transactions since April 1, 2001 to which we have been a party, in which the amount involved exceeds $60,000 and in which any director, executive officer or holder of more than 5% of our common stock had or will have a direct or indirect interest, other than our compensation arrangements with our directors and named executive officers described above under "Executive Compensation." Certain of these transactions will continue in effect and may result in conflicts of interest between us and such individuals. Although these persons may owe fiduciary duties to our stockholders, there is a risk that such conflicts of interest may not be resolved in favor of us.

We borrowed $10 million from Softline Limited in July 2000 in order to pay the same amount to Union Bank as a mandatory reduction of principal owing to Union Bank. In July 2001, we amended and restated the Softline note. The restated note was in the original principal amount of $11.4 million and accrued interest at 14% per annum. All unpaid principal and interest was due May 1, 2003, unless the Union Bank loan was not extended to November 1, 2002, in which case the note would have been due and payable on November 1, 2002. The restated note was subordinate to our Union Bank indebtedness, and we were not required or permitted to make any payments of principal or interest under the restated note so long as the Union Bank indebtedness was outstanding.

In May 2002, we entered into an integrated series of transactions with Softline by which:

- We transferred to Softline the note received in connection with the sale of IBIS Systems Limited.
- We issued to Softline 141,000 shares of newly-designated Series A Convertible Preferred Stock.
- Softline released us from approximately $12.3 million then due under the promissory note to Softline.
- Softline surrendered 10,700,000 shares of our common shares held by Softline.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financing Transactions -- Softline" above.

In May and June, 2001, we issued a total of $1.25 million in convertible notes and related warrants to a limited number of accredited investors related to ICM Asset Management, Inc., which currently beneficially owns 22.5% of our common stock. In July 2002, we agreed to amend the terms of the notes and warrants, and certain other warrants issued to these investors in a prior financing. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financing Transactions -- ICM Asset Management, Inc." above.

In May 2001, December 2001 and May 2002, we borrowed $50,000, $125,000 and $70,000 from World-Wide Business Centres, a company affiliated with Donald S. Radcliffe, to meet payroll expenses. These amounts were repaid together with interest at the then-effective prime rate, promptly as revenues were received, and are paid in full as of the date of this report.

We began occupying our current principal executive offices in July 2001. At that time, the premises were owned by an affiliate of our then Chief Executive Officer, Thomas A. Dorosewicz. Monthly rent for these premises was set at $13,783. In April, 2002, the premises were sold to an entity unrelated to Mr. Dorosewicz. As of the date of this report, we are negotiating the terms of a written lease with the new owner.

During fiscal 2002, we paid a total of $532,770 in interest and principal to Claudav Holdings Ltd. B.V., which is deemed the beneficial owner of 17.6% of our common stock as of June 28, 2002. The original loan was in the amount of $1.5 million, bore interest at the prime rate, and was used to pay a portion of the purchase price for Island Pacific in 1999. The loan was due on demand, and was paid in full as of July 29, 2002.

We retain Radcliffe & Associates, an entity affiliated with Donald S. Radcliffe, to perform financial advisory services for us. During the fiscal year ended March 31, 2002, we incurred $42,000 in fees and costs to Radcliffe & Associates. We incurred an additional $19,000 in fees to Mr. Radcliffe for accounting services during the fiscal year ended March 31, 2002. In June 2002, we issued Mr. Radcliffe 75,000 shares of common stock to repay $25,000 in obligations pursuant to these arrangements.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial statements and financial statement schedules

Independent Auditors' Report of Singer Lewak Greenbaum & Goldstein LLP. F-1

Independent Auditors' Report of Deloitte & Touche LLP................. F-2

Consolidated Balance Sheets as of March 31, 2002 and 2001............. F-3

Consolidated Statements of Operations for the Fiscal Years ended March 31, 2002, 2001, and 2000... F-4

Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended March 31, 2002, 2001 and 2000.................................. F-5

Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2002, 2001 and 2000.. F-7

Notes to Consolidated Financial Statements........................... F-9

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not considered necessary and therefore have been omitted.

(b) Reports on Form 8-K

During the quarter ended March 31, 2002, we filed the following:

- Form 8-K filed February 14, 2002 reporting in Item 8 the determination not to change our fiscal year as previously announced.

(c) 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 receivers of SVI Retail (Pty) Limited.* 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.

2.3	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.* 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.
3.1	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, incorporated by reference to exhibit 4.1 of the Company's Form 8-K filed May 16, 2002.
3.3	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	Form of Stock Certificate, incorporated by reference to exhibit 4.1 to the Company's Form 10-K for the fiscal year ended March 31, 2001.
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 for the fiscal year ended March 31, 2001.

EXHIBIT	DESCRIPTION
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 (included herewith), 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.*
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.*
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.*
10.7	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.
10.8	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.
10.9	Investors' Rights Agreement, incorporated by reference to exhibit 10.3 to the Company's Form 8-K filed January 8, 2001.
10.10	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.
10.11	Amendment Agreement between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated July 15, 2002.*
10.12	Summary of loan transactions between the Company and World Wide Business Centres.*
10.13	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.
10.14	Purchase Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002.*

EXHIBIT	DESCRIPTION
10.15	Convertible Note in favor of Toys "R" Us, Inc. dated May 29, 2002.*
10.16	Warrant in favor of Toys "R" Us, Inc. dated May 29, 2002.*
10.17	Development Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002.* Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
10.20	Summary of lease terms for Carlsbad facility.*
21	List of Subsidiaries.*

* previously filed

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 29, 2002

SVI SOLUTIONS, INC., A DELAWARE CORPORATION

By: /s/ Barry M. Schechter

Barry M. Schechter, Chairman and Chief Executive Officer
(Principal Executive Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURES	CAPACITY	D
/s/ Barry M. Schechter Barry M. Schechter	Chairman of the Board and Chief Executive Officer	July
/s/ Jackie O. Tran Jackie O. Tran	Acting Chief Financial Officer (Principal Financial Officer)	July
/s/ Arthur S. Klitofsky Arthur S. Klitofsky	Vice President and Director	July
/s/ Donald S. Radcliffe Donald S. Radcliffe	Director	July
/s/ Ivan M. Epstein Ivan M. Epstein	Director	July
/s/ Ian Bonner Ian Bonner	Director	July
/s/ Michael Silverman Michael Silverman	Director	July
/s/ Robert P. Wilkie	Director	July

Robert P. Wilkie

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
SVI Solutions, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheet of SVI Solutions, Inc. and subsidiaries as of March 31, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SVI Solutions, Inc. and subsidiaries as of March 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
May 30, 2002

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
SVI Solutions, Inc.:

We have audited the accompanying consolidated balance sheet of SVI Solutions, Inc. and subsidiaries (collectively, the "Company") (a majority owned subsidiary of Softline Limited) as of March 31, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted

in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2001, and the results of its operations and its cash flows for each of the two years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and negative working capital raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
July 13, 2001

F-2

SVI SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2002
	(in thousands, exc
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,309
Accounts receivable, net of allowance for doubtful accounts of $446 and $790, respectively	1,946
Income tax refund receivable	--
Other receivables, including $31 and $61 from related parties, respectively	255
Inventories	126
Current portion - non-compete agreements	917
Net assets from discontinued operations	--
Prepaid expenses and other current assets	150
Total current assets	4,703
Note receivable, net	--
Property and equipment, net	641
Purchased and capitalized software, net	17,612

Goodwill, net	15,422
Non-compete agreements, net	1,585
Other assets	42
Total assets	$ 40,005
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Demand loans due to stockholders	$ 618
Current portion of term loans	435
Accounts payable	1,497
Accrued expenses	3,864
Deferred revenue	3,528
Income tax payable	98
Total current liabilities	10,040
Term loans refinanced in July 2002 and May 2001	6,472
Convertible notes due to stockholders	1,421
Subordinated term loan due to stockholder	--
Other long-term liabilities	120
Total liabilities	18,053
Commitments and contingencies (Note 12)	
Stockholders' equity:	
Preferred stock, $.0001 par value; 5,000,000 shares authorized; Series A Convertible Preferred stock, 7.2% cumulative convertible 141,100 shares authorized and outstanding with a stated value of $100 per share, dividends in arrears of $254	14,100
Common stock, $.0001 par value; 100,000,000 shares authorized; 28,293,609 and 37,836,669 shares issued and outstanding	4
Additional paid-in capital	54,685
Retained (deficit) earnings	(37,772)
Treasury stock, at cost; shares - 10,700,000 in 2002 and 444,641 in 2001	(8,580)
Shares receivable	(485)
Accumulated other comprehensive loss	--
Total stockholders' equity	21,952
Total liabilities and stockholders' equity	$ 40,005

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

SVI SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEAR ENDED MARCH 31,

	2002	2001	2000
	(in thousands, except per share da		
Net sales	$ 27,109	$ 27,713	$ 26,652
Cost of sales	10,036	9,188	6,421
Gross profit	17,073	18,525	20,231
Expenses:			
Application development	4,203	5,333	4,877
Depreciation and amortization	6,723	8,616	7,250
Selling, general and administrative	13,144	18,037	14,817
Impairment of capitalized software and goodwill	--	6,519	--
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	--	7,647	--
Total expenses	24,070	46,152	26,944
Loss from operations	(6,997)	(27,627)	(6,713
Other income (expense):			
Interest income	10	628	1,074
Other income (expense)	(46)	63	(206
Interest expense, including $1,988, $1,391 and $114 to related parties	(3,018)	(3,043)	(1,493
Gain (loss) on foreign currency transaction	(9)	2	(10
Total other expense	(3,063)	(2,350)	(635
Loss before provision (benefit) for income taxes	(10,060)	(29,977)	(7,348
Provision (benefit) for income taxes	39	(4,778)	(2,414
Loss from continuing operations	(10,099)	(25,199)	(4,934
Income (loss) from discontinued Australian operations, net of estimated income taxes expense (benefit) of $0, ($833) and $2	(4,559)	(3,746)	880
Net loss	$(14,658)	$(28,945)	$ (4,054
Basic and diluted earnings (loss) per share:			
Continuing operations	$ (0.28)	$ (0.72)	$ (0.15
Discontinued operations	(0.13)	(0.11)	0.03
Net loss	$ (0.41)	$ (0.83)	$ (0.12
Basic and diluted weighted average common shares outstanding	35,698	34,761	32,459

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

SVI SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	SHARES RECEIVABLE	RETAINED EARNINGS (DEFICIT)
	(in thousands, except share amounts)					
Balance, March 31, 1999	--	$ 3	$ 39,436	$ (951)	$ (2,142)	$ 9,885
Issuance of common stock in connection with the purchase of technology rights and subsidiaries	--	--	3,654	--	--	--
Exercise of stock options	--	--	6,992	--	--	--
Income tax benefit on stock options exercised	--	--	424	--	--	--
Compensation expense for stock options granted	--	--	55	--	--	--
Repurchase of common stock	--	--	--	(1,213)	--	--
Shares receivable from stockholder in connection with the sale of IBIS Systems Limited	--	--	--	(2,142)	2,142	--
Issuance of common stock for services	--	--	20	--	--	--
Private placement of common stock	--	--	2,873	--	--	--
Comprehensive loss:						
Net loss	--	--	--	--	--	(4,054)
Other comprehensive loss:						
Translation adjustment	--	--	--	--	--	--
Comprehensive loss	--	--	--	--	--	--
Balance, March 31, 2000	--	$ 3	$ 53,454	$ (4,306)	$ --	$ 5,831
Exercise of stock options	--	--	792	--	--	--
Income tax benefit on stock options exercised	--	--	84	--	--	--
Compensation expense for stock options	--	--	28	--	--	--
Issuance of common stock warrants for services	--	--	6	--	--	--
Issuance of common stock (net of financing costs of $40,035)	--	1	2,460	--	--	--
Issuance of common stock (net of $286,000 late registration fees)	--	--	214	--	--	--
Issuance of common stock for services	--	--	70	--	--	--
Comprehensive loss:						

Net loss	--	--	--	--	--	(28,945)
Other comprehensive loss:						
Translation adjustment	--	--	--	--	--	--
Comprehensive loss	--	--	--	--	--	--
Balance, March 31, 2001	--	$ 4	$ 57,108	$ (4,306)	$ --	$ (23,114)

The accompanying notes are an integral part of these consolidated financia

F-5

SVI SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	SHARES RECEIVABLE	RETAINED EARNINGS (DEFICIT)
	(in thousands, except share amounts)					
Balance, March 31, 2001	--	$ 4	$ 57,108	$ (4,306)	$ --	$ (23,114)
Issuance of common stock for services and severance payments	--	--	441	--	--	--
Common stock to be returned	--	--	485	--	(485)	--
Compensation expense for warrants granted	--	--	579	--	--	--
Interest charges on convertible notes due to stockholders	--	--	438	--	--	--
Warrants issued for late effectiveness of the registration for common stock sold in a private placement in fiscal 2001	--	--	711	--	--	--
Offering costs	--	--	(711)	--	--	--
Liquidated damages for late effectiveness of the registration statement	--	--	(60)	--	--	--
Issuance of Series A Preferred stock in exchange for common stock, sale of IBIS note receivable and settlement of Softline note payable	$ 14,100	--	--	(8,580)	--	--
Retired treasury stock	--	--	(4,306)	4,306	--	--
Comprehensive loss:						
Net loss	--	--	--	--	--	(14,658)

Other comprehensive loss:						
Disposal of Australian operation	--	--	--	--	--	--
Comprehensive loss	--	--	--	--	--	--
Balance, March 31, 2002	$ 14,100	$ 4	$ 54,685	$ (8,580)	$ (485)	$ (37,772)

The accompanying notes are an integral part of these consolidated financia

F-6

SVI SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED	
	2002	200
	(in thousands, exce	
Cash flows from operating activities:		
Net loss	$ (14,658)	$ (28,
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	7,069	9,
Impairment of note receivable	--	7,
Impairment of intangible assets associated with discontinued operations	--	8,
Loss on disposal of Australian operations	3,171	
(Gain)/Loss on foreign currency transactions	41	
Compensation expense for stock options and warrants	579	
Interest charges on convertible notes due to stockholders	438	
Common stock issued for services rendered and severance payments	245	
Deferred income tax provision	(149)	(4,
Loss on sale of furniture and equipment	64	
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable and other receivables	2,548	5,
Accrued interest on note receivable	--	(
Inventories	61	
Prepaid expenses and other current assets	60	
Accounts payable and accrued expenses	(1,892)	3,
Accrued interest on stockholders' loans and note payable	2,295	
Deferred revenue	1,642	(4,
Income taxes payable	98	
Net cash provided by (used for) operating activities	1,612	(2,
Cash flows from investing activities:		
Acquisitions, net of cash acquired	--	
Purchase of furniture and equipment	(301)	(
Proceeds from sale of furniture and equipment	13	
Purchase of software and capitalized software development costs	(409)	(2,

Net cash used for investing activities	(697)	(3,
Cash flows from financing activities:		
Proceeds from issuance of common stock	--	3,
Increase (decrease) in amounts due to stockholders, net	(844)	9,
Proceeds from lines of credit	--	1,
Proceeds from convertible notes due to stockholders	1,260	
Proceeds from term loans	--	
Payments on term loans	(1,243)	(13,
Net cash provided by (used for) financing activities	(827)	1,
Effect of exchange rate changes on cash	(46)	
Net increase (decrease) in cash and cash equivalents	42	(3,
Cash and cash equivalents, beginning of year	1,267	4,
Cash and cash equivalents, end of year	$ 1,309	$ 1,

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

SVI SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	YEAR ENDED MAR	
	2002	2001
	(in thousands, except s	
Supplemental disclosure of non-cash information:		
Interest paid	$ 1,194	$ 1,990
Income taxes paid	--	$ 665
Supplemental disclosure of non-cash investing and financing activities:		
Issued 38,380 shares of common stock for services to be provided	$ 31	--
644,715 shares of common stock to be returned for services canceled after shares were issued	$ 485	--
Issuance of 141,000 shares of Series A Preferred Stock and Transfer of note receivable received from the sale of IBIS Systems Limited in exchange for 10,700,000 shares of common stock and settlement of Softline note payable	$ 5,520	--
Issued 46,774 shares of common stock in connection with the acquisition of Triple-S	--	--
Issued 168,208 and 54,845 shares of common stock for services rendered	$ 165	$ 70
Issued 500,000 shares of common stock for $214,000 in cash and $286,000 in accrued costs related to penalty for		

late effectiveness of the registration statement	--	$	286
Issued 5,000 warrants in connection with an equity financing	--	$	8
Received 178,500 treasury shares as settlement for a Receivable	--		--
Issued 220,000 shares of common stock in connection with prior acquisitions	--		--
Received 78,241 shares from Softline for Triple-S	--		--
Issued 93,023 shares of common stock in connection with acquisition of MarketPlace Systems Corporation	--		--

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

SVI SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS CONDITIONS - SVI Solutions, Inc. (the "Company") is a holding company which, through its subsidiaries, is an independent provider of multi-channel application software technology and associated services for the retail industry. The Company also develops and distributes PC courseware and skills assessment products for both desktop and retail applications.

MANAGEMENT'S PLAN TO CONTINUE AS A GOING CONCERN - The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. As shown in the accompanying consolidated financial statements, the Company has incurred net losses of $14.7 million, $28.9 million and $4.1 million from operations for the years ended March 31, 2002, 2001 and 2000, respectively.

The loss for the year ended March 31, 2002 included a $4.6 million loss from the discontinued Australian operations and non-cash charges of $6.7 million in depreciation and amortization. While net sales decreased slightly by 2%, the selling, general and administrative expense decreased by 25%.

The loss for the year ended March 31, 2001 included a non-cash impairment of charges totaling $14.2 million for goodwill and capitalized software write-downs related to its discontinued Australian subsidiary and its note receivable in connection with a prior sale of a foreign subsidiary. In addition, the Company recorded a $3.7 million loss from the discontinued Australian operations, non-cash charges of $8.6 million in depreciation and amortization, which related primarily to its intangible assets, and $900,000 for severance and related personnel reductions in the fourth quarter of the year ended March 31, 2001. Overall, the Company's general and administrative expense increased 22% during fiscal 2001.

In addition, the Company's balance sheet reflects negative working capital of $5.3 million and $2.8 million as of March 31, 2002 and 2001, respectively. At March 31, 2002, the Company has a substantial amount of debt, including $6.9 million due to Union Bank of California and $2.0 million due to other stockholders. The Company experienced significant strains on its cash resources during the years ended March 31, 2002 and 2001, and had difficulty meeting its current obligations, including principal and interest payments on indebtedness and lease payments due on its two facilities in the US.

The Company experienced a reduction in sales of its high margin application software licenses in its U.S. and U.K. operations. The Company believes its difficulties initially arose from insufficient staffing of its sales force. Although the Company significantly increased the staffing of the sales force in the first quarter of fiscal 2002, the economic slowdown and the terrorist attacks of September 11, 2001, and the ongoing hostilities in the world, increased the challenges faced by the sales force. In addition, the Company's financial condition may have interfered with its ability to sell new application software licenses. The Company was dependent on one customer for 42% of its net sales in fiscal 2002. The Company needs to generate additional sales and revenue and to control expenditures to return to profitability and to achieve positive cash flow.

In October 2001, the Company completed an analysis of its operations and concluded that it was necessary to restructure the composition of management and personnel. The CEO, CFO and general manager of the Company's retail operations elected to leave to pursue other interests. The Company appointed the Chairman as the Chief Executive Officer. The Company reduced its staff by a total of 20%, and restructured and refocused the sales force toward opportunities available in the current economic climate.

As of April 1, 2002, the Company has refocused the company into three strategic business units lead by experienced managers. The units are Island Pacific, SVI Store Solutions and SVI Training Products, Inc.

The management team developed and presented to the Board of Directors in June 2002, an operating plan for the current fiscal year that, if achieved, will return the Company to positive cash flow from operations. This improvement is based on a restructuring of the Company's debt with Union Bank of California ("Union Bank"), on an aggressive sales campaign for its applications and related services and on rigorous management of its costs and expenses.

In May and July 2002, the Company extended its term loan facility with Union Bank (see Note 10). In May 2002, the Company also entered into an agreement with its major customer, Toys "R" Us ("Toys"), to issue a $1.3 million non-interest bearing convertible note, a warrant to purchase up to 2.5 million shares of the Company's common stock at the exercise price of $0.553 per share and to provide development and professional services to Toys through February 2004. In July 2002, the Company extended its notes payable to certain stockholders which were in default (see Note 11).

Management is now actively seeking additional financing to provide needed working capital for operations and to reduce its overall debt burden. Management believes additional financings, if completed, would

provide the cash required for operations during the current fiscal year, thus enabling the Company the opportunity to increase sales of its applications and services. However, there can be no assurance that the Company will be successful in obtaining new financing, increasing sales or producing incremental profits and cash flow.

PRINCIPLES OF CONSOLIDATION AND FINANCIAL STATEMENT PRESENTATION - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, SVI Retail, Inc. and SVI Training Products, Inc., based in US and SVI Retail (Pty) Limited based in Australia. Effective February 2002, the Australian subsidiary ceased operation (see Note 3). All material intercompany balances and transactions have been eliminated in consolidation.

RECLASSIFICATIONS - Certain amounts in the prior periods have been reclassified to conform to the presentation for the fiscal year ended March 31, 2002. Such reclassifications did not have any effect on losses reported in prior periods.

ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include cash and highly liquid investments with original maturities of not more than three months.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The fair value of short-term financial instruments, including cash and cash equivalents, trade accounts receivable, other receivables, prepaid expenses, other assets, accounts payable, accrued expenses, lines of credit and demands due to stockholders approximate their carrying amounts in the financial statements due to the short maturity of and/or the variable nature of interest rates associated with such instruments.

The fair value of the long-term note receivable is discussed in Note 5.

The amounts shown for term loans and convertible notes due to stockholders approximate fair value because current interest rates offered to the Company for debt of similar maturity are substantially the same or the difference is immaterial.

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

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ranging from 4 to 10 years.

Leasehold improvements are amortized using the straight-line method, over the shorter of the life of the improvement or lease term. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized.

GOODWILL - Goodwill, the excess of cost over the fair value of net assets acquired, is being amortized using the straight-line method over various periods not exceeding 10 years. The Company periodically

reviews goodwill to evaluate whether changes have occurred that would suggest that goodwill may be impaired based on the estimated undiscounted cash flows of the assets acquired over the remaining amortization period. If this review indicates that the remaining estimated useful life of goodwill requires revision or that the goodwill is not recoverable, the carrying amount of the goodwill is reduced to its fair value, generally using the estimated shortfall of cash flows on a discounted basis. As described in Note 8 to the consolidated financial statements, effective April 1, 1999, the Company revised its estimate of the useful life of goodwill from twenty years to ten years.

PURCHASED AND CAPITALIZED SOFTWARE COSTS - Pursuant to the provisions of Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," the Company capitalizes internally developed software and software purchased from third parties if the related software product under development has reached technological feasibility or if there are alternative future uses for the purchased software. These costs are amortized on a product-by-product basis typically over three to ten years using the greater of the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product or the straight-line method over the remaining estimated economic life of the product. At each balance sheet date, the Company evaluates on a product-by-product basis the unamortized capitalized cost of computer software compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed its net realizable value is written off (see Note 7).

NON-COMPETE AGREEMENTS - Non-compete agreements represent agreements to retain key employees of acquired subsidiaries for a certain period of time and prohibit those employees from competing with the Company within a stated period of time after terminating employment with the Company. The amounts incurred are capitalized and amortized over the life of the agreements, generally ranging from two to six years.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF - The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets (see Notes 4, 7, 8 and 9). Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

REVENUE RECOGNITION - The Company recognizes revenues in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition." The Company licenses its software products under nonexclusive, nontransferable license agreements. For software arrangements that require significant production, modification or customization, the entire arrangement is accounted for in conformity with Accounting Research Bulletin No. 45, "Long-term Construction-Type Contracts", using the relevant guidance Statement of Position 81-1, "Accounting for Performance of Construction-Type Contracts and Certain Production-Type

Contracts". For those arrangements that do not require significant production, modification or customization, revenue is recognized when a license agreement has been signed, delivery of the software product has occurred, the related fee is fixed or determinable and collectibility is probable. The Company also licenses non-software training products under nonexclusive, nontransferable licenses. Revenue related to such license agreements is recognized ratably over the license agreement, or at such time that no further obligation to the customer exists. Professional services are billed on an hourly basis and revenue is recognized as the work is performed.

In December 1999, SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" was issued. SAB 101 provides the SEC staff's views in applying generally accepted accounting principles to selected revenue recognition issues, including software revenue recognition. There was no impact on the financial statements as a result of the adoption of SAB 101. Therefore, no adjustment was recorded.

In November 2001, the Financial Accounting Standards Board ("FASB") issued a Staff Announcement Topic D-103 ("Topic D-103"), "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred". Topic D-103 establishes that reimbursements received for out-of-pocket expenses should be reported as revenue in the income statement. Currently, the Company classifies reimbursed out-of-pocket expenses as a reduction in cost of consulting services. The Company is required to adopt the guidance of Topic D-103 in the first quarter of fiscal year 2003 and its consolidated statements of operations for prior periods will be reclassified to conform to the new presentation. The adoption of Topic D-103 will result in an increase in reported net sales and cost of sales; however, it will not affect the net income or loss in any past or future periods.

F-11

NET INCOME (LOSS) PER SHARE - As required by Statement of Financial Accounting Standards No. 128, "Earnings per Share," the Company has presented basic and diluted earnings per share amounts. Basic earnings per share is calculated based on the weighted-average number of shares outstanding during the year, while diluted earnings per share also gives effect to all potential dilutive common shares outstanding during the year such as stock options, warrants and contingently issuable shares.

INCOME TAXES - The Company utilizes Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

TRANSLATION OF FOREIGN CURRENCY - The financial position and results of operations of the Company's foreign subsidiaries are measured using

local currency as the functional currency. Revenues and expenses of such subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange at the balance sheet date. Transaction gains and losses are deferred as a separate component of stockholders' equity, unless there is a sale or complete liquidation of the underlying foreign investments. Aggregate foreign currency transaction gains and losses are included in determining net earnings.

ADVERTISING AND PROMOTIONAL EXPENSES - Advertising and promotional expenses are charged to expense as incurred and amounted to $38,000, $198,000 and $497,000 for the years ended March 31, 2002, 2001 and 2000, respectively.

COMPREHENSIVE INCOME - The Company utilizes Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities and are included as a component of stockholders' equity.

STOCK-BASED COMPENSATION - As permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", the Company accounts for costs of stock based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to 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.

In April 2000, the FASB issued FASB Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25," which is effective July 1, 2000 except for certain conclusions which cover specific events after either December 15, 1998 or January 12, 2000. FIN No. 44 clarifies the application of APB No. 25 related to modifications of stock options, changes in grantee status, and options issued on a business combination, among other things. The adoption of FIN No. 44 did not have a significant impact on the consolidated financial position or results of operations.

CONCENTRATIONS - The Company maintains cash balances and short-term investments at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. As of March 31, 2002, the uninsured portion of these balances held at financial institutions aggregated to approximately $973,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

For the fiscal years ended March 31, 2002, 2001 and 2000, sales to one customer accounted for 42%, 29% and 15%, respectively, of total consolidated net revenues. As of March 31, 2002 and 2001, the Company's trade receivables from this customer accounted for 40% and 26%, respectively, of total consolidated receivables. As of March 31, 2002, deferred revenues from this customer accounted for 48% of total consolidated deferred revenue.

RECENT ACCOUNTING PRONOUNCEMENTS - In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The adoption of SFAS 141 did not have a significant impact on the Company's financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives but requires that these assets be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that their value has diminished or been impaired. Other intangible assets will continue to be amortized over their estimated useful lives. The Company evaluates the remaining useful lives of these intangibles on an annual basis to determine whether events or circumstances warrant a revision to the remaining period of amortization. Pursuant to SFAS 142, amortization of goodwill and assembled workforce intangible assets recorded in business combinations prior to June 30, 2001 ceased effective March 31, 2002. Goodwill resulting from business combinations completed after June 30, 2001 will not be amortized. The Company recorded amortization expense of approximately $2.2 million on goodwill during the fiscal year ended March 31, 2002. The Company currently estimates that application of the non-amortization provisions of SFAS 142 will reduce amortization expense and increase net income by approximately $2.2 million in fiscal 2003.

The Company will test goodwill and intangible assets with indefinite lives for impairment during the fiscal year beginning April 1, 2002 and any resulting impairment charge will be reflected as a cumulative effect of a change in accounting principle. Under SFAS 142, the Company is required to screen goodwill for potential impairment by September 30, 2002 and measure the amount of impairment, if any, by March 31, 2003. Subsequent to March 31, 2002, the Company completed the transitional analysis of goodwill impairment required by the adoption of SFAS 142 in fiscal 2003, and the Company will record in the first quarter of fiscal 2003 an impairment of $627,000 as a cumulative effect of a change in accounting principles.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations." This statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of long-lived assets, except for certain obligations of lessees. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends APB Opinion 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and

Infrequently Occurring Events and Transactions." SFAS 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value cost to sell. Additionally SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The accounting prescribed in SFAS 144 was applied in connection with the disposal of the Australian operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions to be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. The Company does not expect adoption of SFAS No. 145 to have material impact, if any, on its financial position or results or operations.

F-13

2. ACQUISITIONS

MARKETPLACE SYSTEM CORPORATION - Effective March 16, 2000, Island Pacific acquired certain assets and liabilities of Marketplace System Corporation ("Marketplace"), a privately-held software development and consulting firm headquartered in Austin, Texas. The purchase price for the acquisition was $750,000 in cash and 93,023 shares of the Company's common stock with the fair value of $1 million at the date of acquisition. The acquisition has been accounted for as a purchase.

The fair value of assets acquired and liabilities assumed were as follows (in thousands):

Assets acquired, including goodwill	$	1,621
Liabilities assumed		-
Common stock issued		(1,000)
Liability for purchase consideration		(500)
Net cash paid for acquisition	$	121

3. DISCONTINUED OPERATIONS

The Company's Australian subsidiary maintained an AUS$1,000,000 (approximately US$510,000) line of credit facility with National Australia Bank Limited. The facility was secured by substantially all of the assets of the Australian subsidiary, and the Company has

guaranteed all amounts owing on the facility. The facility became due in February of each year, but had renewed annually. In April 2001, the Company received a formal demand under the guarantee for the full AUS$971,000 (approximately US$495,000) then alleged by the bank to be due under the facility. Due to the declining performance of the Australian subsidiary, management decided in the third quarter of fiscal 2002 to sell certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was however subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to the entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, the Company may be called upon to pay the deficiency under its guarantee to the bank. The Company has accrued $187,000 as the maximum amount of our potential exposure. The receiver has also claimed that the Company is obligated to it for inter-company balances of $636,000, but the Company does not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due.

The disposal of the Australian subsidiary resulted in a loss of $3.2 million. The operating results of the Australian subsidiary are shown as discontinued operations with the prior period results restated. The operating results reflected in loss from discontinued operations are summarized as follows (in thousands):

	Year ended March 31,	
	2002	2001
Net sales	$ 2,363	$ 4,959
Income (loss) before taxes	$ (1,056)	$ (4,580)
Provision (benefit) for income taxes	332	(833)
Net income (loss)	$ (1,388)	$ (3,746)
Net income (loss) per share of common stock	$ (0.04)	$ (0.11)

Net assets from discontinued operations at March 31, 2001 consisted of the following (in thousands):

Net assets available for sale	$ 1,595
Current assets	1,102
Line of credit	(485)
Current liabilities	(771)
	$ 1,441

4. ASSET IMPAIRMENT CHARGES

In the fiscal year ended March 31, 2001, the Company evaluated the recoverability of the long-lived assets in accordance with the evaluation of its long-lived assets as described in Note 1. In determining the amount of impairment, the Company compared the net book value of the long-lived assets associated with the Australian operations, primarily consisting of recorded goodwill and software intangibles, to their estimated fair values. Fair values were estimated based on anticipated future cash flows of the Company's operations consistent with the assets' remaining useful lives. The anticipated future cash flows were then discounted at 13%, which approximates the Company's interest rate on its amended and restated loan agreement in fiscal year ended March 31, 2001. Accordingly, the Company recorded impairment of goodwill of $2.3 million and capitalized software of $6.6 million in the fiscal year ended March 31, 2001.

The Company also recorded an impairment charge to its note receivable in the fiscal year ended March 31, 2001 (See Note 5.).

Subsequent to March 31, 2002, the Company completed the transitional analysis of intangible asset impairment required by the adoption of Statement of Financial Accounting Standards No. 147 in fiscal 2003, and the Company will record in the first quarter of fiscal 2003 impairments of $627,000, $1,182,000 and $161,000 to goodwill, capitalized software and non-compete agreements, respectively, as a cumulative effect of a change in accounting principles.

5. NOTE RECEIVABLE

In connection with the sale of its United Kingdom subsidiary, IBIS Systems Limited ("IBIS") to Kielduff Investments Limited ("Kielduff") in the fourth quarter of fiscal 1999, the Company recorded a note receivable (the "Note") of $13.6 million. The Note bore interest at 2% over the base prime rate for United States dollar deposits quoted by the Hong Kong Shanghai British Columbia Bank plc, and principal and interest were originally due October 1, 1999. In September 1999, the Note was extended to February 15, 2000 to allow Kielduff sufficient time to complete a combination of several companies under a common name, Integrity Software, Inc. ("Integrity"), and register this newly formed entity for trading on a United States exchange. The Note was further extended to November 15, 2000 to accommodate the registration and underwriting process related to Integrity. In September 2000, the Company discontinued accruing interest on the Note. The Note was secured by approximately 11% of the outstanding shares of Integrity. The Company also had the right to convert all sums due from Kielduff into shares of Integrity at its option. The Company did not exercise its option to convert any amount of the Note into shares of Integrity. Kielduff did not pay the Note on the November 15, 2000 due date. Given the Company's lack of ability to enforce collection on the due date, the Company classified the Note as long term. The Company engaged Business Valuation Services, Inc. ("BVS") to perform an analysis of the fair value of the Note's underlying collateral at each quarter during fiscal year 2001. After consideration of the BVS reports and other relevant data, the Company concluded that the fair value of the collateral underlying the Note was impaired. Thus, during the fiscal year ended March 31, 2001, the Company recorded an impairment of $7.6 million. The carrying value of the Note at March 31, 2001 was $7.0 million.

Effective January 1, 2002, the Company transferred the Note to Softline Limited ("Softline"), a major stockholder, in connection with an

integrated series of transactions with Softline (see Notes 10 and 13). The transactions with Softline were as follows:

1. The Company transferred to Softline the note received in connection with the sale of IBIS.
2. The Company issued to Softline 141,000 shares of newly-designated Series A Convertible Preferred Stock ("Series A Preferred").
3. In consideration of the above, Softline released the Company from its obligations related to the note and financing costs payable due to Softline. Softline also surrendered 10,700,000 shares of the Company's common stock held by Softline.

No gain or loss was recognized in connection with the disposition of the Note or the other components of the transactions.

6. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2002 and 2001 consisted of the following (in thousands):

	2002	
Computer equipment and purchased software	$ 2,299	$
Furniture and fixtures	473	
Automobiles		
Leasehold improvements	400	
	3,172	
Less accumulated depreciation and amortization	2,531	
Total	$ 641	$

Depreciation and amortization expense from continuing operations for the fiscal years ended March 31, 2002, 2001 and 2000 was $520,000, $698,000 and $414,000, respectively. Depreciation and amortization expense from discontinued operations for the fiscal years ended March 31, 2002, 2001 and 2000 was $46,000, $173,000 and $241,000, respectively.

7. CAPITALIZED SOFTWARE

Capitalized software at March 31, 2002 and 2001 consisted of the following (in thousands):

	2002	2001
Software	$ 28,128	$ 27,873
Less accumulated amortization	10,516	7,799
Total	$ 17,612	$ 20,074

Amortization expense from continuing operations for the fiscal years ended March 31, 2002, 2001 and 2000 was $2.9 million, $3.4 million and $2.8 million, respectively. Amortization expense from discontinued operations for the fiscal years ended March 31, 2002, 2001 and 2001 was $300,000, $751,000 and $451,000, respectively. The Company recorded an impairment of $6.6 million to the capitalized software associated with its discontinued Australian subsidiary at 2001 (see Note 4).

8. GOODWILL

In evaluating the economic benefit and useful lives of goodwill obtained in connection with the Company's acquisition of Divergent Technologies Pty. Ltd., Chapman Computers Pty. Ltd., Applied Retail Solutions, Inc. and Island Pacific Systems Corporation, management determined that the period of amortization should be revised from twenty years to ten years effective April 1, 1999. Accordingly, the unamortized cost of such assets at April 1, 1999 have been allocated to the reduced number of remaining periods in the revised useful life.

Goodwill at March 31, 2002 and 2001 consisted of the following (in thousands):

	2002	2001
Cost	$ 21,915	$ 21,914
Less accumulated amortization	6,493	4,272
Total	$ 15,422	$ 17,642

The amortization expense for twelve months ended March 31, 2002, 2001 and 2000 was $2.2 million, $2.6 million, and $2.4 million, respectively. The Company recorded an impairment to the goodwill associated with its discontinued Australian subsidiary of approximately $2.3 million at March 31, 2001 (see Note 4).

9. NON-COMPETE AGREEMENTS

Non-compete agreements as of March 31, 2002 and 2001 are as follows (in thousands):

	2002	2001
Cost	$ 6,986	$ 6,986
Less accumulated amortization	4,484	3,372
Total	2,502	3,614
Current portion	917	1,017
Long-term portion	$ 1,585	$ 2,597

The amortization expense for the twelve months ended March 31, 2002, 2001 and 2000 was $1.1 million , $1.6 million and $1.5 million,

respectively.

10. TERM LOANS

TERM LOANS DUE TO BANK

The Company's term loans at March 31, 2002 and 2001 consist of the following (in thousands):

	2002	2001
Term loans payable to bank	$ 6,907	$ 7,325
Less term loans payable to bank classified as long-term as discussed below	6,472	7,325
Current portion of term loans	$ 435	$ -

In June 1999, the Company obtained two term loans from Union Bank of California, N.A. (the "Bank") in the aggregate amount of $18.5 million as partial funding for the acquisition of Island Pacific Systems Corporation. During the first quarter of fiscal 2001, the Company agreed to consolidate the approximately $14.75 million balance of the two loans into a single term loan, and to extend the maturity date of the renegotiated loan to August 1, 2000. The Company also agreed to reduce the outstanding principal amount by $10 million. During the second quarter of fiscal 2001, Softline loaned the Company $10 million for the purpose of making this $10 million principal reduction. The Company then refinanced the $4.75 million balance due on the term loan. Under the terms of this arrangement, the Company was required beginning August 1, 2000 to pay interest on the outstanding balance at the rate of 5% over the Bank's prime rate, increasing to 6.25% over the Bank's prime rate after December 31, 2000. The Company was also required to pay $200,000 per month toward reduction of principal, and to pay as further reduction of principal one half of amounts received from a $1.75 million contract receivable, any amounts received from sale of shares of Integrity Software, Inc. which secure a related note receivable (see Note 4), and any amounts received from the issuance of debt or equity securities other than stock option exercises. The Company's $3 million revolving line of credit with the Bank also became subject to the terms of this agreement. The entire amount of indebtedness was due April 1, 2001.

During the third quarter of fiscal 2001, the Bank agreed to waive the required $200,000 monthly principal payments and to allow the Company to pay a reduced monthly interest rate of 2% over prime, with the balance of the contractual interest accruing and payable upon maturity. The Bank also agreed to permit the Company to apply up to $2.5 million in private placement proceeds (see Note 12) and the full $100,000 paid on the contract receivable during the third quarter of the fiscal year toward working capital instead of reduction of principal. The Company also agreed to terminate the revolving line of credit arrangement, which as of December 31, 2000, was fully drawn, and to a restriction on payments toward subordinated loan obligations until the Bank obligations are discharged. The restriction did not apply to the repayment of amounts due to a subsidiary of Softline (see Note 17).

The entire amount owed to the Bank is secured by the Company's assets,

10,700,000 shares of the Company's common stock and stock of its U.S. retail and training products subsidiaries. The loan is subject to certain financial covenants and contains limitations on acquisitions, investments and other borrowings.

Effective June 28, 2001, the term loan was amended and restated. Under the restated term loan agreement, the Bank extended the maturity date to May 1, 2002. The restated agreement also provided for the Company, at its option, to receive a further extension of six months (i.e., until November 1, 2002), subject to certain conditions. Interest on the term loan accrues and is payable monthly at a rate per annum equal to the Bank's reference rate plus five percentage points. The restated agreement includes affirmative covenants regarding the Company maintaining and obtaining certain financial ratios. The Company was required to make monthly principal payments of $50,000 starting October 1, 2001.

On March 18, 2001, the loan agreement was amended to release certain collateral from the pledge to the Bank, and to instead pledge to the Bank 10,700,000 shares of the Company's common stock surrendered by

Softline in the related recapitalization transactions with Softline described in Notes 5, 10 and 13. The release collateral consisted of shares of capital stock of our Australian subsidiary, and the IBIS note and related shares of Integrity Software.

On May 21, 2002, the Bank further amended the loan agreement to extend the maturity date to May 1, 2003 and to revise other terms and conditions. We agreed to pay to the Bank $100,000 as a loan extension fee, payable in four monthly installments of $25,000 each commencing on June 30, 2002. If we fail to pay any installment when due, the loan extension fee increases to $200,000, and the monthly payments increase accordingly. We also agreed to pay all overdue interest and principal by June 30, 2002, and to pay monthly installments of $24,000 commencing on June 30, 2002 and ending April 30, 2003 for the Bank's legal fees.

The Company was not able to make the payments required in June 2002. The Company was also out of compliance with certain financial covenants as of June 28, 2002. Effective July 15, 2002, the Bank further amended the restated term loan agreement, and waived the then existing defaults. Under this third amendment to the restated agreement, the Bank agreed to waive the application of the additional 2% interest rate for late payments of principal and interest, and to waive the additional $100,000 refinance fee required by the second amendment. The Bank also agreed to convert $361,000 in accrued and unpaid interest and fees to term loan principal, and the Company executed a new term note in total principal amount of $7.2 million. The Company is required to make a principal payment of $35,000 on October 15, 2002, principal payments of $50,000 on each of November 15, 2002 and December 15, 2002, and consecutive monthly principal payments of $100,000 each on the 15th day of each month thereafter through August 15, 2003. The entire amount of principal and accrued interest is due August 31, 2003. The Bank also agreed to eliminate certain financial covenants and to ease others, and the Company is in compliance with the revised covenants.

The Company also agreed to issue a contingent warrant to an affiliate of the Bank to purchase up to 4.99% of the number of outstanding shares of common stock on January 2, 2003 for $0.01 per share. The warrant will be issued and exercisable for shares equal to 1% of the

outstanding common stock on January 2, 2003, and will become exercisable for shares equal to an additional 0.5% of the outstanding common stock on the first day each month thereafter, until it is exercisable for the full 4.99% of the outstanding common stock. The warrant will not become exercisable to the extent that the Company discharged in full the Bank indebtedness prior to a vesting date. Accordingly, the warrant will not become exercisable for any shares if the Company discharges its bank indebtedness in full prior to January 2, 2003; and if the warrant does become partially exercisable on such date, it will cease further vesting as of the date the Company discharges in full the bank indebtedness.

SUBORDINATED TERM LOAN DUE TO STOCKHOLDER

During the second quarter of fiscal 2001, Softline loaned the Company $10 million for the purpose of making a $10 million principal reduction on the Bank term loan. This loan was unsecured and was subordinated to the term loan. The loan bore interest at 14% per annum, payable monthly, and had a stated due date of August 1, 2001. The Company did not pay monthly interest and had accrued $1.0 million interest as of March 31, 2001. There were no financial covenants or restrictions related to the Softline loan. Effective June 30, 2001, the terms of the loan with Softline were amended. Included in the amendment was an extension of the maturity date to November 1, 2002.

The Company agreed to reimburse Softline for costs associated with this loan in the amount of $326,000, which was fully accrued for as of March 31, 2001. These costs were to be amortized over the initial 13 month life of the loan.

Effective January 1, 2002, the Company entered into an integrated series of transactions with Softline where Softline agreed to release the Company's obligations relating to this loan, including the $326,000 refinancing costs. As a result, the Company recorded a reduction of refinancing cost equal to the $224,000 previously amortized. For further discussion of the transactions with Softline, see Notes 5 and 13.

During the fiscal year ended March 31, 2001, the Company borrowed $0.6 million from a subsidiary of Softline on a short-term basis (see Note 16).

Interest expense included interest due to Softline and its subsidiary for the fiscal years ended March 31, 2002, 2001 and 2000 of $1.3 million, $1.0 million and $0, respectively. Interest expense for the fiscal years ended March 31, 2002, 2001 and 2000 also included interest due to other stockholders in the amount of $56,000, $130,000 and $31,000, respectively.

11. CONVERTIBLE NOTES

CONVERTIBLE NOTES DUE TO STOCKHOLDERS

In May and June 2001, the Company entered into Subscription Agreements with a limited number of accredited investors related to existing stockholders for gross proceeds of $1.3 million. Each unit consisted of a convertible promissory note and warrants to purchase 250 shares of the Company's common stock for each $1,000 borrowed by the Company. The holders of the notes had the option to convert the unpaid principal and interest at any time at a conversion price of $1.35. The notes matured on August 30, 2001 and earned interest at 12% per annum to be paid at maturity. The notes were not paid or converted at March 31, 2002.

The interest rate increased to 17% per annum on August 30, 2001 as a result of the non-payment on the maturity date. As of March 31, 2002, the balance of these convertible notes is $1.4 million, including $171,000 in accrued interest.

In accordance with generally accepted accounting principles, the difference between the conversion price of $1.35 and the Company's stock price on the date of issuance of the notes is considered to be interest expense. It is recognized in the statement of operations during the period from the issuance of the debt to the time at which the debt first becomes convertible. The Company recognized interest expense of $191,000 in the accompanying statement of operations for the fiscal year ended March 31, 2002.

Each warrant entitled the holder to purchase one share of the Company's common stock at an exercise price of $1.50. The warrants were to expire three years from the date of issuance. The Company allocates the proceeds received from debt or convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The amount allocated to the warrants was determined to be $247,000 and is included in interest expense in the accompanying statement of operations for the year ended March 31, 2002. Interest expense for the fiscal year ended March 31, 2002 was $609,000.

Subsequent to March 31, 2002, the Company agreed to amend the terms of the notes and warrants issued to these investors. The investors agreed to replace the existing notes with new notes having a maturity date of September 30, 2003. The interest rate on the new notes was reduced to 8% per annum, increasing to 13% in the event of a default in payment of principal or interest. The Company is required to pay accrued interest on the new notes calculated from July 19, 2002, in quarterly installments beginning September 30, 2002. The investors agreed to reduce accrued interest and late charges on the original notes by up to $85,000, and to accept the reduced amount in shares of the Company's common stock valued at the average closing price of the shares on the American Stock Exchange for the 10 trading days prior to July 19, 2002. The new notes are convertible at the option of the holders into shares of the Company's common stock valued at $0.60 per share.

The Company also agreed that the warrants previously issued to the investors to purchase an aggregate of 3,033,085 shares of common stock at exercise prices ranging from $0.85 to $1.50, and expiring on various dates between December 2002 and June 2004, would be replaced by new warrants to purchase an aggregate of 1,600,000 shares at $0.60 per share, expiring July 19, 2007. The Company also agreed to file a registration statement with the Securities and Exchange Commission for the resale of all shares held by or obtainable by these investors. In the event such registration statement is not declared effective within 120 days after July 19, 2002, the Company will be obligated to issue five-year penalty warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. The Company will be obligated to issue additional penalty warrants for each 30 day period after such date in which the registration statement is not effective. No further penalty warrants will accrue from the original registration obligation to these investors (see Note 13).

CONVERTIBLE NOTE DUE TO MAJOR CUSTOMER

Subsequent to March 31, 2002, Toys agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 shares of common stock. In connection with this transaction, Toys signed a two-year software development and services agreement (the "Development Agreement") that expires in February 2004. The purchase price is payable in installments through September 27, 2002. The note is non-interest bearing, and the face amount is payable in shares of common stock valued at $0.553 per share. The note is due May 29, 2009, or if earlier than that date, three years after the completion of the development project contemplated in the Development Agreement. The Company does not have the right to prepay the convertible note before the due date, but upon the due date, the Company may at its option pay the principal amount in cash rather than shares of common stock to the extent Toys did not earlier convert the note to shares of common stock. The face amount of the note is 16% of the $1.3 million purchase price as of May 29, 2002, and increases by 4% of the $1.3 million purchase price on the last day of each succeeding month, until February 28, 2004, when the face amount is the full $1.3 million purchase price. The face amount will cease to increase if Toys terminates the Development Agreement for a reason other than the Company's breach. The face amount will be zero if the Company terminates the Development Agreement due to an uncured breach by Toys of the Development Agreement.

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

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

12. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES - The Company leases office space and various automobiles under non-cancelable operating leases that expire at various dates through the year 2006. Certain leases contain renewal options. Future annual minimum lease payments for non-cancelable operating leases at March 31, 2002 are summarized as follows (in thousands):

YEAR ENDING MARCH 31:	
2003	$ 753
2004	724
2005	704
2006	192
2007	7
	$ 2,380

Rent expense was $1.2 million, $1.5 million and $1.3 million for the fiscal years ended March 31, 2002, 2001 and 2000, respectively.

EMPLOYEE BENEFIT PLAN - Effective January 1, 1999, the Company adopted a defined contribution plan under Section 401(k) of the Internal Revenue Code covering all eligible employees employed in the United States ("401(k) Plan"). Eligible participants may contribute up to $10,000 or 20% of their total compensation, whichever is lower. The Company matched 50% of the employee's contributions, up to 3% of the employee's total compensation, and may make discretionary contributions to the plan. Participants will be immediately vested in their personal contributions and over a six year graded schedule for amounts contributed by the Company. Effective, July 1, 2000, the Company amended the 401(k) Plan to for the following items: (a) Company matching contribution equal to 50% of the employee's contributions, up to 6% of the employee's total compensation and (b) eligible participants may defer up to $10,500 or 18% of their total compensation, whichever is lower. Effective January 1, 2002, the Company ceased matching contributions. The Company made matching contributions to the 401(k) Plan of approximately $125,000, $359,000 and $192,000 in the fiscal years ended March 31, 2002, 2001 and 2000, respectively.

LITIGATION -In April of 2002, the Company's former CEO, Thomas Dorosewicz, filed a demand with the California Labor Commissioner for $256,250 in severance benefits allegedly due under a disputed employment agreement, plus attorney's fees and costs. On June 18, 2002, the Company filed an action against Mr. Dorosewicz and an entity affiliated with him in San Diego Superior Court, Case No. GIC790833, alleging fraud and other causes of action relating to transactions Mr. Dorosewicz caused the Company to enter into with his affiliates and related parties without proper board approval. The Company expects one or more cross-claims from Mr. Dorosewicz in that action. The Company does not believe it has any obligation to pay the severance benefits alleged by Mr. Dorosewicz to be due, and it intends to vigorously pursue its causes of action against Mr. Dorosewicz. The Company cannot at this time predict what will be the outcome of these matters, as discovery has not yet commenced in either action.

13. PREFERRED STOCK, COMMON STOCK, TREASURY STOCK, STOCK OPTIONS AND WARRANTS

PRIVATE PLACEMENTS - In March 2000, the Company received $2.9 million from the sale of common stock to an investor. The Company agreed to register the shares with the Securities and Exchange Commission ("SEC"). The shares carried a "repricing right" which entitled the investor to receive additional shares upon the occurrence of certain events. In October 2000, the Company issued 375,043 shares in satisfaction of the repricing right.

In October 2000, the SEC declared effective the registration statement. The Company became obligated to pay to the investor liquidated damages for late effectiveness of the registration statement in the amount of $286,000. The investor agreed in March 2001 to accept 286,000 shares of common stock in satisfaction of the liquidated damages and agreed to purchase an additional 214,000 shares of common stock for $214,000. In connection with this agreement, the Company issued the investor a two-year warrant to purchase up to 107,000 shares of common stock at

$1.50 per share. The Company may call the warrants for $0.001 per share upon the occurrence of certain events. The investor will have thirty days after the call to exercise the warrant, after which time the warrant will expire.

The Company agreed to register all of the shares sold in March 2001, and those that it may sell under the warrant, with the SEC. The Company became obligated to pay to the investor liquidated damages in the amount of $60,000. Subsequent to March 31, 2002, the investor agreed to accept 140,000 shares of common stock in satisfaction of the liquidated damages.

In December 2000, the Company received $1.5 million from the sale of common stock and warrants to a limited number of accredited investors. As part of the same transaction, the investors purchased in January 2001 an additional $0.5 million of common stock and warrants, and two of the investors purchased in February 2001 an additional $0.5 million of common stock and warrants on the same terms and conditions. The Company issued a total of 2,941,176 shares of common stock and 1,470,590 warrants to purchase common stock at an exercise price of $1.50 as a result of the aforementioned transaction. The Company agreed to register the common shares purchased and the common shares issuable upon the exercise of warrants with the Securities and Exchange Commission. The Company filed a registration statement in January 2001 to register these shares, but it did not become effective. As of March 31, 2002, the Company has not registered these shares and has issued 1,029,410 penalty warrants with a strike price of $0.85 per share, with fair value of $711,000, as required under an agreement with the investors. The Company was obligated to issue to each investor a warrant for an additional 2.5% of the number of shares purchased by that investor in the private placement for each continuing 30-day period during which a registration statement is not effective. Subsequent to March 31, 2002, the Company and the investors agreed to revise the terms of the foregoing warrants, and to cease accruing penalty warrants (see Note 11).

PREFERRED STOCK - The Series A Preferred has a stated value of $100 per share and is redeemed at the option of the Company any time prior to the maturity date of December 31, 2006 for 107% of the stated value and accrued and unpaid dividends. The shares are entitled to cumulative dividends of 7.2% per annum, payable semi-annually. At March 31, 2002, dividends in arrears amount to $254,000 or $1.80 per share. The holders may convert each share of Series A Preferred at any time into the number of shares of the Company's common stock determined by dividing the stated value plus all accrued and unpaid dividends, by a conversion price initially equal to $0.80. The conversion price will increase at an annual rate of 3.5% calculated on a semi-annual basis. The 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. The Company has 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.

COMMON STOCK - During fiscal year ended March 31, 2002, the Company

issued the following:

- o An aggregate of 573,845 shares of common stock for services rendered and severance payments totaling $490,000.

- o 38,380 shares of common stock for investor relations services. The $31,000 value of these shares was recorded subsequent to year end when the services were performed.

- o 644,715 shares of common stock totaling $485,000 which are to be returned as a result of early termination of investor relations service contracts. The value of these shares is recorded as a share receivable component of stockholders' equity.

TREASURY STOCK - In November 1998, the Board of Directors authorized the Company to purchase up to 1,000,000 shares of the Company's common stock. As of March 31, 2001 and 2000, the Company had repurchased 444,641 shares of its common stock at a cost of $4.3 million. The purchased shares were canceled as of March 31, 2002.

The Company received 10,700,000 shares of the Company's common stock valued at $8.6 million from Softline in connection with the transactions between the Company and Softline described in Notes 5, 10 and 13. These shares are pledged to the Bank as collateral for the term loans (see Note 10).

STOCK OPTION PLAN - The Company adopted an incentive stock option plan during fiscal year 1990 (the "1989 Plan"). Options under this plan may be granted to employees and officers of the Company. There were initially 1,000,000 shares of common stock reserved for issuance under this plan. Effective April 1, 1998, the board of directors approved an amendment to the 1989 Plan increasing the number of shares of common stock authorized under the 1989 Plan to 1,500,000. The exercise price of the options is determined by the board of directors, but the exercise price may not be less than the fair market value of the common stock on the date of grant. Options vest immediately and expire between three to ten years from the date of grant. The 1989 Plan terminated in October 1999.

On October 5, 1998, the board of directors and stockholders approved a new plan entitled the 1998 Incentive Stock Plan (the "1998 Plan"). The 1998 Plan authorizes 3,500,000 shares to be issued pursuant to incentive stock options, non-statutory options, stock bonuses, stock appreciation rights or stock purchases agreements. The options may be granted at a price not less than the fair market value of the common stock at the date of grant. The options generally become exercisable over periods ranging from zero to five years, commencing at the date of grant, and expire in one to ten years from the date of grant. The 1998 Plan terminates in October 2008. On August 18, 2000, the Board approved certain amendments to the 1998 Plan. On November 16, 2000, certain of the amendments were approved by the shareholders. These amendments: (a) increased number of shares authorized in the Plan from 3,500,000 to 4,000,000, (b) authorized an "automatic" annual increase in the number of shares reserved for issuance by an amount equal to the lesser of 2% of total number of shares outstanding on the last day of the fiscal year, 600,000 shares, or an amount approved by the Board of Directors, and (c) to limit the number of stock awards of any one participant under the 1998 Plan to 500,000 shares in any calendar year.

The following summarizes the Company's stock option transactions under the stock option plans:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Options outstanding, April 1, 1999	1,369,285	$ 4.05
Exercised	(190,075)	$ 3.63
Granted	730,150	$ 7.87
Expired/canceled	(119,100)	$ 7.28
Options outstanding, March 31, 2000	1,790,260	$ 5.44
Exercised	(131,300)	$ 6.24
Granted	2,891,929	$ 1.35
Expired/canceled	(589,855)	$ 4.88
Options outstanding, March 31, 2001	3,961,034	$ 2.55
Granted	2,117,300	$ 0.89
Expired/canceled	(1,592,445)	$ 1.84
Options outstanding March 31, 2002	4,485,889	$ 2.05
Exercisable, March 31, 2000	1,169,160	$ 4.37
Exercisable, March 31, 2001	922,885	$ 4.01
Exercisable, March 31, 2002	2,030,673	$ 2.63

In addition to options issued pursuant to the stock option plans described above, the Company issued additional options outside the plans to employees, consultants, and third parties. The following summarizes the Company's other stock option transactions:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Options outstanding, April 1, 1999	5,388,700	$ 1.95
Exercised	(3,247,188)	$ 1.92
Granted	15,000	$ 9.50
Options outstanding, March 31, 2000	2,156,512	$ 2.02
Exercised	(289,700)	$ 1.82
Granted	300,000	$ 0.95
Expired/Canceled	(800,000)	$ 1.25

Options outstanding, March 31, 2001	1,366,812	$ 2.28
Expired/Canceled	(320,000)	$ 1.08
Options outstanding, March 31, 2002	1,046,812	$ 2.61
Exercisable, March 31, 2000	2,156,512	$ 2.02
Exercisable, March 31, 2001	1,166,812	$ 2.51
Exercisable, March 31, 2002	1,046,812	$ 2.61

During the fiscal years ended March 31, 2001 and 2000, the Company recognized compensation expense of $28,000 and $55,000, respectively, for stock options granted to non-employees for services provided to the Company.

The following table summarizes information as of March 31, 2002 concerning currently outstanding and exercisable options:

	Options Outstanding			Optio
Range Of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisab
		(years)		
$0.50 - 1.75	4,020,664	8.28	$ 1.15	1,720,72
$1.76 - 4.00	631,812	5.32	$ 2.45	631,81
$4.01 - 7.00	464,575	4.06	$ 5.36	444,57
$7.01 - 11.75	415,650	4.25	$ 7.83	280,37
	5,532,701	7.28	$ 2.16	3,077,48

The Company has adopted the disclosure-only provision of SFAS No. 123. The following pro forma information presents net income and basic and diluted earnings per share as if compensation expense had been recognized for stock options granted in the fiscal years ended March 31, 2002, 2001 and 2000, as determined under the fair value method prescribed by SFAS No. 123 (in thousands, except per share amounts):

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001	YEAR E MARCH 200

Net loss:			
As reported	$ (14,658)	$ (28,945)	$ (4
Pro forma	$ (15,963)	$ (29,408)	$ (5
Basic and diluted loss per share:			
As reported	$ (0.41)	$ (0.83)	$ (
Pro forma	$ (0.45)	$ (0.85)	$ (
Weighted average assumptions:			
Dividend yield	None	None	
Volatility	77%	140%	
Risk free interest rate	3.9%	5.8%	
Expected life of options	4 years	10 years	1-4 ye

For options granted during the year ended March 31, 2002 where the exercise price was greater than the stock price at the date of grant, the weighted-average fair value of such options was $0.46, and the weighted-average exercise price of such options was $0.89. For options granted during the year ended March 31, 2002 where the exercise price was equal to the stock price at the date of grant, the weighted average fair value of such options was $0.53, and the weighted-average exercise price of such options was $0.89. No options granted during the year ended March 31, 2002 where the exercise price was less than the stock price at the date of grant.

WARRANTS - At March 31, 2002 and 2001, the Company had outstanding warrants to purchase 4,040,168 and 1,614,925 shares of common stock, respectively, at exercise prices ranging from $0.79 to $7.00 per share. The lives of the warrants range from two to five years from the grant date. During the fiscal year ended March 31, 2002, the Company recognized compensation expense of $579,000 for warrants granted to non-employees for services provided to the Company. Subsequent to March 31, 2002, the Company agreed to replace warrants to purchase an aggregate of 3,033,085 shares of common stock at exercise prices ranging from $0.85 to $1.50, and expiring on various dates between December 2002 and June 2004, with new warrants to purchase an aggregate of 1,600,000 shares of common stock at $0.60 per share, expiring July 17, 2007 (see Note 11).

14. INCOME TAXES

The provision (benefit) for income taxes consisted of the following components (in thousands):

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001
Current:		
Federal	$ 39	$ (1,261)
State	-	45
Foreign	-	
Total	39	(1,216)

Deferred:		
Federal	-	(3,523)
State	-	(774)
Foreign	-	(99)
Total	39	(4,396)
Provision (benefit) for income taxes	$ 39	$ (5,612)

Significant components of the Company's deferred tax assets and liabilities at March 31, 2002 and 2001 are as follows (in thousands):

	MARCH 31,	
	2002	
Current deferred tax assets/(liabilities):		
State taxes	$ -	$
Accrued expenses	1,107	
Related party interest	852	
Prepaid services	284	
Warrants for services	344	
Allowance for bad debts	191	
Net current deferred tax assets	2,778	
Non-current deferred tax assets/(liabilities):		
Research and expenditure credits	-	
Net operating loss	11,040	
Fixed assets	-	
Other credits	-	
Deferred rent	82	
Accrued expenses	84	
Total non-current deferred tax assets	11,206	
Intangible assets	(9,908)	
Accumulated capitalized research and development costs	(749)	
Other	(17)	
Total non-current deferred tax liability	(10,674)	
Net non-current deferred tax asset/(liability)	3,310	
Valuation allowance	(3,310)	

Net deferred tax liability	$ -	$

The difference between the actual provision (benefit) and the amount computed at the statutory United States federal income tax rate of 34% for the fiscal years ended March 31, 2002, 2001 and 2000 is attributable to the following:

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001
Provision (benefit) computed at statutory rate	(34.0)%	(34.0)%
Nondeductible goodwill	5.1	4.8
Change in valuation allowance	20.4	9.1
Foreign income taxed at different rates	9.7	5.0
Tax credits	(2.9)	
State income tax, net of federal tax benefit	(0.7)	(1.4)
Other	2.4	0.3
Total provision (benefit) for income taxes	(-)%	(16.2)%

At March 31, 2002, the Company had Federal and California tax net operating loss carryforwards of approximately $29.4 million and $15.2 million, respectively. The Federal and California tax net operating loss carryforwards will begin expiring after 2008 and 2002, respectively.

The Company also has Federal and California research and development tax credit carryforwards of approximately $960,000 and $696,000, respectively. The Federal credits will begin expiring after 2008. The California credits may be carried forward indefinitely.

15. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share for the fiscal years ended March 31, 2002, 2001 and 2000, are as follows (in thousands, except share amounts and per share data):

	FISCAL YEAR ENDED MARCH 31, 200		
	LOSS (NUMERATOR)	SHARES (DENOMINATOR)	PER SH AMOU
Basic and diluted EPS:			
Loss available to common stockholders	$ (14,658)	35,697,999	$ (0

	FISCAL YEAR ENDED MARCH 31, 200		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SH AMOU
Basic and diluted EPS:			
Loss available to common stockholders	$ (28,945)	34,761,386	$ (0

	FISCAL YEAR ENDED MARCH 31, 200		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SH AMOU
Basic and Diluted EPS:			
Loss available to common stockholders	$ (4,054)	32,458,902	$ (0

The following potential common shares have been excluded from the computation of diluted net loss per share for the periods presented because the effect would have been anti-dilutive:

	For the years ende	
	2002	2001
Options outstanding under the Company's stock option plans	4,485,889	3,961,03
Options granted outside the Company's stock option plans	1,046,812	1,366,81
Warrants issued in conjunction with private placements	2,944,499	1,602,59
Warrants issued for services rendered	1,095,669	12,33
Convertible notes due to stockholders	1,037,037	
Series A Convertible Preferred Stock	17,625,000	

16. RELATED PARTIES

Included in other receivables at March 31, 2002 and 2001 are amounts due from officers and employees of the Company in the amount of $31,000 and $65,000, respectively.

The office space for the Company's Sydney office was leased from a former officer of the Company. During the year ended March 31, 2000, the Company paid $163,000 in rent to this related party. The former officer was terminated in fiscal year ended March 31, 2001.

The Company began occupying its current principal executive offices in July 2001. At that time, the premises were owned by an affiliate of the Company's then Chief Executive Officer. Monthly rent for these premises

was set at $13,783. In April, 2002, the premises were sold to an entity unrelated to the former Chief Executive Officer. As of the date of this report, the Company is negotiating the terms of a written lease with the new owner.

In November 2000, the Company borrowed $600,000 from a wholly-owned subsidiary of Softline to help meet operating expenses. This loan called for interest at 10% per annum, and was discharged in full in February 2001. Interest expense under this loan was $3,000 for the year ended March 31, 2001. In order to discharge the remaining balance of that loan while meeting other critical operational expenses, the Company borrowed $400,000 from Barry M. Schechter, the Company's Chairman. The Company borrowed an additional $164,000 from Mr. Schechter in March 2001, which funds were needed to meet operational requirements of our Australian subsidiary. The advances from Mr. Schechter bore interest at prime rate and were due on demand, subject to a limit on demand rights of $50,000 per payment. Interest expense under the loans from Mr. Schechter was $0 and $7,000 for the fiscal year ended March 31, 2002 and 2001, respectively. The loans were paid in full in June 2001.

Included in demand loans due to stockholders totaling $618,000 and $1.3 million as of March 31, 2002 and 2001, respectively, was $122,000 and $552,000, respectively, owed to a stockholder who together with Barry M. Schechter and an irrevocable trust forms a beneficial ownership group. The original loan amounts totaling $2.3 million ($1.5 million of which was from the stockholder included in the group described above) were borrowed in June 1999 to fund the acquisition of Island Pacific Systems Corporation on April 1, 1999. Interest is calculated monthly at the current prime rate with no stated maturity date. Interest expense under these loans for the years ended March 31, 2002, 2001 and 2000 was $26,000, $74,000 and $80,000, respectively.

The Company retains an entity affiliated with a director of the board to provide financial advisory services. During the years ended March 31, 2002, 2001 and 2000, the expenses for these services were $42,000, $112,000 and $36,000, respectively. The Company also incurred $19,000 and $25,000 in expenses to the same director for accounting services during the fiscal years ended March 31, 2002 and 2001, respectively. The Company borrowed $50,000 and $125,000 from another entity affiliated with this director in May 2001 and December 2001, respectively, to meet payroll expenses. The Company also borrowed $70,000 from this entity subsequent to March 31, 2002 for the same purpose. These amounts were repaid together with interest at the then-effective prime rate, promptly as revenues were received, and are paid in full as of the date of this report.

Effective October 1, 1999, the Company sold its Triple-S Computers (Pty) Limited subsidiary ("Triple-S") to Softline. Triple-S developed and installed retail point of sale systems throughout Southern Africa. Softline transferred 78,241 shares of the Company's common stock valued at the October 1, 1999 closing price of $8.50 per share as consideration for the acquisition. The transfer of Triple-S was recorded at the Company's historical book basis and was not material to the operations of the Company.

17. BUSINESS SEGMENTS AND GEOGRAPHIC DATA

The Company classifies its operations into two lines of business, retail solutions and training products. As revenues, reported profit/(loss) and assets related to the Company's training products subsidiary are below the threshold established for segment reporting, the Company considers its business to consist of one reportable operating segment.

The Company currently operates in the United States and the United Kingdom. In February 2002, the Australian subsidiary ceased operations after National Australian Bank, the subsidiary's secured lender, placed it in receivership (see Note 3). In the fiscal year ended March 31, 2000, the Company also had limited operations in South Africa. The following is a summary of local operations by geographic area (in thousands):

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001
Net sales:		
United States	$ 24,559	$ 25,457
Australia (discontinued operations)	2,363	4,959
South Africa (discontinued operations		
United Kingdom	2,550	2,256
Total net sales	$ 29,472	$ 32,672
Long-lived assets:		
United States	$ 35,280	$ 48,270
Australia (discontinued operations)		1,370
South Africa		-
United Kingdom	22	59
Total long-lived assets	$ 35,302	$ 49,699

18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

MARCH 31, 2002	JUNE 30	SEPT 30	DEC 31
NET SALES	$ 7,851	$ 8,419	$ 6,317
GROSS PROFIT	4,376	5,195	3,795
NET LOSS	(3,514)	(3,588)	(2,970)
DILUTED LOSS PER SHARE	$ (0.09)	$ (0.09)	$ (0.08)

MARCH 31, 2001	JUNE 30	SEPT 30	DEC 31
NET SALES	$ 11,000	$ 7,993	$ 7,737
GROSS PROFIT	8,314	4,004	3,861
NET INCOME (LOSS)	546	(4,741)	(5,997)

DILUTED (LOSS) PER SHARE	$ 0.02	$ (0.14)	$ (0.17)

The summation of quarterly net income (loss) per share may not equate to the year-end calculation as quarterly calculations are performed on a discrete basis.